Final decision

Jemena electricity distribution determination
1 July 2026 - 30 June 2031

Attachment 2 – Capital expenditure

April 2026

AUSTRALIAN ENERGY REGULATOR

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2 Capital expenditure

Capital expenditure (capex) refers to the money required to build, maintain or improve the physical assets needed to provide standard control services (SCS).[1] Generally, these assets have long lives, and a distributor will recover capex from customers over several regulatory control periods. A distributor's capex forecast contributes to the return of and return on capital building blocks that form part of its total revenue requirement.

Under the regulatory framework, a distributor must include a total forecast capex that it considers is required to meet or manage expected demand, comply with all applicable regulatory obligations, to maintain the safety, reliability, quality, and security of its network and contribute to achieving emissions reduction targets for reducing Australia's greenhouse gas emissions (the capex objectives).[2]

We must decide whether or not we are satisfied that this forecast reasonably reflects prudent and efficient costs and a realistic expectation of future demand, cost inputs, and other relevant inputs (the capex criteria).[3] We must make our decision in a manner that will, or is likely to, deliver efficient outcomes in terms of price, quality, safety, reliability and security of supply and contribute to achieving targets for reducing Australia's greenhouse gas emissions for the benefit of consumers in the long term (as required under the National Electricity Objective).[4]

The AER capital expenditure assessment outline explains our and distributors' obligations under the National Electricity Law and Rules (NEL and NER) in more detail.[5] It also describes the techniques we use to assess a distributor's capex proposal against the capex criteria and objectives. Where relevant we also assess capex associated with emissions reduction proposals taking into account our *Guidance on amended National Energy Objectives*.[6]

Total capex framework

We analyse and assess capex drivers, programs and projects to inform our view on a total capex forecast. However, we do not determine forecasts for individual capex drivers or determine which programs or projects a distributor should or should not undertake. This is consistent with our ex-ante incentive-based regulatory framework.

Once the ex-ante capex forecast is established, there is an incentive for distributors to provide services at the lowest possible cost, because the actual costs of providing services will determine their returns in the short term. If distributors reduce their costs, the savings are shared with consumers in future regulatory control periods. Our assessment of the ex-ante capex is consistent with the National Electricity Objective, which in addition to providing for

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1 These are services that form the basic charge for use of the distribution system.

2 NER, cl. 6.5.7(a).

3 NER, cl. 6.5.7(c).

4 NEL, ss. 7, 16(1)(a).

5 AER, *Capital expenditure assessment outline for electricity distribution determinations*, February 2020.

6 AER, *Guidance on amended National Energy Objectives*, September 2023.

the lowest possible costs also recognises that services should be valued appropriately and adapt to changing circumstances to maintain efficiencies in the long term interest of consumers. This incentive-based framework provides distributors with the flexibility to prioritise their capex program given their circumstances and due to changes in information and technology.

Distributors may need to undertake programs or projects that they did not anticipate during the reset. Distributors also may not need to complete some of the programs or projects proposed if circumstances change. These are decisions for the distributor to make. We consider a prudent and efficient distributor would consider the changing environment throughout the regulatory control period and make decisions accordingly.

Importantly, our decision on total capex does not limit a distributor's actual spending. We set the forecast at a level where the distributor has a reasonable opportunity to recover its efficient costs.

Assessment approach

We provide guidance on our assessment approach in several documents, including the following which are of relevance to this decision:

- AER's *Expenditure Forecast Assessment Guideline*[7]
- AER's *Regulatory Investment Test for Distribution and Transmission (RIT-D and RIT-T) Guidelines*[8]
- AER's *Asset Replacement Industry Note*[9]
- AER's *Information and Communication Technologies (ICT) Guidance Note*[10]
- AER's *Guidance on amended National Energy Objectives*[11]
- AER's *An interim guidance on emissions reduction*.[12]

We also had regard to the guiding principles in the AER's Better Resets Handbook – Towards consumer centric network proposals which encourages networks to develop high quality, well-justified proposals that genuinely reflect consumers' preferences.[13]

Our final decision has been based on the information before us, which includes:

- the distributor's revised regulatory proposal and accompanying documents and models
- the distributor's responses to our information requests

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7 AER, *Expenditure Forecast Assessment Guideline for Electricity Distribution*, October 2024.

8 AER, *Regulatory Investment Test for Transmission and Distribution application guidelines*, November 2024.

9 AER, *Industry practice application note for asset replacement planning*, January 2019.

10 AER, *AER publishes guidance on non-network ICT capital expenditure assessment approach*, November 2019.

11 AER, *Guidance on amended National Energy Objectives*, September 2023.

12 AER, *An interim guidance on emissions reduction*, June 2025.

13 AER, *Better Resets Handbook – Towards consumer-centric network proposals*, December 2021.

- stakeholder comments in response to our draft decision and the distributor's revised proposal
- technical review and advice from our consultant's reports. In this instance, we sought technical review and advice from Energy Market Consulting Associates (EMCa) to assist us in reviewing certain aspects of the replacement capex proposal.

2.1 Final decision

Our final decision is to not accept Jemena's proposed total forecast capex of $1,338.5 million ($2025–26) for the 2026–31 period because we are not satisfied that it reasonably reflects the capex criteria. This requires expenditure to be both prudent and efficient, and exhibit a realistic expectation of demand and cost inputs required, to meet the capex objectives. Our alternative forecast is $1,159.1 million, which is 13.4% below Jemena's forecast.

We consider this forecast will provide for a prudent and efficient service provider in Jemena's circumstances to meet the capex objectives. Table 2-1 outlines our alternative estimate of forecast capex and compares this to Jemena's proposed forecast capex.

Table 2-1 AER's final decision on Jemena's total net capex forecast ($2025–26, million)

	2026-27	2027-28	2028-29	2029-30	2030-31	Total
Jemena's revised proposal	330.6	334.8	253.9	226.8	192.3	1,338.5
AER's final decision	286.5	290.2	225.7	192.6	164.1	1,159.1
Difference ($)	**-44.1**	**-44.7**	**-28.2**	**-34.2**	**-28.3**	**-179.4**
Difference (%)	**-13.3%**	**-13.3%**	**-11.1%**	**-15.1%**	**-14.7%**	**-13.4%**

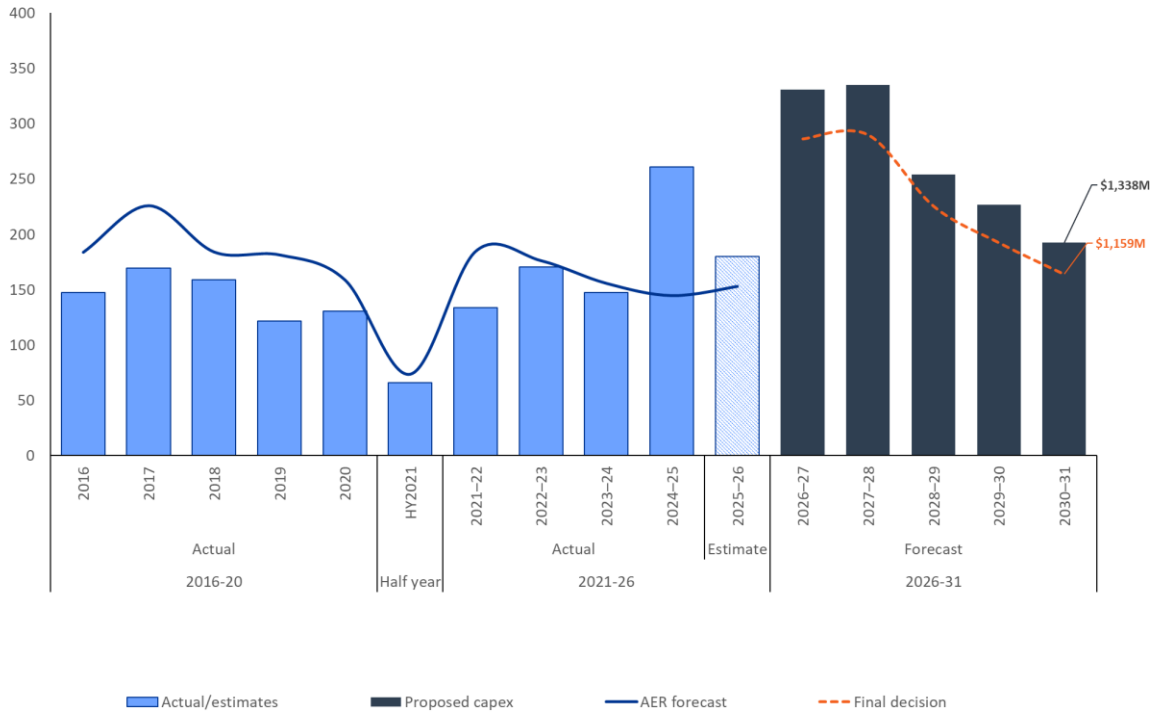
Source: Jemena's revised proposal and AER analysis.
Note: Jemena's revised proposal capex model included $18.5 million for a resilience project but Jemena's revised proposal noted that this was included in error, this amount is not included in the revised proposal figures above.
Jemena's revised proposal reflected a revised methodology for forecasting data centre connections capex, including only connections that are in flight or under a firm offer. After it submitted its revised proposal Jemena updated its forecast for data centre connections capex in line with this methodology - this updated forecast is reflected in the revised proposal figures above.
Jemena's revised proposal capex model included an error in calculating inflation adjustments to capitalised overheads. The revised proposal figures above reflect the correction of this error and adjustments to show the impact of updated data centre connections and resilience capex on forecast overheads.
Numbers may not add up due to rounding.

2.2 Jemena's revised proposal

Jemena's revised proposal forecasts capex of $1,338.5 million ($2025–26) over the 2026–31 regulatory control period. This represents an increase of approximately 50.0% compared to actual and expected expenditure over the 2021–26 period.

Figure 2-1 outlines Jemena's historical capex trend, its revised proposed forecast for the 2026–31 period, and our final decision. As can be seen, Jemena is proposing a material step up in the forecast period relative to the current period. The main drivers of the step up are replacement (repex), connections, and augmentation (augex) expenditure.

Figure 2-1 Jemena's historical and forecast capex ($2025–26, million)



Source: Jemena revised proposal and AER analysis
Note: Capex is net of capital contributions and disposals. Revised proposal figures reflect updates and corrections noted at Table 2-1.

2.3 Reasons for final decision

We are satisfied that our alternative forecast of total capex of $1,159.1 million is reasonable and sufficient for Jemena to maintain its network.

