Final decision

Jemena electricity distribution determination
1 July 2026 – 30 June 2031

Attachment 3 – Operating expenditure

April 2026

AUSTRALIAN ENERGY REGULATOR

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3 Operating expenditure

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

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

3.1 Final decision

Our final decision is to not accept Jemena's total opex forecast of $640.9 million, including debt raising costs, for the 2026–31 period. This is because our alternative estimate of $602.8 million is materially different ($38.0 million, or 5.9% lower) than Jemena's total opex forecast proposal. Therefore, we consider that Jemena's total opex forecast does not reasonably reflect the opex criteria.

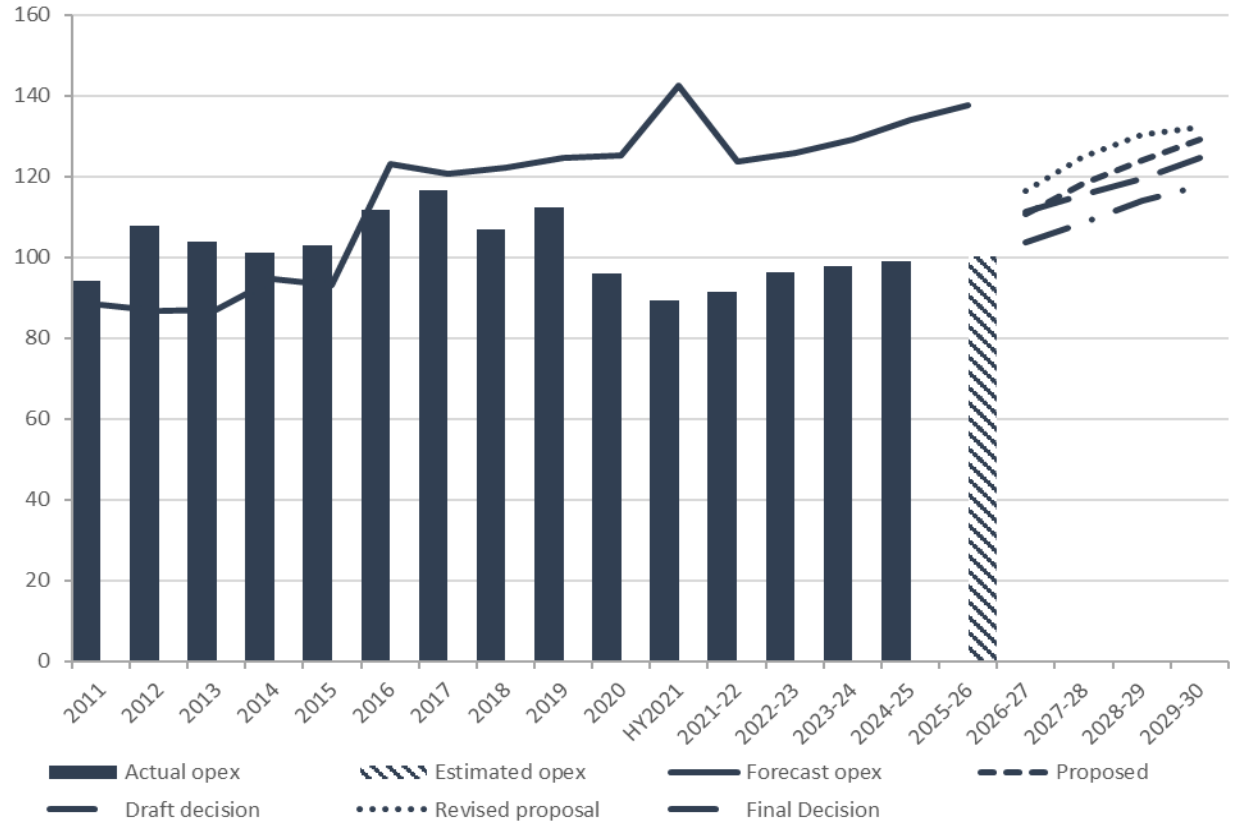
This difference is primarily driven by including a lower amount for step changes and the output growth component of the rate of change, to reflect our assessment of efficient and prudent costs required for the 2026–31 period.

Our final decision is:

- $47.1 million (7.2%) lower than the opex forecast we approved for the 2021–26 regulatory control period (2021–26 period)
- $117.9 million (24.3%) higher than Jemena's actual (and estimated) opex in the 2021–26 period.

In Figure 3-1 we compare our alternative estimate of opex to Jemena's proposal for the next regulatory control period to the forecasts we approved for the last 2 regulatory control periods and Jemena's actual and estimated opex over these periods.

Figure 3-1 Historical and forecast opex ($million, 2025-26)



Source: Jemena, *JEN 2026-31 Proposal,* February 2025; AER - *Attachment 3 - Operating expenditure - Draft decision - Jemena distribution determination 2026-31* - September 2025; Jemena; *JEN 2026-31 Revised Proposal,* December 2025; AER analysis.
Note: HY2021 has been annualised by doubling the half year reported expenditure.

In Table 3-1 we set out Jemena's revised opex proposal, our alternative estimate for the final decision and the differences between these forecasts.