Our final decision to reduce Jemena's forecast by 13.4% is materially different from our draft decision of a reduction of 27.5%. This reflects Jemena accepting some of the lower forecasts in our draft decision and our acceptance in this final decision of a higher forecast for some programs because of additional supporting information.

We reviewed Jemena's capex drivers, programs and projects to inform our view on a total capex forecast that reasonably reflects the capex criteria. We conducted top-down analysis such as examining trends and forecast costs compared with historical capex, and inter-relationships between cost categories. To complement this, we conducted bottom-up analysis of Jemena's specific major programs and projects.

Our capex assessment focused primarily on the material capex categories that either represented a significant uplift in expenditure, had stakeholder interest or are new and evolving areas such as CER integration, and capex for data centres. Capex included in our forecast incorporated expenditure that was relatively immaterial and relied on established modelling approaches and inputs that were in line with our expectations. Our final decision is reflective of this approach as set out in Table 2-2 and Table 2-3 below.

Overall, we found that the majority of Jemena's forecast of $1,338.5 million would be required to meet the capex objectives. We have not accepted Jemena's forecast in full,

reducing it by 13.4% because of the differences in our forecasts, mostly in repex, augex, and overheads. In most cases, we found that while we agree with Jemena that some level of investment is prudent, Jemena did not provide sufficient information to demonstrate that its preferred option is efficient.

For new and emerging areas of expenditure, our assessment of proposals takes account of the limitations and challenges in forecasting these areas of expenditure. We have accepted some expenditure, such as some of Jemena's CER programs, in full, acknowledging the merits in strengthening Jemena's CER capability in the immediate term given the longer-term benefits. But we have also only partly accepted funding for some emerging expenditure, such as for explicit ex-ante innovation funding and some CER-integration projects, because there is a material gap in supporting information to demonstrate the net benefits to consumers.

While our final decision is a reduction to Jemena's forecast, it is $266.8 million or 29.9% higher than Jemena's current period actual/estimated capex. Most of this step up is because of:

- A significant increase in forecast connections capex based on connection requests that are already in flight or subject to a firm-offer, particularly from data centres.
- Jemena providing sufficient evidence that a higher repex forecast relative to the current period is reasonable based on the condition of its network.
- Increased overheads to deliver Jemena's higher connections and replacement capex program.

Table 2-2 sets out our final decision for Jemena by category.

Table 2-2 AER final decision by capex category

Category	Jemena's revised proposal	AER final decision	Difference over capex category ($/%)	
Replacement	419.3	370.2	-49.1	-11.7%
Augmentation	203.9	149.6	-54.4	-26.7%
Connections	1,221.9	1,221.9	-	-
ICT	115.0	109.7	-5.2	-4.6%
Property	17.4	17.4	-	-
Fleet	47.9	33.6	-14.3	-29.9%
CER integration	49.4	46.6	-2.8	-5.7%
Non-network - other	2.7	2.7	-	-
Capitalised overheads	240.9	204.3	-36.7	-15.2%
Gross Total	**2,318.4**	**2,155.9**	**-162.5**	**-7.0%**
Less customer contributions	977.1	967.8	-9.4	-1.0%
Less disposals	2.8	2.8	-	-

Category	Jemena's revised proposal	AER final decision	Difference over capex category ($/%)	
Modelling adjustments		-26.2		
Net Total	**1,338.5**	**1,159.1**	**-179.4**	**-13.4%**

Source: Jemena's revised proposal, AER analysis
Note: Revised proposal figures reflect updates and corrections noted at Table 2-1**Error! Reference source not found.**.

Within these categories,

- Resilience: Jemena's revised proposal includes $1.3 million for network and community resilience, included in the non-network other category. This is the same amount of resilience expenditure included in our draft decision and $18.5 million (93%) lower than its initial resilience capex proposal.
- Innovation: Jemena's revised proposal includes a $3.4 million innovation allowance, included as augmentation capex. This is $1.9 million (116%) higher than our draft decision and $0.9 million (22%) lower than its initial proposal.
- Cyber security: Jemena's revised proposal includes $6.5 million cyber security within the ICT category. This expenditure was not included in Jemena's initial proposal or our draft decision.

Table 2-3 summarises our views on each of the capex categories and whether they are prudent and efficient and reflect the capex criteria, and the reasons for this. Several capex categories in this table were considered and accepted in our draft decision. Details on this are provided in our draft decision attachment. Further information on the remaining capex categories that we considered in our final decision are included in Appendix A.

Our findings on each capex driver are part of our broader analysis and should not be considered in isolation. We do not approve an amount of forecast expenditure for each individual capex driver or project/program. However, we use our findings on the different capex drivers to assess a regulated business's proposal as a whole and arrive at an alternative estimate for total capex where necessary. Our decision on total capex does not limit a regulated business's actual spending.

Table 2-3 Summary of findings and reasons, by capex category

Issue	Findings and reasons
Replacement	Our final decision does not include Jemena's revised repex forecast of $419.3 million as part of our total capex forecast. Instead, we have included a substitute estimate of $370.2 million, which is $49.1 million (11.7%) lower than Jemena's forecast. We found most aspects of Jemena's repex forecast to be reasonable including its revised zone substation redevelopment program. However, we continue to have concerns with its pole top structure and service line programs, and do not consider they reasonably reflect the capex criteria. For pole top structures, we found that Jemena did not justify the proposed increase in forecast volumes. For its service line rectification program, we found that Jemena did not identify current or forecast compliance issues, nor provide a cost-benefit analysis of the proactive and opportunistic replacements. This is further discussed at Appendix A.1.

Issue	Findings and reasons
Augmentation	Our final decision does not include Jemena's revised augex forecast of $203.9 million as part of our total capex forecast. Instead, we have included a substitute estimate of $149.6 million, comprising of $92.1 million for demand-driven augex, $54.9 million for non-demand driven augex, and $2.6 million for innovation (discussed below). We accept Jemena's revised proposal for non-demand driven augex, having regard to Jemena's updated cost-benefit analysis for its strengthening communications project. On demand-driven augex, we found Jemena's demand forecasts likely over-estimated maximum demand and have determined alternative demand forecasts. We have reviewed Jemena's proposed demand-driven augex projects in light of our alternative demand forecasts. We found that Jemena's forecast comprised of augex projects that are not prudent or efficient, and have estimated an alternative forecast based on our findings. This is further discussed at Appendix A.2.
Resilience	Our final decision includes Jemena's revised proposal resilience expenditure. Jemena's revised proposal reflected our draft decision on its proposed resilience projects.
Connections	Our final decision includes Jemena's revised proposal connections expenditure as part of our total capex forecast. In our draft decision we accepted Jemena's forecast of business-as-usual connections and known non-data centre large connections. Our draft decision did not include any forecast for unknown non-data centre large connections. Our draft decision did not accept Jemena's forecast for data centre connections, substituting for an alternative forecast based on only in-flight data centre connections and 50% of data centre connection requests that are currently at the enquiry stage. Jemena's revised proposal accepted our draft decision that incorporated business-as-usual and non-data centre large connections. Jemena's revised proposal included a forecast for data centre connections that is in line with our draft decision forecast, including only data centre connections that are currently in-flight or subject to a firm connection offer. Jemena provided supporting evidence indicating those data centres that are currently in-flight and evidence that other data centres had, or were soon likely to have, a committed works agreement (CWA) offer put to them. We consider Jemena's data centre forecasting method is reasonable , as forecasts were supported by evidence indicating the connections would likely go ahead. We accept Jemena's revised proposal forecast for connections and included it in our total capex forecast. After it submitted its revised proposal Jemena updated its data centre forecast, consistent with the methodology in its revised proposal, to account for additional data centre connections that since met the evidentiary burden. We have included this updated forecast in our total capex forecast.

Issue	Findings and reasons
ICT	Our final decision does not include Jemena's ICT forecast of $115.0 million as part of our total capex forecast. Instead, we have included a substitute estimate of $109.7 million. This reflects our decision to not accept Jemena's proposed end user computing project as part of our forecast and revisions to the estimate for recurrent ICT capex. We could not reconcile the historical data used in Jemena's forecast of recurrent ICT capex. Due to these reconciliation issues, our alternate estimate utilised historical data previously provided by the network. We consider that Jemena's proposed end user computing capex is already accounted for in our forecast of recurrent ICT capex, and additional expenditure is not required. Our final decision includes Jemena's forecast expenditure for other ICT projects as part of our total capex forecast. We accept Jemena's cyber security project, introduced in its revised proposal, as a prudent and efficient response to maturity/capability gaps in its current cyber security profile. We also accept Jemena's new and increased forecasts for ICT capex to address changes in regulatory obligations, consistent with our cost-pass through decisions for these projects. We also accept all other projects previously approved in the draft decision. This is further discussed in Appendix A.4.
Property	Our final decision includes Jemena's property expenditure forecast as part of our total capex forecast. This was considered and accepted in our draft decision.
Fleet	Our final decision does not include Jemena's forecast of $47.9 million for fleet expenditure in our total capex forecast. Instead we have included a substitute estimate of $33.6 million. Jemena has not sufficiently demonstrated that it requires an increase in its fleet to deliver its capex program. Our forecast expenditure reflects Jemena's initial proposal and our draft decision, which we consider prudent and efficient to maintain Jemena's current fleet. This is further discussed in Appendix A.5.
CER integration	Our final decision does not include Jemena's forecast of $49.4 million for CER integration expenditure as part of our total capex forecast. Instead we have included a substitute estimate of $46.6 million. Our final decision capex forecast includes Jemena's forecast for its voltage and power quality management ($26.1 million), under frequency load shedding ($7.3 million), and data visibility and analytics ($1.5 million). In its revised proposal Jemena revised the scope of its voltage and power quality management project, targeting only areas most at risk of non-compliance. The under frequency load shedding and data analytics projects were considered and accepted in our draft decision. Our final decision forecast includes an alternate estimate ($11.7 million) for Jemena's proposed flexible exports project. We find the project reasonable and likely to provide benefits to customers but