Table 3-1 Comparison of Jemena's revised opex proposal and our alternative opex estimate ($million, 2025–26)

Category	Jemena initial proposal	AER draft decision	Jemena revised proposal	AER final decision	Difference ($)
Based on estimated opex in 2024–25	**478.9**	**475.2**	**486.4**	**491.6**	**5.2**
Base adjustment – SaaS	8.9	8.9	9.1	9.2	0.1
Base adjustment – Incremental ICT project opex	4.0	–	–	–	–
Base adjustment – ESC licence fee	–	–2.2	–	–	–
Base year adjustments total	**12.9**	**6.7**	**9.1**	**9.2**	**0.1**
Non- recurrent efficiency gain	**–**	**24.5**	**–**	**–**	**–**

Category	Jemena initial proposal	AER draft decision	Jemena revised proposal	AER final decision	Difference ($)
Remove category specific forecasts	**–3.2**	**–0.5**	**–0.4**	**–0.4**	**–0.0**
2024–25 to 2025–26 final year increment	**13.0**	**12.9**	**19.2**	**19.9**	**0.7**
Trend – Output growth	58.8	50.4	73.8	60.5	–13.2
Trend – Price growth	8.8	9.6	9.2	8.1	–1.1
Trend – Productivity growth	–7.6	–7.9	–7.8	–7.9	–0.1
Total trend	**60.1**	**52.1**	**75.1**	**60.8**	**–14.4**
Step change: ICT services	26.1	8.1	34.1	10.3	–23.8
Step change: CER integration – grid stability and flexible services	0.5	–	–	–	–
Step change: CER integration – voltage and PQ management	1.1	–	–	–	–
Step change: CER integration – data visibility and analytics	1.5	–	–	–	–
Step change: New REFCL obligations	4.9	4.9	4.9	4.9	–
Step change: Resilience – outage preparation and response	4.5	–	–	–	–
Step change: Safety – LBRA hazard trees management program	2.6	–	2.6	–	–2.6
Step change: Resilience – deploying mobile vehicle response	0.4	–	–	–	–
Step change: Customer systems and education	4.3	–	–	–	–
Negative step change: Insurance adjustment	–	–27.2	–	–2.6	–2.6
Total step changes	**41.4**	**–14.3**	**41.6**	**12.6**	**–29.0**
GSL	1.3	1.0	1.2	1.2	–
Innovation Fund	4.2	1.0	2.0	1.6	–0.4

Category	Jemena initial proposal	AER draft decision	Jemena revised proposal	AER final decision	Difference ($)
Debt raising costs	6.7	5.9	6.7	6.5	–0.2
Total category specific forecasts	**12.2**	**8.0**	**9.9**	**9.5**	**–0.4**
Total	**615.2**	**564.7**	**640.9**	**602.8**	**–38.0**

Source: Jemena, *JEN 2026-31 Proposal,* February 2025; AER - *Attachment 3 - Operating expenditure - Draft decision - Jemena distribution determination 2026-31* - September 2025; Jemena, *JEN 2026-31 Revised Proposal,* December *2025*; AER analysis.
Note: Numbers may not add up to total due to rounding. Values of '0.0' and '–0.0' represent small non-zero amounts and '–' represents zero.

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

- included a lower estimate for the ICT services step change (–$23.8 million) – section 3.4.4.1
- not included an amount for the Safety – LBRA hazard trees management program step change (–$2.6 million) – section 3.4.4.3.
- included a negative insurance step change (–$2.6 million) – section 3.4.4.4.
- included a lower output growth forecast (–$13.2 million) – section 3.4.3.2.

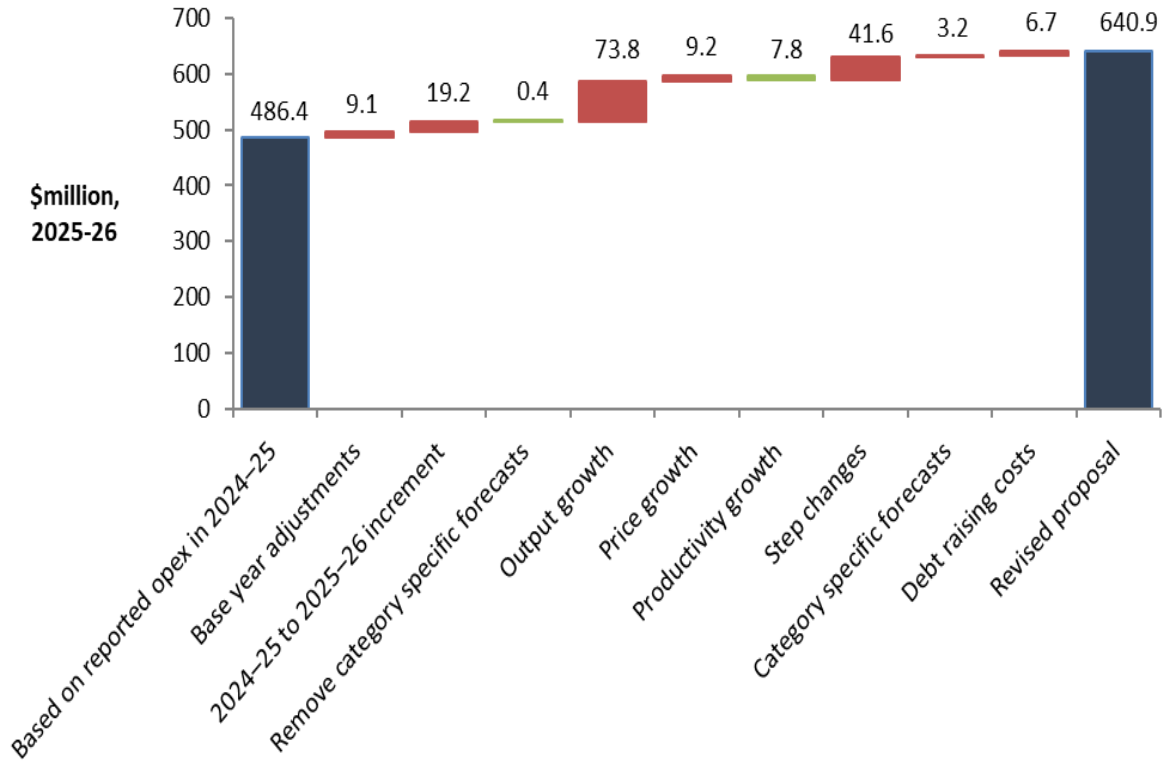
3.2 Jemena's revised proposal

Jemena's revised proposal applied a base–step–trend approach to forecast opex for the 2026–31 regulatory control period, consistent with our standard approach.[1]

Jemena's forecast applying our base–step–trend approach is set out in Table 3-1. In Figure 3-2 below we show the different components that make up Jemena's opex forecast for the 2026–31 period.

[1] Jemena, *JEN - RP - Att 06-03M SCS Opex model,* December 2025.

Figure 3-2 Jemena's revised opex forecast ($million, 2025-26)



Source: Jemena, *JEN 2026-31 Revised Proposal,* December 2025; Jemena, *JEN - RP - Att 06-03M SCS Opex model,* December 2025; AER analysis.

3.2.1 Stakeholder views

We received 6 submissions commenting on Jemena's opex proposal from the Victorian Government (via a submission from the Minister for Climate Action, Energy and Resources), the Consumer Challenge Panel (CCP32), the Jemena Energy Reference Group (ERG), Ausgrid, Red Energy, and Dean Lombard and Gavin Dufty.

The Victorian Government supported robust, transparent, data driven demand forecasts with demand drivers clearly identified (i.e. household, industrial and electric vehicles). It highlighted that the AER's draft decisions limited distribution network service providers (DNSPs) to historical demand projections, noting there are significant risks to this approach at a time of historic changes in distribution networks, including in policy driven electrification, gas shortages, and a more rapid uptake of distributed energy resources and electric vehicles. Noting that the revised proposals included updated demand forecasts based on new data, inputs and assumptions, the Victorian Government encouraged the AER to ensure its demand forecast assessments are robust, while also taking into account the unprecedented drivers over the next regulatory period.[2] On data centres, the Victorian Government noted the rapid growth in data centre connections over the current regulatory period, while expressing concern about the accuracy of demand centre growth and load profiles, and the potential for this to lead to overestimated demand growth in the next period. It supported the AER's draft decision approach of rigorously testing proposed data centre-

[2] Hon Lily D'Ambrosio MP, *Submission – Victorian electricity distribution revised proposal 2026–31*, January 2026, pp. 2–3.

related expenditure, and encouraged the AER to use consistent and robust methodologies to test the revised proposal demand forecasts. [3]

The CCP32 noted that Jemena's relatively modest innovation allowance proposal was supported by customers and other stakeholders.[4] It also observed that Jemena briefed its expert panel on the AER's draft decision approach of using a negative insurance step change and non-recurrent efficient gain to avoid rewarding Jemena for spending less in the current period relative to the previously approved insurance step change. However, the CCP32 submitted that the level of confidentiality applied to information relating to the insurance premiums makes it impossible for stakeholders to form an opinion on the merits of the AER's approach. CCP32 requested that the AER provide publicly available information on its assessment of the extent to which management actions led to the reductions in insurance premiums to help clarify whether the underspends should be 'clawed back' or whether the gains should be shared between the business and its customers.[5]

Jemena's Energy Reference Group (ERG) expressed concern regarding the AER's draft decision reductions in opex, with particular emphasis on the scale of cuts affecting proposed ICT and innovation expenditures. While recognising the importance of efficient expenditure, the ERG highlight that these reductions could compromise long-term network resilience and reliability, particularly as the network responds to climate volatility, increased electrification, and changing customer needs.[6] The ERG submitted that the AER's partial approval of Jemena's Innovation Fund in the draft decision overlooked a critical gap in Australia's energy innovation ecosystem, and supported Jemena's revised Innovation Fund, noting it is critical for enhancing grid flexibility, testing customer-centric solutions and achieving long-term social and environmental benefits. [7] On demand forecasts, the ERG noted that the pipeline of data centre demand is unprecedented, with more projects likely to proceed than the AER recognised in its draft decision. The ERG recommended that the AER clarify its expectations regarding the recognition of firm offers, and consider a reopener mechanism based on actual data in the coming years.[8]

Ausgrid noted that the AER's draft decision to amend the opex allowances and efficiency benefit sharing scheme (EBSS) carryovers of the Victorian DNSPs for lower than forecast insurance costs in this period undermines the integrity of the ex-ante incentive framework that the AER administers. Ausgrid submitted that this approach creates regulatory uncertainty for DNSPs across broader expenditure areas, with potential implications for the

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3 Hon Lily D'Ambrosio MP, *Submission – Victorian electricity distribution revised proposal 2026–31*, January 2026, p 3.

4 CCP32, *Submission – Jemena electricity distribution revised proposal 2026–31*, January 2026, p 14.

5 CCP32, *Submission – Jemena electricity distribution revised proposal 2026–31*, January 2026, pp. 18–19.

6 Jemena Energy Reference Group, *Submission – Jemena electricity distribution revised proposal 2026-31*, January 2026, p. 4.

7 Jemena Energy Reference Group, *Submission – Jemena electricity distribution revised proposal 2026-31*, January 2026, p. 5.

8 Jemena Energy Reference Group, *Submission – Jemena electricity distribution revised proposal 2026-31*, January 2026, p. 5.

effectiveness of incentives to promote efficient cost management and longer-term consumer outcomes.[9]

Red Energy submitted that the demand forecasts for the Victorian electricity networks appeared optimistic and introduced the risk that a shortfall between actual energy demand and the elevated forecasts could result in higher consumer bills in the next regulatory period.[10]

Dean Lombard and Gavin Dufty, members of Jemena's Industry Reference Group and Energy Reference Group, provided a personal submission noting that the AER's draft decision to include a lower amount than proposed for innovation was inconsistent with Jemena's customer preferences. They submitted that Jemena's revised innovation fund proposal was less than, but close to the ambition expressed by customers.[11]

3.3 Assessment approach

Under the regulatory framework, a business must include a forecast of total opex that it considers is required to meet or manage expected demand, comply with all applicable regulatory obligations, and to maintain the safety, reliability, quality, and security of its network and contribute to achieving emissions reduction targets (the opex objectives).[12]