Issue	Findings and reasons
	consider Jemena's forecast costs inefficient when benchmarked to other distributors. This is further discussed in Appendix A.6.
Other non-network capex	Our final decision includes Jemena's other non-network expenditure forecast as part of our total capex forecast. This was considered and accepted in our draft decision.
Capitalised overheads	Our final decision does not include Jemena's forecast of $240.9 million for capitalised overheads. Instead we have included a substitute estimate of $204.3 million. We consider that Jemena has not sufficiently demonstrated that its proposed method for forecasting capitalised overheads is prudent and efficient. In the absence of detailed evidence on the nature of Jemena's overhead costs, we forecast capitalised overheads in accordance with the default method embedded in our standardised capex model for standard control services. This is further discussed in Appendix A.3.
Innovation	Our final decision maintains our draft decision to approve three innovation projects and does not accept Jemena's proposed increases in capex for these projects. We consider Jemena has not sufficiently explained the higher forecasts for these projects. We consider the cost drivers cited by Jemena reflect factors that were already present at the time of Jemena's initial proposal and likely incorporated into these forecasts. Our final decision includes Jemena's new proposed 'EV Grid 2.0' project. We consider is consistent with our innovation criteria. This is further discussed in Appendix A.7.
Customer contributions	We have included Jemena's customer contributions forecast in the total capex forecast.
Disposals	We have included Jemena's disposals forecast in the total capex forecast.
Ex post review	We are required to provide a statement on whether the roll forward of the regulatory asset base (RAB) from the previous period contributes to the achievement of the capex incentive objective. The capex incentive objective set out in clause 6.4A(a) of the NER is to ensure that, where the RAB is subject to adjustment in accordance with the NER, only expenditure that reasonably reflects the capex criteria is included in any increase in value of the RAB. We may exclude capex from being rolled into the RAB when a distributor has overspent the amount of capex above the forecast that does not reasonably reflect the capital expenditure criteria. We have reviewed Jemena's capex performance for the 2020 to 2023–24 regulatory years. Jemena incurred total capex below its regulatory forecast for the ex-post review period. On this basis, the

Issue	Findings and reasons
	oversp[14]ending requirement for an efficiency review of past capex is not satisfied. We are satisfied that including this actual capex in the RAB is likely to contribute towards achieving the capex incentive objective.

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A Reasons for decision on key capex categories

This appendix sets out our assessment of key capex categories and programs/projects within Jemena's total revised capex forecast and the reasons for our decision. This appendix includes:

- replacement expenditure (A.1)
- augmentation expenditure (A.2)
- capitalised overheads (A.3)
- information and communication technology (A.4)
- fleet (A.5)
- consumer energy resources (A.6)
- innovation allowance (A.7)

A.1 Replacement expenditure

Replacement expenditure or repex must be set at a level that allows a distributor to meet the capex criteria. Replacement can occur for a variety of reasons, including when:

- an asset fails while in service or presents a real risk of imminent failure
- a condition assessment determines that it is likely to fail soon or degrade in performance such that it does not meet its service requirement, and replacement is the most economic option[15]
- the asset does not meet the relevant jurisdictional safety regulations and can no longer be safely operated on the network
- the risk of using the asset exceeds the benefit of continuing to operate it on the network.

Most network assets will remain in efficient use for far longer than a single five-year regulatory control period (many network assets have economic lives of 50 years or more). As a result, a distributor will only need to replace a portion of its network assets in each regulatory control period.

A.1.1 AER's final decision

We are not satisfied that Jemena's proposed $419.3 million (2026–31) for replacement capital expenditure would form part of a total capex forecast that reasonably reflects the capex criteria. Our final decision includes an alternative forecast of $370.0 million which is $49.3 million or 11.7% lower than Jemena's revised proposal. Our final decision is 36.1% higher than Jemena's actual/estimated repex for the 2021–26 current period.

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[15] A condition assessment may relate to assessment of a single asset or a population of similar assets. High-value/low-volume assets are more likely to be monitored on an individual basis, while low value/high volume assets are more likely to be considered from an asset category wide perspective.

A.1.2 Jemena's revised proposal

Table A1.1 provides a breakdown of Jemena's revised repex proposal, which is 2.6% higher than its initial proposal. Across all but one repex program, Jemena's revised proposal is the same as its initial proposal in $2024 terms, with revised proposal capex differing from initial proposal only due to updated input cost escalators. Jemena proposed increased repex compared to its initial proposal for the replacement of zone substation locks and physical security systems (shown in table A1.1 within the other repex category).

Table A1.1 Breakdown of Jemena's revised repex proposal and AER final decision ($2025–26, million)

Program	Jemena's revised proposal	AER final decision	Difference over capex category ($/%)	
Poles	56.3	56.3	-	-
Pole top structures	44.8	23.1	-21.7	-48.4%
Overhead conductors	12.3	12.3	-	-
Underground cables	31.9	31.9	-	-
Service lines	32.7	16.2	-16.5	-50.6%
Distribution transformers	17.1	17.1	-	-
Distribution switchgear	24.6	24.6	-	-
Substation switchgear and transformers	86.3	86.3	-	-
Supervisory control and data acquisition (SCADA) assets	27.9	27.9	-	-
Customer recoverable works*	41.7	41.7	-	-
Emergency works	19.0	19.0	-	-
Other repex	24.9	13.8	-11.1	-44.7%
Total repex	**419.3**	**370.0**	**-49.3**	**-11.8%**

Source: Jemena's revised proposal, AER analysis.
Note: *Gross capex values shown – capital contributions are forecast only for the customer recoverable works category. Jemena's revised proposal includes $33.2 million of capital contributions related to this repex program, resulting in net expenditure of $8.5 million for this category.
Numbers may not sum due to rounding.

A.1.3 Reasons for decision

Our final decision is $118.8 million higher than our draft decision. Our higher repex forecast is reflective of our assessment of Jemena's newly submitted supporting information, which included additional detail on asset condition and expected failure rates, as well as business cases and cost-benefit analysis for proposed proactive replacement programs.

The largest component of the increase between our draft and final decision repex forecasts is Jemena's proposed zone substation redevelopment program. This includes proposed

works on zone substation switchgear, transformers, and SCADA assets at Coburg North, Coburg South and North Heidelberg zone substations.

But, in other cases, we found the new information supported a lower alternative forecast (for pole top structures and service lines). Where we have derived alternative forecasts, these have been based on unit rates provided by Jemena and modelled failure analysis.

We discuss our specific findings in Jemena's revised repex forecast below.

A.1.3.1 Pole top structures

We do not accept that Jemena's forecast of $44.8 million for its pole top structure program would form part of a total capex forecast that reasonably reflects the capex criteria. We have included $23.1 million for this program in our alternative capex forecast, which is 48.4% lower than Jemena's proposal.

Jemena's forecast repex for pole top structures represents a 64.1% increase over the current period spend of $27.3 million, and an increase of 42.2% on its current period allowance of $31.5 million.

Our draft decision did not accept Jemena's forecast pole top replacement program as its initial proposal did not include any cost benefit analysis or modelling to support this increase in expected pole top structure expenditure in the forecast period. In the absence of more detailed modelling, we determined an alternative forecast of $25.9 million based on historical and current period estimated expenditure, supported by our top-down analysis methods such as the repex model.

In response to our draft decision, Jemena provided a business case and failure rate modelling to support its forecast expenditure. While Jemena's forecast unit rates appear reasonable, its proposed replacement volumes represent a significant increase over the current period. We found that although Jemena's failure rate modelling was initially conducted appropriately, various outputs were over-written and hard-coded, resulting in replacement volumes not reflecting model outputs. In response to information requests Jemena submitted the failure probability models didn't completely capture the forecast failure risk without a 'carryover' amount added.[16]

We consider Jemena has not justified the increased volumes associated with its pole top structure replacement program. Additionally, Jemena has not provided condition data that would support a significant increase in replacement volumes.

Our final decision on Jemena's pole top replacement program is to provide an alternative estimate based on Jemena's own failure model outputs without the carryover amount added.

A.1.3.2 Service lines

We do not accept that Jemena's forecast of $32.5 million for its service line program would form part of a total capex forecast that reasonably reflects the capex criteria. We have included $16.2 million for this program in our alternative capex forecast, which is 50.6% lower than Jemena's proposal.

[16] Jemena, *Response to Information Request 053*, 21 January 2026.

Jemena's proposed service line replacement program is divided into two components, the first being routine service line replacements ($10.6 million) and the second being a service rectification program (the remaining $21.9 million).

We did not accept Jemena's forecast service line replacement program in our draft decision as its initial proposal did not include any cost benefit analysis or modelling to support the proposed increase in expected expenditure in the forecast period. We determined an alternative forecast of $26.0 million based on long term historical expenditure, supported by our top-down analysis methods such as the repex model.

In its revised proposal Jemena provided a robust business case supporting the $10.6 million routine replacements component of its service line expenditure. Jemena submitted that this expenditure will "maintain the current service level reliability for the network."

Jemena did not provide a robust business case supporting its $21.9 million service rectification component. Jemena did not identify current or forecast compliance issues, nor provide a cost-benefit analysis of the proposed proactive and opportunistic replacements. However, this business case did identify existing replacement levels that appear to be operating effectively to manage safety and reliability risks.[17]

We consider Jemena has not justified the increased forecast associated with its service line replacement program.

Our final decision on Jemena's service line replacement program is to provide an alternative estimate based on Jemena's current period expenditure. Our alternative forecast for the final decision is lower than the draft decision because the additional information Jemena submitted allowed us to carry out a more informed analysis. Our alternative allowance is greater than Jemena's forecast for routine service line replacements, allowing for a continuation of current levels of proactive service rectification.

A.1.3.3 Zone Substation Redevelopment

Jemena proposed to redevelop three of its zone substations: Coburg North, Coburg South and North Heidelberg. We did not accept this proposal in our draft decision due to concerns with Jemena's analysis of the probability and consequence of asset failure, including a lack of supporting evidence on asset condition. We found the proposed costs of the redevelopments to be reasonable but were not satisfied that the redevelopments would need to occur in the next regulatory period. Our assessment was supported by EMCa's review of Jemena's proposal.

In response to our draft decision Jemena provided additional information on the need for these redevelopment programs. This included updated failure modelling, a comprehensive condition report from its asset management experts, and a report from an external

[17] Jemena, *2026-31 Revised Proposal*, December 2025, p 3; Jemena, *RP – Support – Service Replacement – Business Case*, December 2025

consultant, K-BIK Power[18], providing a review of Jemena's failure modelling and condition-based data. We re-engaged EMCa to assist us in our review of Jemena's revised proposal.[19]

EMCa considered that their previous concerns had been addressed but also noted that Jemena's approach to asset grouping and data source for failure calibration may overrepresent the likelihood and consequence of failure of these assets. Nonetheless, EMCa's sensitivity analysis found that the optimal timing was not materially affected when the input failure rates were substantially modified.

We share EMCa's concerns that there may be significant limitations in Jemena's revised failure rate analysis. However, the additional information provided by Jemena demonstrates that its assets at these three zone substations are in a poor condition. We are satisfied that it is prudent and efficient to replace these assets within the next regulatory period.