Our role is to decide whether to accept a business's total opex forecast. We are to form a view about whether a business's forecast of total opex 'reasonably reflects the opex criteria'.[13] In doing so, we must have regard to the opex factors specified in the National Electricity Rules (NER). [14]

The Expenditure forecast assessment guideline (the Guideline), together with an explanatory statement, sets out our assessment approach in detail.[15] While the Guideline provides for greater regulatory predictability, transparency and consistency, it is not mandatory. However, if we make a decision that is not in accordance with the Guideline, we must state the reasons for departing from the Guideline.[16]

Our approach is to assess the business' forecast opex over the regulatory control period at a total level, rather than to assess individual opex projects. To do so, we develop an alternative estimate of total opex using a 'top-down' forecasting method, known as the 'base step trend' approach.[17] We compare our alternative estimate with the business's total opex forecast to form a view on the reasonableness of the business's proposal. If we are satisfied the

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9 Ausgrid, *Submission – Jemena electricity distribution revised proposal 2026-31,* January 2026, p. 2.

10 Ausgrid, *Submission – Jemena electricity distribution revised proposal 2026-31, January 2026*, p. 2.

11 Dean Lombard and Gavin Dufty –*Submission Jemena electricity distribution revised proposal 2026-31*, January 2026, p. 4.

12 NER, cl. 6.5.6(a).

13 NER, cl. 6.5.6(c).

14 NER, cl. 6.5.6(e).

15 AER, *Final decision, Expenditure Forecast Assessment Guideline – Electricity Distribution*, October 2024; AER, *explanatory statement – expenditure forecast assessment guideline*, November 2013.

16 NER, cl. 6.2.8(c)(1).

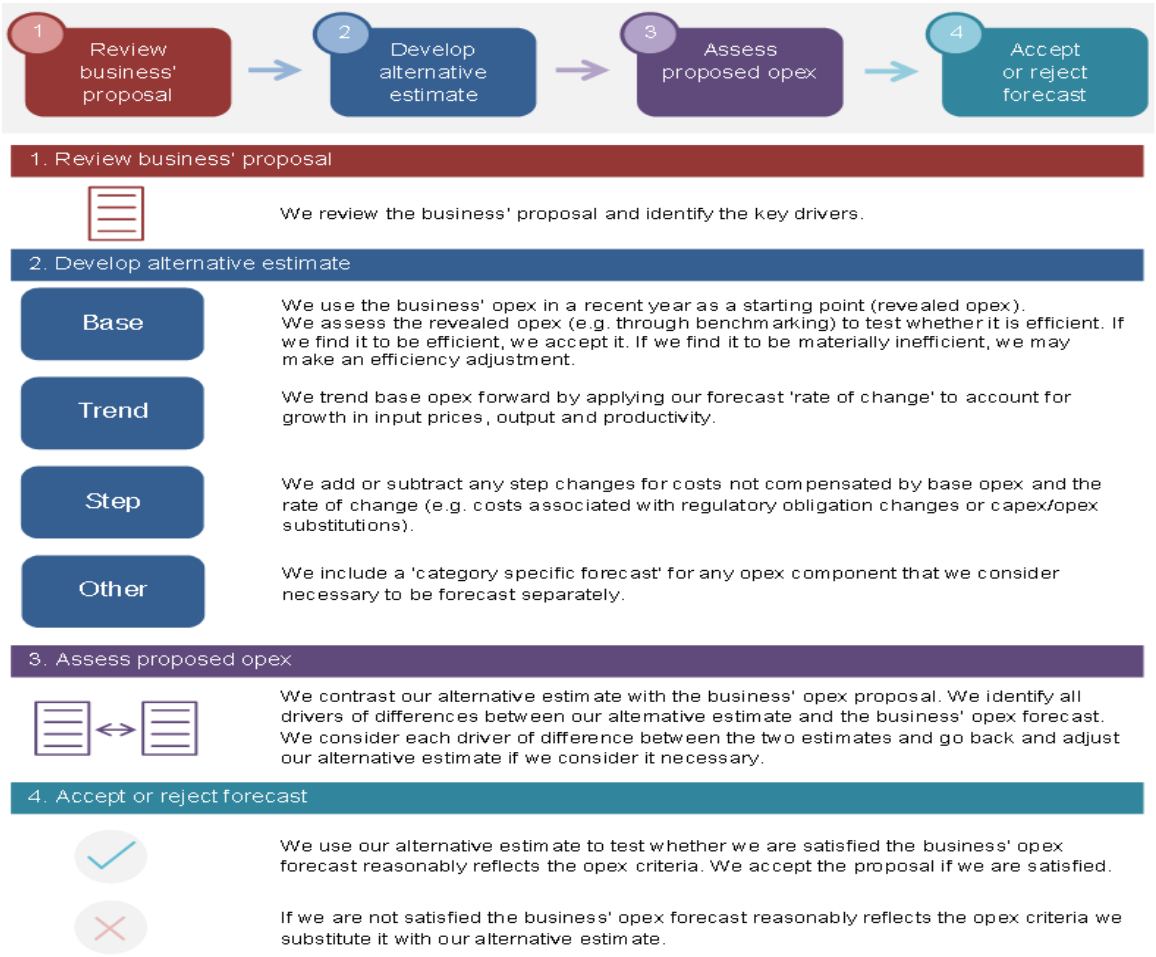
17 A 'top-down' approach forecasts total opex at an aggregate level, rather than forecasting individual projects or categories to build a total opex forecast from the 'bottom up.'

business's forecast reasonably reflects the opex criteria, we accept the forecast.[18] If we are not satisfied, we substitute the business's forecast with our alternative estimate that we are satisfied reasonably reflects the opex criteria.[19]

In making this decision, we take into account the reasons for the difference between our alternative estimate and the business's proposal, and the materiality of the difference. Further, we take into consideration interrelationships between opex and the other building block components of our decision.[20]

Figure 3-3 summarises the 'base step trend' forecasting approach.

Figure 3-3 Our opex assessment approach



3.3.1 Interrelationships

In assessing Jemena's total forecast opex, we also take into account other components of its proposal that could interrelate with our opex decision. The matters we considered in this regard included:

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18 NER, cl. 6.5.6(c).

19 NER, cl. 6A.5.6(d).

20 NEL, s. 16(1)(c).

- the EBSS carryover—the level of opex used as the starting point to forecast opex (the final year of the current regulatory control period should be the same as the level of opex used to forecast the EBSS carryover). This consistency ensures that the business is rewarded (or penalised) for any efficiency gains (or losses) it makes in the final year the same as it would for gains or losses made in other years
- the operation of the EBSS in the 2021–26 period, which provided Jemena an incentive to reduce opex in the base year
- the impact of cost drivers that affect both forecast opex and forecast capital expenditure (capex). For instance, forecast labour price growth affects forecast capex and our forecast price growth used to estimate the rate of change in opex
- the approach to assessing the rate of return, to ensure there is consistency between our determination of debt raising costs and the rate of return building block
- the outcomes of Jemena's engagement with consumers and stakeholders in developing its proposal and any feedback we have had.

3.4 Reasons for draft decision

Our final decision is to not accept Jemena's total opex forecast of $640.9 million, including debt raising costs, for the 2026–31 regulatory control period. Our alternative estimate of $602.8 million is materially different from Jemena's total forecast opex proposal ($38.0 million or 5.9% lower). Therefore, we are not satisfied that Jemena's total opex forecast reasonably reflects the opex criteria, having regard to the opex factors.

Table 3-1 (above) sets out Jemena's revised proposal, our alternative estimate that has informed this final decision, and the difference between our alternative estimate and the proposal.

The main drivers for this difference are also set out in section 3.1 and we discuss each of the components of our alternative estimate, and our assessment of Jemena's proposal, below. Full details of our alternative estimate are set out in our opex model, which is available on our website.

3.4.1 Base opex

This section provides our view on the prudent and efficient level of base opex that we consider Jemena would need for the safe and reliable provision of network services over the 2026–31 period.

3.4.1.1 Proposed base year

Jemena has updated its proposed 2024–25 base year with audited actual opex of $97.3 million, or $486.4 million over 5 years. Jemena's actual base year opex is $1.5 million higher than the estimate it submitted in its initial proposal.[21]

Consistent with our draft decision and Jemena's revised proposal, we have used 2024–25 opex as the base year for forecasting our alternative estimate of opex. We have used 2024–25 opex of $98.3 million ($2025–26), or $491.6 million over 5 years, as the starting

[21] Jemena, *JEN 2026-31 – Revised Proposal,* December 2025, p. 36.

point for our alternative estimate of total forecast opex. This is slightly higher than Jemena's revised proposal base opex of $97.3 because we have used a more recent forecast of inflation for the year to June 2026.

3.4.1.2 Efficiency of Jemena's opex

As summarised in our Expenditure Forecast Assessment Guideline (the Guideline), our preferred approach for forecasting opex is to use a revealed cost approach.[22] This is because opex is largely recurrent and stable at a total level. Where a distribution business is responsive to the financial incentives under the regulatory framework, the actual level of opex it incurs should provide a good estimate of the efficient costs required for it to operate a safe and reliable network and meet its relevant regulatory obligations. However, we do not assume that the business's revealed opex is efficient. We examine the trend in opex and use our top-down benchmarking tools, and other assessment techniques, to test whether the business is operating efficiently historically and particularly in the base year.

Analysis of revealed costs

As seen in Figure 3-1, Jemena's opex stepped down sharply between the previous and current regulatory control periods, with Jemena's average annual opex declining from $105.4 million over the 2016–21 period to $97 million over 2021–26.[23] Jemena's actual and estimated opex over the current period of $484.9 million has remained below our approved opex forecast of $650 million, despite a slight upward trend in opex over each year of the current regulatory period.

Benchmarking the efficiency of Jemena's opex over time

We have used our benchmarking tools and other cost analysis to establish the relative efficiency of Jemena's proposed base year, given that Jemena's period-average opex efficiency has historically placed it in the lower midfield amongst the 13 DNSPs operating in the National Electricity Market (NEM). We have used the same benchmarking tools to assess the efficiency of Jemena's base year as described in the draft decision.[24] Since the draft decision we have:

- updated Jemena's proposed base year opex following actual expenditure becoming available
- updated our benchmarking results following the publication of the 2025 Annual Benchmarking Report.

As set out in further detail in past decisions,[25] our standard approach for assessing base opex efficiency is to benchmark a business' efficiency on the basis of its average efficiency over time (using a period-average efficiency score from our econometric models). We consider that this is the appropriate place to start rather than looking at the efficiency of a