A.1.3.4 Zone substation locks and security systems

$21.3 million (85%) of Jemena's proposed 'other' repex is for the replacement of zone substation locks and security systems. In our draft decision we accepted Jemena's initial proposal of $10.2 million to carry out works on a selection of zone substation sites. Jemena's revised proposal included an increased scope for this program, representing an increase of $11.1 million. Jemena cited compliance with regulatory obligations as the driver of the increased scope. However, we consider that Jemena has not demonstrated that:

- the increased scope is necessary for compliance
- the regulatory obligations have materially changed since Jemena's initial proposal, or that Jemena could not have included the full scope in its initial proposal
- the risks outlined at the initial proposal are applicable to the sites included in the revised proposal's increased scope.

Given our findings for the zone substation locks and security systems program we therefore maintain our draft decision position that the scope should be limited to the initially proposed select sites.

A.1.3.5 Other repex categories

In its revised proposal Jemena provided additional supporting information on its routine and reactive replacement of distribution transformers, distribution switchgear, overhead conductors, underground cables, and emergency replacement works. For these programs we found Jemena's forecast volumes to be in line with historical failure and replacement rates. We also found Jemena's proposed unit rates to benchmark favourably to Jemena's past practice and that of other distributors.

Jemena also proposed a number of proactive replacement programs:

- façade rectification ($7.5 million) and undersized neutral ($1.4 million) programs in the overhead conductors repex category

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18 K-BIK Power Pty Ltd, Review of Assets for Replacement of Substations within Jemena's Network, K. Williams, November 2025

19 EMCa, Review of Coburg North ZSS Redevelopment Project (Jemena RRP), March 2026

- replacement of 66kV oil-filled cables program ($21.4 million) in the underground cable repex category, and
- compliance switchgear program ($12.6 million) in the distribution switchgear repex category.

In response to our draft decision Jemena provided cost-benefit analysis in support of these proactive replacement programs. After assessing this new information we are satisfied that these proactive programs are prudent and efficient measures to mitigate safety and environmental risks, and to reduce the risk and cost of outages to consumers. We include these programs in our forecast repex for the 2026-31 regulatory period, but we also note that:

- These are limited programs that should not be required in the 2031-36 regulatory period, particularly the façade rectification and 66kV oil filled cables program.
- Many of these programs should result in lower than otherwise operating costs in the 2031-36 regulatory period. We expect Jemena to experience fewer faults and lower reactive maintenance costs as a result of the replacement of undersized neutrals and 66kV oil filled cables. We also expect the compliance switchgear program to reduce the assets required to be isolated, improving Jemena's ability to manage its network, transfer load, and meet demand with lower augmentation expenditure.

A.2 Augmentation expenditure

Augmentation is capital expenditure (augex) required to build or upgrade the network to address system constraints driven by changes in demand and network utilisation to enable the network service provider to comply with quality, safety, reliability, security of supply and greenhouse gas emission reduction target requirements. Jemena's augmentation consists of expenditure mainly on demand driven augmentation capital expenditure, connection enablement, reliability, compliance and safety. It also includes expenditure related to resilience and the innovation allowance.

A.2.1 AER's final decision

We are not satisfied that Jemena's proposed $203.9 million ($2025–26) for augmentation capital expenditure would form part of a total capex forecast that reasonably reflects the capex criteria. Our final decision includes an alternative forecast of $149.6 million which is $54.4 million or 26.7% lower than Jemena's revised proposal. Our final decision forecast for augmentation expenditure consists of:

- $92.1 million for demand-driven augmentation. This is $8.0 million or 8.0% lower than our draft decision, which was a placeholder equivalent to Jemena's current period actual and estimated spend on demand-driven augex, and $53.6 million or 36.8% lower than Jemena's revised proposal.
- $54.9 million for non-demand driven augmentation (excluding innovation). This accepts Jemena's revised proposal, which is $8.8 million or 19.0% higher than our draft decision.
- $2.6 million for an innovation allowance (discussed further in Appendix A.7). This is $1.0 million or 63.1% higher than our draft decision, and $0.84 million or 32.2% lower than Jemena's revised proposal.

A.2.2 Jemena's revised proposal

Jemena's revised proposal consisted of:

- $145.6 million for demand-driven augmentation
- $54.9 million for non-demand driven augmentation (excluding innovation),
- $3.4 million for an innovation allowance (discussed further in Appendix A.7)

In our draft decision we found Jemena's demand forecasts to be opaque, difficult to replicate, and not well evidenced. At a project level we considered that Jemena did not include coherent forecasts of demand that would allow proper analysis of the costs and benefits of its proposal. We did not accept Jemena's demand-driven augmentation, instead substituting an alternative estimate equivalent to Jemena's actual and estimated expenditure on demand-driven augmentations in the 2021-26 regulatory period.

In its revised proposal Jemena provided revised demand forecasts and supporting information on how these revised forecasts were derived. Jemena submitted that its revised demand forecasts are not materially different from the forecasts in its initial proposal. Consequently, Jemena re-proposed the same demand-driven augmentation projects in its revised proposal as those in its initial proposal.

Jemena's non-demand driven augmentation proposal comprised of $46.1 million for its East Preston Conversion project and $8.8 million for its strengthening communications project. We accepted Jemena's East Preston Conversion project in our draft decision and Jemena did not propose any changes to its forecast capex for this project. We did not accept Jemena's proposed strengthening communications project in our draft decision. In its revised proposal Jemena re-proposed this project without change, submitting additional supporting information on the cost-benefit analysis for the project.

A.2.3 Reasons for decision

We are satisfied that our alternative allowance of $92.1 million for demand driven augex is reasonable and sufficient for Jemena to maintain reliable supply to energy consumers. We do not find Jemena's forecast for demand-driven augex to be prudent and efficient, given reasonable forecasts of demand, reasonable estimates of the likelihood and consequence of outages, and complete assessment of options to address network limitations.

In most instances we have relied on Jemena's estimates of the likelihood and consequence of demand-driven outages (expected un-served energy) that would occur if network limitations are not addressed. However, in some instances we find that Jemena has over-estimated the value of expected un-served energy.

We find Jemena's demand forecasts likely over-estimate maximum demand and have determined alternative demand forecasts. We have reviewed Jemena's proposed demand-driven augex projects in light of our alternative demand forecast. We find that for a number of projects Jemena's proposed augex is not prudent and efficient, and estimate an alternative augex forecast based on these findings.

Further detail on our assessment of demand-driven augex is in sections A.2.3.1 and A.2.3.2 below.

On Jemena's non-demand driven augex project to strengthen communications, we are satisfied that this project is prudent and efficient, having regard to Jemena's updated cost-benefit analysis. Further detail on our assessment is in section A.2.3.3 below.

A.2.3.1 Forecasts of maximum demand

In our draft decision we found that Jemena's demand forecasts were likely overstated. Our consultant Baringa considered that Jemena's approach to forecasting block loads including data centres was subjective and lacked strong reasoning, and advised that data centres that are yet to be contracted should be excluded from the forecasts. Baringa noted similar concerns regarding Jemena's approach to non-data centre block loads, noting a lack of clarity regarding the rationale for the speculative weighted average method used in calculating demand. We also had concerns with how Jemena included non-data centre block loads, which we considered double counted loads captured in the trend and other components of the demand modelling. Baringa further raised concerns regarding the approaches to block loads at the spatial level compared to the system level, and how they reconcile to each other, being unclear.[20]

In response to our concerns regarding the forecast in our draft decision Jemena's revised proposal relies on the unadjusted Blunomy forecast and includes only data centre connections that have signed or firm offers in place.[21] Jemena also updated its demand forecast with the latest inputs from the Australian Energy Market Operator's Inputs, Assumptions and Scenarios (IASR) report and other macroeconomic indicators.[22]

While Jemena has somewhat allayed concerns regarding the complexity of its forecast and is now consistent in methodology with the other Victorian distributors, we have concerns regarding the non-data centre block load forecast. We consider the non-data centre block load forecasts still include double counted loads captured in the trend and other components of the demand modelling. We assessed the revised demand forecast and our decision is to substitute an alternative demand forecast which reduces non-data centre block loads by 50%.[23]

In our draft decision we found Jemena's demand forecasts to be opaque and not well evidenced, particularly at the spatial level. While Jemena included a demand forecast breakdown with its revised proposal,[24] it provided little additional information about how its spatial demand forecasts were derived. In the absence of reliable alternatives at the spatial level, we have relied on Jemena's submitted forecasts, with adjustment to non-data centre block loads as mentioned above.[25] However, for a number of the locations relevant to

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20 AER, *Draft decision - Jemena electricity distribution determination - 1 July 2026 – 30 June 2031*, September 2025, pp. 20–21.

21 Jemena, *JEN 2026-31 Revised proposal*, 1 December 2025, p. 19.

22 Jemena, *JEN 2026-31 Revised proposal*, 1 December 2025, p. 19.

23 Consistent with our decision on ratcheted maximum demand used in our forecast of output growth, an input into our opex final decision. See section 3.4.3.2 of Attachment 3 (operating expenditure) to this final decision.

24 JEN - RP - Support - 2025 demand forecast breakdown - 20251119 – Confidential, 19 November 2025

25 Figure 3.2 of Jemena's revised proposal illustrates that Jemena's forecasts of maximum demand excluding data centres exhibits a much lower growth rate than forecasts including data centres: Jemena Electricity Networks, JEN 2026-31 Revised Proposal, 1 December 2025, p 18.

Jemena's proposed demand-driven augex, we continue to have concerns about the veracity of Jemena's spatial demand forecasts and their congruence with historical demand, and forecasts included in the business cases.[26]

A.2.3.2 Review of proposed demand-driven augex projects

As a result of the material change in the demand forecast we have reviewed our assessment of Jemena's demand-driven augex, focusing on the largest 12 projects proposed by Jemena (shown in Table A2.1).[27]

We find that some of these projects (A67, A83, A376, and A310) continue to be supported by our alternative forecast of maximum demand and their forecast costs are prudent and efficient. However, we have significant concerns with the prudency and/or efficiency of half of these top 12 projects. We detail our concerns in the subsections below. We also note concerns with other projects we have examined, and the likelihood that some of the augex projects outside the largest 12 projects may also not be adequately justified, particularly given our lower alternative demand forecast. Overall, we estimate an alternative of Jemena's augex based on adjustments to only those projects for which we have identified significant concerns. We consider this a conservative approach. We find a more reasonable estimate of the prudent and efficient augex for these top 12 projects to be $53.6 million less than proposed by Jemena. We applied a similar adjustment to Jemena's forecast of total demand-driven augex.

It is important to note that our approach is to include in our total capex forecast an amount of expenditure that we consider is prudent and efficient for Jemena to address demand-driven network limitations. We do not decide which projects Jemena should prioritize or allocate funding to during the regulatory period. The assessment below reflects our initial allocation for projects that we consider are not justified at this time, but there will be scope for Jemena to reprioritize on a portfolio basis.

Table A2.1 12 largest demand-driven augex projects in Jemena's revised proposal ($2025–26, million)

Project ID	Project name	Jemena's revised proposal ($ million)	% of total demand-driven augex
A72	Establish new CBN zone substation - substation works	25.1	17%
A67	Distribution Substation Augmentation - Load Related	20.6	14%
A376	Augment TTS-NH(NEI)-NEL-WT-TTS 66kV loop	11.3	8%
A83	Upgrade SBY No.1 and No.3 transformers to 20/33MVA	11.2	8%

[26] Locations include FT, ST, SBY, SHM and associated feeders.

[27] Jemena's SCS capex model submitted with its revised proposal included 36 demand-driven augmentation projects in total with proposed augex of $145.6 million. The largest 12 projects constitute $121.8 million, 84% of the total demand-driven augex. The remaining 24 projects constitute $23.8 million in proposed augex.

Project ID	Project name	Jemena's revised proposal ($ million)	% of total demand-driven augex
A66	Supply Quality/Reliability - LV Overhead Augmentation	11.1	8%
A310	Augment BTS-FF 22kV Loop - Sub Transmission Works	10.3	7%
A10	3rd Transformer and 66kV Works at FT (Moonee Valley)	8.7	6%
A454	New feeder SBY-031	6.5	4%
A42	Establish new CBN zone substation - HV feeder works	5.9	4%
A517	Coolaroo No.1 bus cable transfers	3.9	3%
A540	New feeder SBY-015	3.8	3%
A132	New feeder ES0-031	3.5	2%
Total		**121.8**	**84%**

Source: Jemena's revised proposal, AER analysis.

Projects A72 and A42 – new Craigieburn zone substation

Jemena's proposed projects A72 and A42 both relate to establishing a new Craigieburn zone substation and associated feeder works. Jemena states that these works are required to alleviate forecast constraints at its Somerton zone substation (ST) and constraints on its Somerton feeders (ST 11, ST 12, ST 22, ST 34) and the Kalkallo feeder (KLO 22) it shares with AusNet.[28] However, we have the following concerns about the justification for these projects:

- Jemena forecasts the expected unserved energy resulting from its Somerton zone substation, and from most of its Somerton feeders, by the end of the next regulatory period to be relatively modest. Jemena forecasts material amounts of unserved energy related to feeders ST 12, ST 22, and KLO 22.[29]
- In its supporting information for its augex projects Jemena forecasts material unserved energy resulting from its ST 12 feeder, and to a lesser extent from its ST 22 feeder. But these forecasts of unserved energy appear based on Jemena's earlier demand

[28] JEN – RIN – Support – Northern Growth Corridor – Network Development Strategy – 20250131, Table 2-11. In its response to AER information request IR#084 Jemena reiterated that projects A72 and A42 are justified by the aggregate estimate of Expected Unserved Energy (EUSE) related to its ST zone substation, its ST feeders, and its KLO 22 feeder.

[29] See: JEN – RIN – Support – Northern Growth Corridor – Network Development Strategy – 20250131.
Jemena estimates the value of expected unserved energy resulting from the Somerton zone substation to be $922,000 by 2032. This is 3.7% of the cost of the proposed option to address the constraint (project A72). JEN – RIN – Support – Northern Growth Corridor – Network Development Strategy – 20250131, p 34, Table 4-3.

forecasts. Jemena's revised demand forecast[30] for its ST 12 and ST 22 feeders is significantly lower than its earlier forecast,[31] and lower again after we adjust for possible double-counting of non-data centre block loads.[32]

- AusNet's distribution network borders Jemena's. AusNet is proposing significant new zone substations at Wollert (WLT) and Beveridge (BVE). These works are expected to offload AusNet's Kalkallo zone substation (KLO) and the KLO 22 feeder which Jemena currently shares with AusNet.[33] These substations may also facilitate new feeders that may serve Jemena's distribution network. We are not persuaded that cross boundary sharing of HV feeder capacity options which would open load transfer opportunities have been adequately considered by Jemena.
- We consider there is some flexibility in the timing of projects A72 and A42. We are not satisfied that these projects are likely to be required in the next regulatory period.

Given these concerns we do not consider Jemena has sufficiently demonstrated the prudency of undertaking projects A72 and A42 within the next regulatory period. However, it may be prudent for Jemena to undertake lesser augmentation works to alleviate localized constraints that may arise on its Somerton feeders in the next regulatory period. On this basis we consider that a substitute amount of $5.89 million would be appropriate. This is equivalent to the amount Jemena proposed for HV feeder works (project A42), which may be allocated to an alternative zone substation that it would otherwise perform at the proposed Craigieburn zone substation.

Project A66 – augmentation of LV overhead lines

This project relates to an ongoing, annual program of augmentation, replacing on average 27 distribution substations and associated LV circuits each year. In its initial proposal Jemena submitted that maintaining this ongoing program at its current rate is the preferred option.[34]

We approved $0.943 million ($2018, $1.16 million in $2024) in the current regulatory period for this program of works.[35] Jemena's forecast of $11.1 million ($2026) is a substantial increase above the allowance provided for this program for the current regulatory period.

In response to our information request Jemena stated that it considers that reliance on the historical trend is no longer appropriate and that it developed its proposal on a forward-looking assessment of need,[36] but Jemena did not provide evidence to justify the increase in volume or unit rate for these works. As such we base our assessment on the amount

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30 JEN - RP - Support - 2025 demand forecast breakdown - 20251119, 19 November 2025. The difference between Jemena's initial proposal and revised proposal demand forecasts is also illustrated in Figure 3.5 of its revised proposal: Jemena Electricity Networks, JEN 2026-31 Revised Proposal, 1 December 2025, p 21.

31 JEN – RIN – Support – Northern Growth Corridor – Network Development Strategy – 20250131; JEN – RIN – Support – Northern Growth Corridor NDS – CBAM – 20250131 – Public, 31 January 2025, TAB EUSE.

32 See section A.2.3.1 above.

33 AusNet, *ASD – AusNet - Supply security of Northern Growth Corridor - 01122025 – PUBLIC,* November 2025.

34 JEN – RIN – Support – Distribution Substation Augmentation Strategy – 20250131 – Public, 17 December 2024

35 AER - Final decision - Jemena distribution determination - 2021-26 - Capex model - April 2021 - updated 11 May 2021

36 Jemena, *JEN - IR084 - Revised Proposal Q & A Response - Augex - 20260327 – Public*, 27 March 2026

allocated in the current regulatory period, adjusted to accommodate Jemena's revised demand forecast.

We do not accept the proposed amount of $11.1 million for this project and substitute an alternative forecast of $1.57 million.

Project A10 – 3rd transformer and 66kV works at Flemington (FT)

Jemena submitted that the driver of this project is forecast maximum demand at its Flemington zone substation. Jemena's revised demand forecasts for the Flemington zone substation are lower than the demand forecasts in Jemena's supporting documentation for this project, and lower again after we adjust non-data centre block loads.

We find our alternative forecast of maximum demand at the Flemington zone substation by the end of the regulatory period to be equivalent to Jemena's original forecast of maximum demand at Flemington in 2028. Jemena's estimate of unserved energy at Flemington by 2028 is relatively modest.[37] Jemena has not sufficiently demonstrated that it is prudent to undertake project A10 within the next regulatory period.

Further, given that the Moonee Valley Racecourse Development Project is the predominant driver of the forecast demand at the Flemington zone substation, along with a small number of other identified significant customer developments, there may be scope to recover more of the augmentation costs directly through customer contributions.[38]

Project A454 – new feeder SBY 031

Jemena submitted that the driver for this project is forecast maximum demand at its Sydenham zone substation (SHM).[39] However, Jemena estimated only a relatively modest amount of unserved energy at Sydenham by the end of the next regulatory period.[40] We forecast maximum demand at Sydenham to be lower than forecast by Jemena, resulting in an even lower estimate of the value of expected unserved energy. Jemena has not sufficiently demonstrated that it is prudent to undertake project A454 within the next regulatory period.

Project A540 – new feeder SBY 015

Jemena submitted that the driver for this project is forecast maximum demand on Sunbury feeder SBY 024.[41] Jemena's supporting information for this project forecasts maximum demand on this feeder to exceed its rating in 2028 but this is based on Jemena's earlier demand forecasts. Jemena's revised demand forecasts do not indicate this feeder exceeding

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37 Jemena estimated the value of unserved energy at Flemington by 2028 to be around 5% of the cost of project A10 to alleviate the constraint. See: JEN – RIN – Support – 11kV Central Area – Network Development Strategy – 20250131 – Public, table 4-3.

38 JEN – RIN – Support – 11kV Central Area – Network Development Strategy – 20250131 – Public, p7

39 JEN – RIN – Support – North-Western Growth Corridor – Network Development Strategy – 20250131 – Public, pxii

40 Jemena estimated the value of unserved energy at Sydneham by 2030 to be around 5% of the cost of project A454 to alleviate the constraint. See: JEN – RIN – Support – North-Western Growth Corridor – Network Development Strategy – 20250131 – Public, table 4-3.

41 JEN – RIN – Support – North-Western Growth Corridor – Network Development Strategy – 20250131 – Public, table 2-11.

its rating within the next regulatory period, and this is even less likely after adjustment for potential double-counting of non-data centre block loads. Jemena did not demonstrate that there is likely to be insufficient capacity for load transfers to manage transient constraints on feeder SBY 024. We are not satisfied that it is prudent to undertake project A540 within the next regulatory period.

Projects A517 and A132

The business case for project A132 (new Essendon feeder ES 31) presents significant demand growth and a value of expected unserved energy of $0.573 million by 2030. However, Jemena's revised demand forecast does not support the business case and the expected unserved energy may be lower. Nonetheless, Jemena's demand forecasts for other Essendon feeders in the area indicate relatively high utilization, which may limit load transfers or other measures to address transient maximum demand limitations. On balance, we have included this project in our forecast augex.