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

23 The average annual opex for the 2021–26 period includes actual opex for 2021–25 and estimated opex for 2025–26.

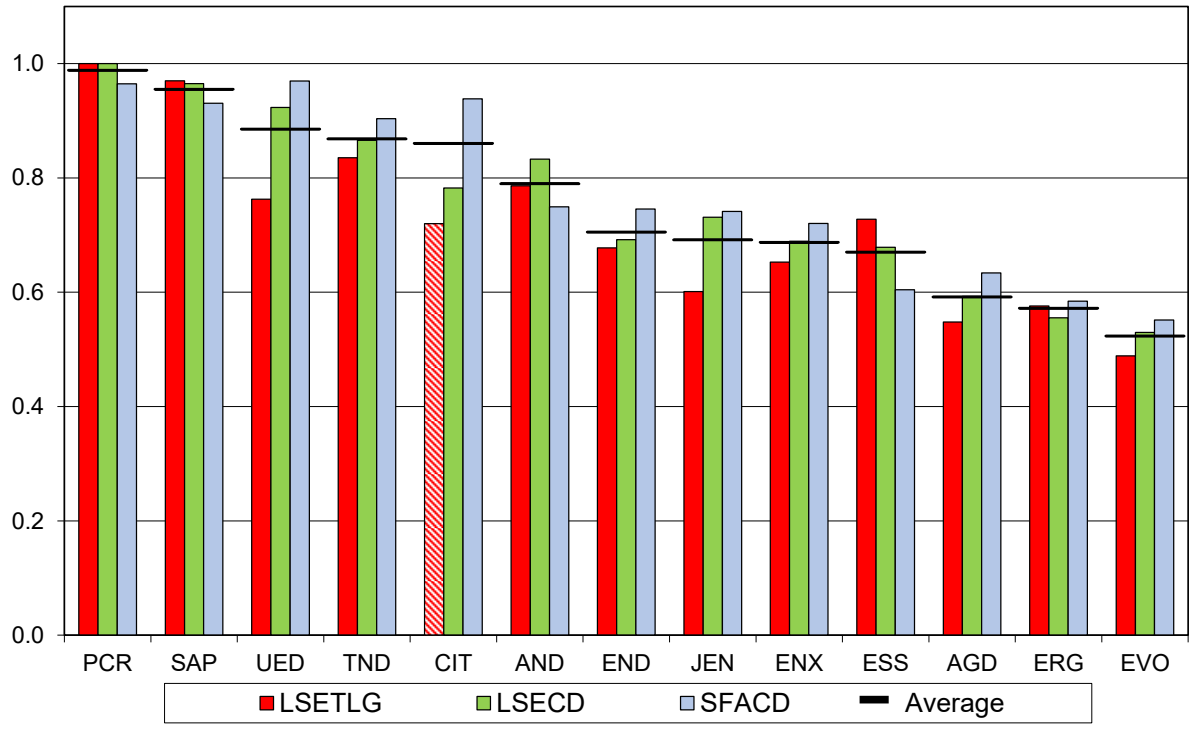
24 AER, *Attachment 3 – Operating expenditure – Draft decision – Jemena distribution determination 2026–31*, September 2025, pp. 8–14.

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

particular year (such as the base year), as this recognises that opex is generally recurrent, but with some degree of year-to-year volatility. Reflecting our conservative approach, we use a 0.75 benchmark comparison point (rather than 1.0) to assess the relative efficiency of distribution businesses. Where the econometric model-average score is below 0.75, we consider that as evidence that a network has been operating with some inefficiency over the relevant period. We also consider results from our other benchmarking tools such as Opex Multilateral Partial Factor Productivity (Opex MPFP) indexes and Partial Performance Indicators (PPIs) as additional checks of a DNSP's relative opex inefficiency. We consider that this may be the case based on Jemena's results in our latest 2025 Annual Benchmarking Report.[26]

Figure 3-4 shows that over the full 2006–24 period covered in our latest Annual Benchmarking Report, Jemena is ranked 8th out of 13 DNSPs, with an average efficiency score of 0.69. Figure 3-5 shows that over the shorter 2012–24 period, Jemena is ranked 10th out of 13 with an average efficiency score of 0.65. We consider these results as evidence pointing to the possible inefficiency of Jemena's opex over the full 2006–24, and shorter 2012–24 periods.

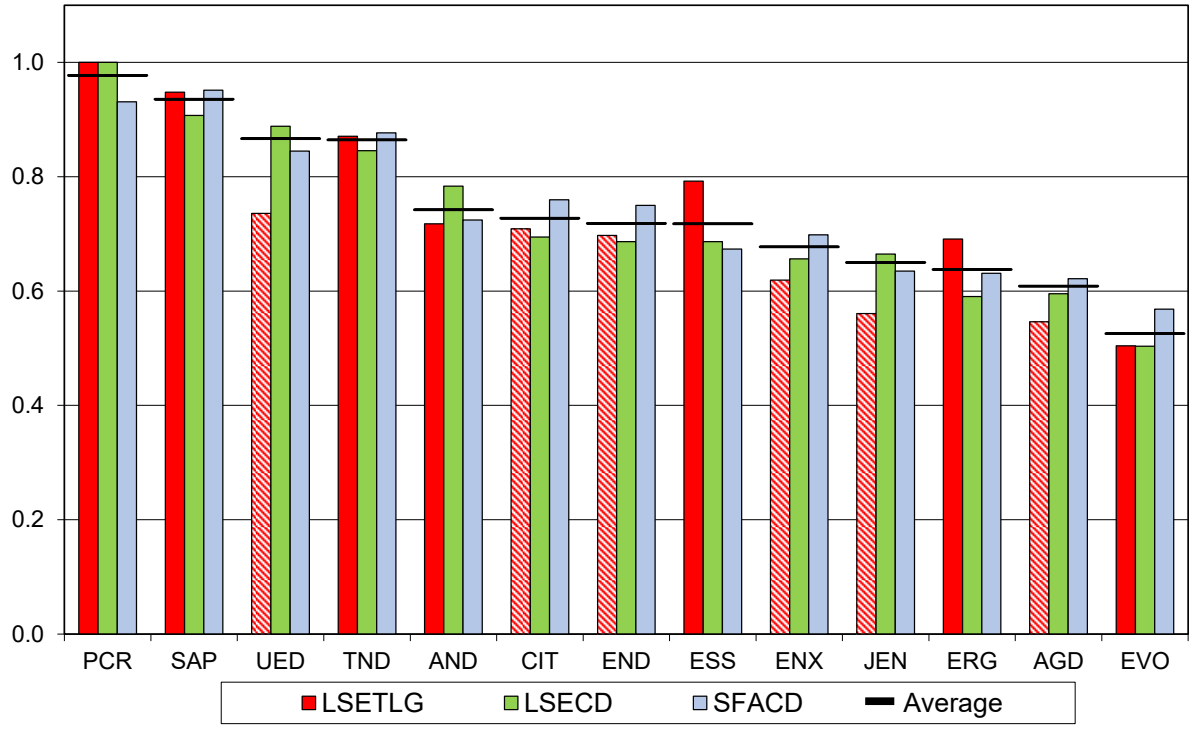
Figure 3-4 Econometric opex efficiency scores, 2006–24