The business case for project A517 (Coolaroo No.1 bus cable transfers) forecasts significant maximum demand growth and levels of demand at the Coolaroo zone substation exceeding its rating. However, the revised demand forecasts appear incongruent with historical demand at the Coolaroo zone substation. On balance, given the forecast high utilization at surrounding substations (Somerton, Broadmeadows) and the safety value of maintaining operation of the REFCL[42] at Coolaroo, we have included this project in our forecast augex.

A.2.3.3 Non-demand driven augmentation (expansion and strengthening of communications network to meet demand)

Jemena submitted a revised proposal of $8.8 million for its initiative to expand and strengthen its communications network for remote control pole top devices, converting them from radio backhaul links to fibre optic cables.

In our draft decision, we did not include this project in our alternate estimate, though we acknowledged it could be prudent. We were not satisfied with its cost-benefit analysis. Our main concern was its derivation of VCR and its valuation of loss of energy events.[43]

Jemena has re-proposed the project unchanged from its initial proposal, but it has revised its cost benefit analysis in line with feedback from our draft decision. Jemena has updated its VCR inputs in line with our 2024 guideline. Further, it has used a more sophisticated approach to value loss of energy events. For example, the probability of an event is no longer constant over the years, as it was in Jemena's initial proposal analysis. The probability of an event now reduces in proportion to the number of pole top devices Jemena converts.[44]

Jemena has addressed our concerns from our draft decision. Our final decision is to accept this project of $8.8 million, and we have included it in our alternate estimate.

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42 Rapid Earth Fault Current Limiters, or REFCLs, are devices to mitigate risk of bushfires caused by powerline faults.

43 AER, *Attachment 2 - Capital expenditure - Draft decision - Jemena distribution determination 2026-31*, September 2025, p 33.

44 Jemena, *2026-31 Revised Proposal*, December 2025, p 30; Jemena, *RP – Support – Operational Technology Communications Network Upgrade – CBA Model*, December 2025

A.3 Capitalised overheads

Overheads are costs that are not directly attributable to the output of distribution businesses but are necessary to support its operations. Examples of overhead costs include network planning, procurement, and human resources.

A.3.1 AER's final decision

We are not satisfied that Jemena's proposed $240.9 million ($2025–26) for capitalised overheads would form part of a total capex forecast that reasonably reflects the capex criteria. Our final decision includes an alternative forecast of $204.3 million which is $36.7 million or 15.2% lower than Jemena's revised proposal. Specifically, we do not accept Jemena's proposed method for estimating capitalised overheads. We maintain the method adopted in our draft decision, which reflects the default method embedded in our standardised capex model for standard control services. Our final decision is $44.0 million or 27.5% higher than our draft decision. This is because our method for estimating capitalised overheads depends on our overall capex estimate, and our final decision on capex in total is higher than our draft decision.

A.3.2 Jemena's revised proposal

Jemena proposed $229.8 million in capitalised overheads, 43% higher than our draft decision of $160.3 million.[45]

Jemena proposed not to use our default overheads calculation method embedded in our standardised capex model and substituted its own method. The main difference between our default method and Jemena's proposed method is the fixed-to-variable ratio. Our default method assumes 75% of historic overheads are fixed and will likely continue to be incurred in the next regulatory period, while the remaining 25% will vary in proportion to the change in the overall capex level between periods. Jemena proposed a 50:50 ratio, submitting that a relatively smaller proportion of its historic overheads are fixed and a relatively greater proportion of its overheads will be driven by its forecast capex needs.[46]

A.3.3 Reasons for decision

We reviewed the information Jemena submitted in support of its proposed 50:50 fixed-to-variable ratio for capitalised overheads, including analysis from Jemena's consultant Farrier-Swier.[47] We are not satisfied with Jemena's reasoning for using a 50:50 fixed-to-variable ratio compared to our draft decision ratio of 75:25.

Jemena submitted statistical analysis by Farrier-Swier that suggested that Jemena's capitalised overheads has historically demonstrated a strong correlation with the size of its capex program.[48] Based on this analysis, Jemena submitted that around 17% to 28% of its capitalised overheads are fixed. Jemena submitted that its proposed 50:50 fixed-to-variable

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45 Jemena's revised proposal included $244.8 million of capitalised overheads, but this figure included an inflation calculation error, which corrected for results in a proposal of $229.8 million. *RE: Jemena EDPR 2026-31 - Clarification re potential formula error in Jemena's capitalised overheads,* sent 13 February 2026.

46 Jemena, *RP - Att 05-02M SCS Capex model*, December 2025; Jemena, *2026-31 Revised Proposal*, December 2025, p 32.

47 Farrier Swier, *JEN - farrierswier - RP - Support - Memo - Capitalised overheads*, November 2025.

48 Farrier Swier, *JEN - farrierswier - RP - Support - Memo - Capitalised overheads*, November 2025.

ratio is conservative, noting that if fixed overheads have historically been 17% to 28% of total overheads then they are unlikely to exceed 50% in the 2026-31 regulatory period.[49] Jemena noted that we departed from our default 75:25 ratio in the past, citing our decision on SA Power Networks' 2025-30 determination, in which we used a 69:31 fixed-to-variable ratio for capitalised overheads.

We have taken into account Jemena's statistical analysis of historical capitalised overheads. However, we caution against estimating overheads based on purely statistical evidence without further considering more detailed supporting evidence on the nature of these costs. Notably, our 2025-30 determination for SA Power Networks was not based on a top-down analysis of total capitalised overheads. Rather, it was based on a detailed bottom-up analysis submitted by SA Power Networks of the overhead activities it considered fixed in the medium term, and those it considered varied with capex.[50] Jemena did not provide any explanation of the underlying nature of its capitalised overheads and why certain costs would be fixed (or variable) in nature.

We note that the statistical correlation between direct capex and capitalised overheads found for Jemena does not hold for other network service providers. It is not clear why the fixed or variable nature of overhead costs for network services providers is likely to differ materially between networks and jurisdictions. We also note that that the correlation between Jemena's capex and its capitalised overheads changes materially when the time period under examination changes.

Overall, we cannot be confident that the result of Jemena's linear regression equation reflects a real split between fixed and variable overheads, or whether it is a non-meaningful statistical artifact. We consider that Jemena did not sufficiently demonstrate that its proposed capitalised overheads are prudent and efficient. In the absence of detailed evidence on the nature of Jemena's overhead costs, we forecast capitalised overheads in accordance with the default method embedded in our standardised capex model for standard control services.

A.4 Information and communication technology

Information and communication technology (ICT) refers to all non-network related devices, applications and systems that support Jemena's business operations. ICT expenditure is categorised broadly as either replacement of existing infrastructure for reasons due to end of life, technical obsolescence or added capability of the system with the acquisition of new assets.

A.4.1 AER's final decision

We are not satisfied that Jemena's proposed $115.0 million ($2025–26) for ICT capital expenditure would form part of a total capex forecast that reasonably reflects the capex criteria. Our final decision includes an alternative forecast of $109.7 million which is $5.2 million or 4.6% lower than Jemena's revised proposal.

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49 Farrier Swier, *JEN - farrierswier - RP - Support - Memo - Capitalised overheads*, November 2025, p 8.

50 AER, *SA Power Networks 2020-25 - Draft decision - Attachment 5 - Capital expenditure*, October 2019, p 88; SAPN, *Response to IR18*, 16 April 2019, p 2.

A.4.2 Jemena's revised proposal

In its revised proposal Jemena forecast total ICT capital expenditure of $115.0 million ($2025-26), comprising $33.1 million in recurrent ICT capex and $81.8 million in non-recurrent ICT capex. Jemena's revised proposal for recurrent ICT is $1.3 million lower than Jemena's initial proposal and $3.4 million higher than our draft decision forecast of $29.7 million. Jemena's revised forecast is based on an average of its actual recurrent ICT capex incurred in its reporting years RY2021 to RY2025.

Jemena's revised proposal for non-recurrent ICT includes:

- Re-proposal of two projects not fully accepted in the draft decision:
  - Flexible trading arrangements (FTA)
  - End user computing
- Two new projects:
  - Victorian Emergency Backup Mechanism 2 (VEBM2)
  - Proposed expenditure for cyber security
- Expenditure consistent with our draft decision for other non-recurrent ICT projects

Jemena submitted that its initial proposal did not include dedicated cyber security expenditure as it was still developing the scope of required investments. In its revised proposal, Jemena included cyber security costs to address increasing cyber risks and evolving compliance obligations, including the need to uplift its security capabilities and align with industry standards.

We note that Jemena's proposed flexible trading arrangements and Victorian emergency backstop mechanism #2 projects are both associated with regulatory change events and reflect residual forecast costs from cost pass through applications submitted during the current regulatory control period.

A.4.3 Reasons for decision

We are satisfied that Jemena's proposed recurrent and non-recurrent ICT capital expenditure, with adjustments, would form part of a total capex forecast that reasonably reflects the capex criteria.

Our final decision is to not accept Jemena's forecast of $33.1 million for recurrent ICT capex. We forecast $31 million of recurrent ICT capex, based on updated analysis of data from Jemena's regulatory information notices.

Our final decision includes an alternative forecast for non-recurrent ICT which is lower than Jemena's revised proposal. This reflects our decision to not accept expenditure associated with the end user computing project, while accepting all other proposed non-recurrent ICT projects, including those associated with regulatory change events and cyber security.

A.4.3.1 Recurrent ICT

In its initial proposal Jemena forecast recurrent ICT capex as the 5-year average of its actual recurrent ICT capex from 2021-22 to 2023-24, and its estimated recurrent ICT capex from 2024-25 to 2025-26. In the draft decision we expressed concern with forecasting recurrent ICT capex based on estimated expenditure. In the draft decision, we substituted Jemena's

original proposal of $34.4 million with an allowance of $29.7 million, based on a 4.5-year historical average of Jemena's actual recurrent ICT capex from 1 January 2020 to 30 June 2024. No stakeholder submissions commented on Jemena's recurrent ICT capex.

We do not accept Jemena's revised proposal. We agree that historical actual expenditure from data in Jemena's regulatory information notices provides an appropriate basis for forecasting. We accept Jemena's revised proposal to include the most recent data on actual capex on recurrent ICT for 2024-25. However, we could not reconcile the historical data used in Jemena's calculations to the data in Jemena's regulatory information notices.

Our final decision estimate for recurrent ICT capex is $31 million ($2025-26). It is calculated as a 4.5 year average of Jemena's actual recurrent ICT capex, as reported in its regulatory information notices, from 1 January 2021 to 30 June 2025.