Source: AER, *2025 Annual Benchmarking Report – distribution network service providers.*
Note: Columns with a hatched pattern represent results that violate monotonicity, the property that an increase in output is achieved with an increase in cost. These results also do not reflect the impact of a range of material operating environment factors. Jemena is represented by the shortened form 'JEN'. The econometric models include SFACD (Cobb-Douglas Stochastic Frontier Analysis), LSETLG (Translog Least Squares Econometrics), and LSECD (Cobb-Douglas Least Squares Econometrics).

[26] AER, *2025 Annual Benchmarking Report – Electricity distribution network service providers*, November 2025, pp. 11–21.

Figure 3-5 Econometric opex efficiency scores, 2012–24



Source: AER, *2025 Annual Benchmarking Report – distribution network service providers.*
Note: Columns with a hatched pattern represent results that violate monotonicity, the property that an increase in output is achieved with an increase in cost. These results also do not reflect the impact of a range of material operating environment factors. Jemena is represented by the shortened form 'JEN'. The econometric models include SFACD (Cobb-Douglas Stochastic Frontier Analysis), LSETLG (Translog Least Squares Econometrics), and LSECD (Cobb-Douglas Least Squares Econometrics).

Given the results highlighted above, and in line with the analysis undertaken as part of our draft decision, we have applied our economic benchmarking roll-forward model to test the efficiency of the 2024–25 base year more directly. We note that our benchmarking roll-forward model includes additional adjustments for operating environment factors that may influence DNSPs' relative opex efficiency scores. We have outlined our approach in further detail in past decisions.[27]

Since the draft decision, we have updated our benchmarking roll-forward model with the latest results from the 2025 Annual Benchmarking Report and have updated Jemena's proposed base year opex from the estimate used in the draft decision to actual 2024–25 expenditure. These updates are relatively minor in magnitude. Following these updates, we continue to find that Jemena's proposed 2024–25 base year opex is not materially inefficient and remains below the estimated efficient level of base year opex. Given this, and in line with our draft decision, we have continued to rely on Jemena's revealed costs as the basis of our alternative estimate of total opex over the 2026–31 regulatory period.

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

3.4.2 Adjustments to base year opex

Jemena proposed the following adjustments to its 2024–25 base year opex:[28]

- add $19.2 million for the increase in opex between base year 2024–25 and the final year 2025–26 (the final year increment). This is consistent with our standard approach, and we have used the same approach in our final decision. However, we have used higher forecast opex for 2024–25 and 2025–26, to include respective forecast allowances for new regulatory obligation cost pass throughs.[29] This increased our alternative estimate of total opex by $19.9 million over the 5 years of the 2026–31 period.
- add $1.8 million to its base year (or $9.1 million over 5 years) for the reclassification of SaaS costs from capex to opex. This is consistent with our standard approach, and we have used the same approach in our final decision. This increases our alternative estimate by $9.2 million over the 5 years.
- remove $0.1 million from the estimated final year opex for the removal of opex categories forecast separately. We have used the same approach in our final decision. This decreases our alternative estimate of total opex by $0.4 million over the 5 years of the 2026–31 period.

3.4.3 Rate of change

Having determined an efficient starting point, or base opex, we trend it forward to account for the forecast growth in prices, output and productivity. We refer to this as the rate of change.[30]

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

- **Price growth**: adopting our standard input price weightings of 59.2% labour and 40.8% non-labour. It forecast labour price growth using an average of forecasts of the growth in the wage price index (WPI) from BIS Oxford Economics (its consultant) and Deloitte (our consultant, as a placeholder).
- **Output growth**: applying the weights from our 4 econometric models, consistent with our standard approach. It forecast growth in its customer numbers and circuit length based on historic growth rates.
- **Productivity growth**: using our 0.5% per year productivity growth forecast.[31]

The rate of change proposed by Jemena contributed $75.1 million (11.7% of forecast total opex) to Jemena's total opex forecast of $640.9 million. This equates to an average opex increase of 4.9% each year. We have included a rate of change that contributes $60.8 million (10.1%) to our final decision of total forecast opex of $602.8 million. This equates to an average opex increase of 4.0% each year in our alternative estimate.

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28 Jemena, *RP - Att 06-03M SCS Opex model*, December 2025.

29 Jemena, *Victorian DNSPs – Cost pass through applications – Flexible trading arrangements rule change*, November 2025; and Jemena, *Cost pass through applications – MITE, ASMD, VEBM2*, November 2025.

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

31 Productivity growth is applied as a negative in our rate of change calculation, which reduces the total growth rate.

Table 3-2 shows both Jemena's revised proposal and our alternative estimate for each component of the rate of change.

Table 3-2 Forecast annual rate of change in opex (%)

	2026–27	2027–28	2028–29	2029–30	2030–31
Jemena revised proposal					
Price growth	0.5	0.6	0.7	0.7	0.7
Output growth	4.2	4.3	4.4	5.0	5.6
Productivity growth	–0.5	–0.5	–0.5	–0.5	–0.5
Rate of change	**4.2**	**4.4**	**4.6**	**5.3**	**5.9**
AER's alternative estimate					
Price growth	0.5	0.5	0.6	0.7	0.7
Output growth	3.6	3.7	3.3	3.7	5.2
Productivity growth	–0.5	–0.5	–0.5	–0.5	–0.5
Rate of change	**3.5**	**3.7**	**3.4**	**3.8**	**5.3**
Difference	**–0.7**	**–0.7**	**–1.2**	**–1.4**	**–0.5**

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

3.4.3.1 Forecast price growth

Jemena proposed real average annual price growth of 0.6%, which increased its total opex forecast by $9.2 million. We have used real average annual price growth of 0.6% in our final decision of total opex. This increases our total opex alternative estimate by $8.1 million.