A.4.3.2 Regulatory change projects

We accept Jemena's proposed expenditure for its flexible trading arrangements and Victorian emergency backstop mechanism #2 projects.

These projects are driven by regulatory obligations and are consistent with cost pass through applications submitted by Jemena during the current regulatory period. We have approved these cost pass through applications in separate decisions. The revised proposal reflects the residual costs involved in these projects to be incurred over the 2026–31 regulatory period.

We note that the increase in Jemena's revised proposal for the flexible trading arrangements project compared to its initial proposal reflects a change in timing of expenditure into the 2026-31 regulatory period, rather than an increase in the total project cost.

Overall, we are satisfied that the scope, timing and cost estimates for these projects are reasonable and consistent with our assessment of the corresponding cost pass through applications.

A.4.3.3 End user computing

We do not accept Jemena's proposed $3.0 million for its end user computing project. This project relates to lifecycle replacement of mobility devices (such as tablets and phones) and meeting room technology. We maintain our draft decision view that this expenditure is already appropriately captured within our estimate of recurrent ICT capex.

Jemena submitted that these costs are not reflected in recurrent ICT because certain asset classes were not replaced during the current regulatory control period. We acknowledge that the timing of asset replacement across different ICT asset classes may vary between regulatory periods. However, the absence of replacement for specific asset classes in one period does not indicate that our estimate of total recurrent ICT does not reflect efficient expenditure for the forecast period. We would expect a distributor to provide a more holistic assessment of the entire fleet of ICT assets to explain why its forecast replacement expenditure would be greater than its historical experience. Jemena did not provide such analysis.

Accordingly, we consider that including this expenditure in non-recurrent ICT would result in double counting.

A.4.3.4 Cyber security

We accept Jemena's revised proposal for cyber security expenditure of $6.5 million.

Jemena identified gaps in its current cybersecurity profile and proposed that this project would let it meet its targeted Security Profile level as per the amended Australian Energy Sector Cyber Security Framework (AESCSF).

We reviewed Jemena's submitted business case, cost benefit analysis model, and its responses to information requests.[51] Jemena has satisfactorily justified the proposed actions to address the maturity/capability gaps required to achieve maturity under the AESCSF framework. We consider this expenditure is justified given the evolving cyber risk environment and the need to maintain and enhance security capabilities. The proposed costs are reasonable having regard to the scope of works and the criticality of ICT systems.

A.5 Fleet

Fleet is non-network expenditure that relates to the provision of motor vehicles, plant and equipment used by Jemena in support of its business operations.

A.5.1 AER's final decision

We are not satisfied that Jemena's proposed $47.9 million ($2025–26) for fleet capital expenditure would form part of a total capex forecast that reasonably reflects the capex criteria. Our final decision includes an alternative forecast of $33.6 million which is $14.3 million or 30% lower than Jemena's revised proposal.

A.5.2 Jemena's revised proposal

In its revised proposal, Jemena proposed $47.9 million for fleet capex. This is $14.3 million higher than its initial proposal for fleet capex, which we accepted in our draft decision.

In response to an information request before our draft decision Jemena stated that its initial proposal on fleet was only sufficient to support its current workforce. It provided a revised fleet forecast to accommodate additional workers required for its increased connections, replacement, and augmentation works.[52] We did not address this in our draft decision, choosing to assess this uplift on its merits when Jemena submitted its revised proposal.

A.5.3 Reasons for decision

Our final decision forecast of $33.6 million for fleet capex is the same forecast included in our draft decision and Jemena's initial proposal.

In our draft decision we accepted Jemena's initial fleet capex proposal. We noted that Jemena's forecast fleet capex of $33.6 million is a 230% increase from its actual and estimated fleet capex in the 2021-26 period. We considered this increase in fleet capex in line with long-lived (>10 years) vehicles coming up for replacement and increased unit costs.

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51 Jemena, *JEN - RP - Att 05-01A Technology expenditure addendum*, December 2025, p 11-17; Jemena, *RP - Support – Cybersecurity Program - CBA Model*, December 2025; Jemena, *External Supplier - RP - Support - Jemena internal red team exercise report*, July 2025; Jemena, response to IR#61, February 2026; Jemena, response to IR#70, February 2026.

52 Jemena, *response to IR#05*, April 2025.

We were satisfied that Jemena's forecast is reasonable and reflective of the efficient costs of a prudent operator.[53]

In its revised proposal, Jemena submitted it requires an additional $14.3 million to support its expanding capex program and the resultant growth in its workforce.[54]

We acknowledge that our forecast for Jemena's capex for the 2026-31 regulatory period is higher than its capex for the current 2021-26 period. However, Jemena has not satisfied us that it is prudent and efficient to increase its fleet in proportion to this increase in its broader capex program. Historically, key categories of Jemena's fleet have not varied greatly in proportion to its broader capex. We consider Jemena's initial proposal, which aimed to maintain its current level of fleet, is prudent and efficient.

A.6 CER integration

Consumer energy resources (CER) include rooftop solar photovoltaics (PV), energy storage devices, electric vehicles and other consumer appliances that can respond to demand or pricing signals. For distribution networks, CER integration expenditure is primarily for the purpose of accommodating the connection of additional rooftop solar PV to the network and maintaining the export service for rooftop solar PV customers.

A.6.1 AER's final decision

We are not satisfied that Jemena's proposed $49.4 million ($2025–26) for CER integration capital expenditure would form part of a total capex forecast that reasonably reflects the capex criteria. Our final decision includes an alternative forecast of $46.6 million which is $2.8 million or 6% lower than Jemena's revised proposal.

A.6.2 Jemena's revised proposal

Jemena's revised proposal includes capex of $49.4 million for the following CER integration projects:

- Voltage and power quality management (V&PQM) program for $26.1 million, $14.5 million below its initial proposal of $40.6 million.
- Flexible services for $14.5 million, 44% below its initial proposal of $26.0 million. This reduction owes to Jemena withdrawing its flexible imports proposal, limiting the program to flexible exports.
- Under-frequency load-shedding upgrades for $7.3 million, which we accepted in our draft decision and Jemena has re-proposed unchanged.
- Data visibility and analytics for $1.5 million, which is 88% below its initial proposal. Jemena accepted our draft decision on this program.

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53 AER, *Attachment 2 - Capital expenditure - Draft decision - Jemena distribution determination 2026-31*, September 2025, p 11.

54 Jemena forecasts it will require an additional 10 elevated work platforms, 1 heavy commercial vehicle and 67 light commercial vehicles. Jemena stated it requires these additional elevated work platforms and heavy commercial vehicles to support its expanded connections, augmentation and replacement programs. It submitted it requires the additional light commercial vehicles for all its proposed programs. Jemena, *RP - Att 05-01 Capital expenditure*, December 2025, p 61; Jemena, *response to IR058*, 18 January 2026.

A.6.3 Reasons for decision

We reviewed Jemena's CER integration strategy as well as its supporting cost-benefit analysis. Our assessment was informed by both our CER strategy and DER integration expenditure guidance note.[55]

We also took account of stakeholder submissions on Jemena's proposal. The AER received 2 submissions on Jemena's proposed capex for CER integration, from the Victorian Government[56] and from NEXA Advisory.[57]

The Victorian Government and NEXA Advisory submitted support for the timely implementation of flexible exports. NEXA Advisory submitted that flexible exports is a more consumer-centric and inexpensive response to CER uptake, especially compared to curtailment approaches such as the Victorian Emergency Backstop Mechanism.

The Victorian Government asked the AER to confirm that any new expenditure for variable voltage control (a project related to voltage and power quality management) is not double counted, noting that Jemena previously committed to full network rollout of variable voltage control in the 2021-26 period.

- In its 2024 Distribution Annual Planning Report, Jemena stated a "[f]ull rollout of the DVM [dynamic voltage management] including further adoption of the VVC [variable voltage control] platform as an enabler is targeted for rollout across the JEN Network throughout the remainder of the [2021-26] period."[58]
- Jemena since clarified this matter. In the 2021-26 regulatory period it introduced its variable voltage control capability.[59] For the 2026-31 period, Jemena proposed to install complementary communication devices to expand its variable voltage control capabilities. We are satisfied that this new expenditure is not double-counting, but encourage Jemena to be more explicit about the scope and nature of its variable voltage control activities in the future.

Jemena accepted our draft decision on under-frequency load-shedding and data visibility and analytics. We include these programs in our alternate estimate.

Jemena re-proposed both its voltage and power quality management and flexible services programs at reduced scopes and costs. For voltage and power quality management, Jemena revised the scope of the program to maintain voltage limit compliance. For flexible services, Jemena withdrew its proposal for flexible imports, only reproposing flexible exports.

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55 AER, *Consumer energy resources strategy*, April 2023; AER, *Distributed energy resources integration expenditure guidance note*, June 2022.

56 Hon Lily D'Ambrosio MP, *Submission - Victorian electricity distribution proposals 2026-31*, January 2026, pp 3-6.

57 Nexa Advisory, *Submission - Victorian electricity distribution proposals 2026-31*, January 2026

58 Jemena, *2024 Distribution Annual Planning Report*, December 2024, p 82.

59 *Meeting with Jemena*, 12 February 2026.

A.6.3.1 Voltage and power quality management

Jemena proposed to implement dynamic voltage and power quality management to its network. Jemena intends that this would let them maintain voltages within regulatory limits even with the proliferation of two-way power-flows from CER.[60]

Our final decision is to accept Jemena's proposal of $26.1 million for its voltage and power quality management program. We have included it in our alternate estimate.

In our draft decision, we did not accept Jemena's initial iteration of this project, which Jemena forecast at $40.6 million. We stated that Jemena had incorrectly evaluated the benefits of the program, such as by significantly overestimating the safety benefit. We also stated Jemena had not demonstrated that it was at risk of becoming non-compliant with its over- and under-voltage obligations. We did not include Jemena's program in our draft decision alternate capex estimate. However, we encouraged Jemena to repropose the program at a more limited scale, targeting only areas most at risk of non-compliance.[61]

In its revised proposal, Jemena limited the scope of this program and provided supporting evidence that it would be at risk of non-compliance during the 2026-31 period. Jemena submitted this program is the lowest cost way to maintain regulatory under- and over-voltage compliance, as per Section 20.4 of the Electricity Distribution Code of Practice. Jemena historically performed well against these regulatory limits. However, since submitting its initial proposal, the February 2025 heatwave led to 5.95% of Jemena's customers experiencing under-voltages exceeding the limits set out in the code of practice (5%). Further, Jemena submitted modelling forecasting that it would be non-compliant with the under- and over-voltage limits in the code of practice in the 2026-31 period if it took no action.[62]

The main difference between Jemena's initial proposal and revised proposal for this project is the scope of the variable voltage control component. Variable voltage control, in conjunction with Advanced Metering Infrastructure data, allows a DNSP to automate the regulation of voltages on LV assets to respond to changes in DER output. In its initial proposal, Jemena proposed to install variable voltage control capabilities at 24 substations for $17.8 million in capex.[63] In response to our draft decision, Jemena reduced its proposed variable voltage control rollout to just 2 substations for a total capex of $1.3 million, a reduction of $16.5 million (93%).[64]

We consider that Jemena sufficiently addressed our concerns from the draft decision. We are satisfied that Jemena's revised proposal is a reasonable forecast of the prudent and

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60 Jemena, *RP - Support - Voltage and Power Quality Management - Business Case*, December 2025.

61 AER, *Attachment 2 - Capital expenditure - Draft decision - Jemena distribution determination 2026-31*, September 2025, pp 51-52.

62 Jemena, *RP - Support - Voltage and Power Quality Management - Business Case*, December 2025, pp 1-5; Jemena, *RP – Support – Voltage and Power Quality Management – CBAM*, December 2025; Jemena, *RP - Support - Voltage and Power Quality Management - EDCoP Performance and Cost*, December 2025 Essential Services Commission, *Voltage Performance Data*, accessed 2 March 2026.

63 Jemena, *RIN – Support – Voltage and PQ Management Program*, 31 January 2025, p 32; Jemena, *Att 05-10M SCS Capex model*, 31 January 2025.

64 Jemena, *RP - Support - Voltage and Power Quality Management - Business Case*, December 2025, p 14; Jemena, *RP - Att 05-02M SCS Capex model*, December 2025

efficient cost to maintain compliance with the code of practice. We included this program in our final decision alternate estimate.

A.6.3.2 Flexible exports

Jemena proposed to deploy flexible service offerings to address increasing curtailment of exports (driven by CER).

Our final decision is not to accept Jemena's forecast as it has not adequately demonstrated its efficiency. We have substituted Jemena's flexible export forecast of $14.5 million with our alternate estimate of $11.7 million, a reduction of $2.8 million or 19%.

In its initial proposal, Jemena proposed to enable both flexible exports and flexible imports for $15.2 million and $10.8 million respectively.[65] In our draft decision, we considered that investment in flexible services could be prudent, but benchmarking suggested Jemena could achieve its aims at a much lower cost. We substituted Jemena's proposal of $26.0 million for $9.1 million for flexible exports and imports together. This alternate estimate would have brought Jemena's flexible services proposal in line with that of CitiPower, a similarly sized distributor.[66]

In its revised proposal, Jemena withdrew its flexible imports project and only reproposed its flexible exports project at $14.5 million.[67] This is $5.4 million above our draft decision for flexible exports and imports together. It is $5.4 million (59%) higher than CitiPower's proposed capex of $9.1 million for flexible exports and imports, which we accepted. It is $6.5 million, or 81%, higher than CitiPower's proposed capex of $8 million for flexible exports only. Jemena also provided further information on its costing of flexible exports including bottom-up labour cost estimates.

As in our draft decision, we consider Jemena's flexible exports project could be prudent. We note stakeholder support for the program from the Victorian Government[68] and from NEXA Advisory.[69] Nevertheless, we still consider that Jemena's forecast is not efficiently costed.

Jemena stated that CitiPower is not a suitable benchmark, despite having similar customer numbers. Jemena stated that CitiPower can achieve greater cost efficiencies for 2 main reasons. Firstly, CitiPower can exploit synergies with Powercor and United Energy. Secondly, Jemena stated it has more legacy system constraints to overcome than CitiPower.[70]

We acknowledge that the particular circumstances of Jemena and CitiPower should be taken into account when benchmarking. An efficient forecast for Jemena's flexible exports project could be moderately higher than CitiPower's.

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65 Jemena, *Att 05-10M SCS Capex model*, 31 January 2025.

66 AER, *Attachment 2 - Capital expenditure - Draft decision - Jemena distribution determination 2026-31*, September 2025, pp 50-51.

67 Jemena, *RP - Att 05-01A Technology expenditure addendum*, December 2025, pp 24-27.

68 Hon Lily D'Ambrosio MP, *Submission - Victorian electricity distribution proposals 2026-31*, January 2026, pp 3-6.

69 Nexa Advisory, *Submission - Victorian electricity distribution proposals 2026-31*, January 2026

70 Jemena, *RP - Att 05-01A Technology expenditure addendum,* December 2025, pp 24-25.

However, even accounting for Jemena's circumstances, we consider Jemena's forecast is inefficient. In reviewing its bottom-up forecast of flexible exports, we identified multiple core functions common to it and CitiPower where Jemena's forecast appears excessive. In making our alternate estimate, we have brought these in line with CitiPower. We accept that Jemena may have more legacy constraints to overcome than CitiPower, but consider that a forecast $2.6 million (46%) above CitiPower's is sufficient to overcome these constraints.

We have substituted Jemena's flexible exports proposal of $14.5 million with $11.7 million in our alternate estimate

A.7 Innovation allowance

We recognise the importance of innovation investment in supporting the energy transition and protecting customers. Trials and pilots enable businesses to test and explore new ideas, concepts and technology before committing to implementation of solutions and rolling these into business-as-usual activities. We acknowledge the potential benefits of having explicit ex-ante innovation funding within the regulatory framework, together with on-going consumer oversight, performance reporting and information sharing.

We consider funding through a distribution determination where this meets our innovation criteria.[71]

A.7.1 AER's final decision

We are not satisfied that Jemena's proposed $3.45 million ($2025–26) for innovation capital expenditure would form part of a total capex forecast that reasonably reflects the capex criteria. Our final decision includes an alternative forecast of $2.61 million which is $0.84 million or 32.18% lower than Jemena's revised proposal.

A.7.2 Jemena's revised proposal

In its revised proposal, Jemena accepted our draft decision not to approve the majority of its originally proposed innovation projects and did not seek to reinstate those projects.

Jemena proposed one new innovation project, 'EV Grid 2.0'. This project is aimed at testing and addressing operational and integration challenges associated with increasing electric vehicle uptake, including network impacts, system visibility, and coordination with third-party providers.

Jemena also proposed increased capital expenditure for the three innovation projects that were accepted in our draft decision:

- 'Grid edge managed EV charging integration with dynamic operation'
- 'Customer interface with flexible markets'
- 'Bi-directional EV charging (vehicle to X)'

[71] AER, Final decision – Attachment 5 – Capital expenditure – Ausgrid distribution determination 2024–29, 30 April 2024, pp. 35–41.

Jemena stated that the higher forecast costs for these projects reflect updated demand drivers, expanded customer engagement requirements, and insights from early-stage implementation and planning. Jemena submitted that these factors have increased the scope, complexity and delivery costs of the projects relative to its initial proposal.

A.7.3 Reasons for decision

We do not accept Jemena's proposed increases in capex for the three projects approved in our draft decision. While Jemena cited changes in demand drivers, customer engagement needs, and implementation experience, we consider these factors were known or reasonably foreseeable at the time of its initial proposal and were likely already reflected in its original cost estimates. As such, the proposed increases are not sufficiently justified.

Stakeholder submissions broadly supported a more targeted innovation program and emphasised the importance of ensuring that innovation expenditure is evidence-based and well justified. We consider our final decision is consistent with this feedback.

We accept the proposed 'EV Grid 2.0' project, as it meets the innovation funding criteria. Jemena's proposed capital expenditure of $1.01 million ($1.61 million total) for the EV Grid 2.0 project meets the capital expenditure criteria in clause 6.5.7 of the NER and promotes the National Electricity Objective (NEO).

The EV Grid 2.0 project is a clearly defined and time-limited innovation activity focused on testing operational and integration challenges associated with increasing electric vehicle uptake. The project involves the deployment of smart, grid-integrated EV charging capability, enabling chargers to operate as active network assets rather than unmanaged load. It is expected to deliver measurable benefits, including an estimated 58,400 kWh per annum reduction in peak demand, a 160,600 kWh per annum increase in minimum demand, average savings of approximately $1,460 per charger per annum, and emissions reductions of around 175 tonnes of CO_2 per annum.

We are satisfied that the proposal reflects a realistic expectation of demand under clause 6.5.7(c), given increasing EV uptake. The project is prudent under clause 6.5.7(a), as it builds on established concepts and targets identified operational risks, and efficient under clause 6.5.7(b), with costs that are small relative to the potential to defer or avoid higher-cost network augmentation.

Jemena estimates that the project will deliver measurable benefits, including reductions in peak demand, increases in minimum demand, cost savings per charger, and emissions reductions. These outcomes are consistent with the objectives of innovation funding and reflect the potential for flexible, non-network solutions to support the energy transition.

Consistent with the AER's Expenditure Forecast Assessment Guideline, the project represents a targeted innovation trial rather than business-as-usual expenditure. Even under conservative assumptions, the project has the potential to deliver net benefits through avoided or deferred network investment.

On this basis, we are satisfied that the EV Grid 2.0 project meets the requirements for ex-ante innovation funding and should be included in Jemena's capex allowance.

Overall, our final decision maintains a disciplined and targeted approach to innovation expenditure, ensuring that only well-justified and clearly scoped projects are included.

Shortened forms

Term	Definition
ACS	alternative control service
ADMS	advanced distribution management system
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
augex	augmentation expenditure
capex	capital expenditure
CCP32	Consumer Challenge Panel, sub-panel 32
CER	customer energy resources
CESS	capital expenditure sharing scheme
CoC	cost of consequence
CoF	cost of failure
DMIAM	demand management innovation allowance mechanism
DNSP or distributor	distribution network service provider
DSO	distribution service obligation
EBSS	efficiency benefit sharing scheme
ESV	Energy Safe Victoria
EV	electric vehicle
ICT	information and communication technology
kV	kilovolts
LV	low voltage
NEL	National Electricity Laws
NEO	National Electricity Objectives
NER	National Electricity Rules
NPV	net present value
NSP	network service provider
opex	operating expenditure
PoF	probability of failure
PV	photovoltaics

Term	Definition
QCV	quantifying customer values
RAB	regulated asset base
repex	replacement expenditure
RIN	regulatory information notice
SAIDI	system average interruption duration index
SAIFI	system average interruption frequency index
SAPS	stand-alone power systems
SCS	standard control service
STPIS	service target performance incentive scheme
VCR	value of customer reliability
VNR	value of network resilience