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

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

Table 3-3 compares our forecast labour price growth with Jemena's revised proposal.

Table 3-3 Forecast labour price growth (%)

	2026–27	2027–28	2028–29	2029–30	2030–31
Jemena revised proposal					
Deloitte Access Economics	0.7	0.9	1.1	1.1	1.0
BIS Oxford Economics	1.0	1.0	1.2	1.4	1.4
Average	**0.8**	**1.0**	**1.1**	**1.2**	**1.2**
AER's alternative estimate					
Deloitte Access Economics	0.3	0.7	0.8	0.9	0.9
BIS Oxford Economics	1.0	1.0	1.2	1.4	1.4
Average	**0.6**	**0.9**	**1.0**	**1.1**	**1.1**
Overall difference	**–0.2**	**–0.1**	**–0.1**	**–0.1**	**–0.1**

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

3.4.3.2 Forecast output growth

Jemena proposed average annual output growth of 4.7%, which increased its proposed opex forecast for the 2026–31 period by $73.8 million. We have forecast average annual output growth of 3.9%. This increases our alternative estimate of total opex by $60.5 million, which is $13.2 million lower than Jemena's revised proposal.

Forecast customer number and circuit length figures are updated from our draft decision and are consistent with Jemena's revised proposal. We have updated Jemena's ratcheted maximum demand forecasts to reduce non-data centre block loads by 50%, as we consider some portion of this growth is already accounted for in the underlying data.

Forecast growth of the individual output measures

We are satisfied that Jemena's forecast of the growth in customer numbers and circuit length, as set out in

Table 3-4, reflect a realistic expectation. They are largely consistent with forecast trends from historical growth rates consistent with our standard approach.

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

Table 3-4 Forecast growth in individual output measures (%)

	2026–27	2027–28	2028–29	2029–30	2030–31
Jemena revised proposal					
Customer numbers	1.2	1.2	1.2	1.2	1.2
Circuit length	2.4	1.2	1.5	1.1	1.5
Ratched maximum demand	7.6	8.5	8.5	10.2	11.4
AER revised proposal					
Customer numbers	1.2	1.2	1.2	1.2	1.2
Circuit length	2.4	1.2	1.5	1.1	1.5
Ratched maximum demand	6.6	7.3	6.2	7.4	10.9
Difference					
Customer numbers	–	–	–	–	–
Circuit length	–	–	–	–	–
Ratched maximum demand	**–1.0**	**–1.1**	**–2.3**	**–2.8**	**–0.5**

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

Output weights

Jemena used the output weights set out in Table 3.5, as derived from the results of the 4 econometric models in our draft *2025 Annual benchmarking report*.[32]

In our latest 2025 Annual Benchmarking Report, the Stochastic Frontier Analysis Translog model failed to converge and has been excluded. [33] As a result, only output weights derived from the three remaining econometric models have been used in this regulatory determination.

[32] Jemena, *RP - Att 06-01 Operating expenditure,* December 2025, p. 4.

[33] Quantonomics, *Benchmarking results for the AER – distribution*, November 2025, p. 31.

Table 3-5 Output weights (%)

	Cobb Douglas SFA	Cobb Douglas LSE	Translog LSE	Translog SFA	Average
Jemena revised proposal					
Customer numbers	25.1	53.8	37.5	28.9	36.3
Circuit length	14.4	23.8	24.4	20.3	20.7
Ratcheted maximum demand	60.5	22.4	38.1	50.9	43.0
AER revised proposal					
Customer numbers	25.1	53.8	37.5	excluded	38.8
Circuit length	14.4	23.8	24.4	excluded	20.9
Ratcheted maximum demand	60.5	22.4	38.1	excluded	40.3
Difference					
Customer numbers	**–**	**–**	**–**	**–28.9**	**1.5**
Circuit length	**–**	**–**	**–**	**–20.3**	**0.2**
Ratcheted maximum demand	**–**	**–**	**–**	**–50.9**	**–2.7**

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

Ratcheted maximum demand growth

We are not satisfied that Jemena's forecast growth rates for ratcheted maximum demand reflect a realistic expectation. We have instead used the ratcheted maximum demand forecast in Table 3-6.

Table 3-6 Forecast growth in ratcheted maximum demand (%)

	2026–27	2027–28	2028–29	2029–30	2030–31
Jemena revised proposal	7.6	8.5	8.5	10.2	11.4
AER revised proposal	6.6	7.3	6.2	7.4	10.9
Difference	**–1.0**	**–1.1**	**–2.3**	**–2.8**	**–0.5**

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

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.[34]

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.[35] Additionally Jemena updated its demand forecast with the latest inputs from the Australian Energy Market Operator (AEMO)'s Inputs, Assumptions and Scenarios (IASR) and other macroeconomic indicators.[36]

While Jemena has addressed concerns regarding the complexity of its forecast, and is now consistent in methodology with the other Victorian DNSP's, we continue to consider that the non-data centre block load forecasts partially double count loads captured in the trend and other components of the demand modelling. For this reason, our final decision includes the forecasts included in Table 3-6.

3.4.3.3 Forecast productivity growth

Jemena proposed a productivity growth forecast of 0.5% per year, which decreased its total opex by $7.8 million. We have forecast the same productivity growth rate, which reflects our standard approach.[37] This decreases our final decision opex by $7.9 million over the 2026–31 period.

3.4.4 Step changes

In developing our alternative estimate of total opex, we may include prudent and efficient step changes. As we explain in the Guideline, we will generally include a step change amount in our alternative estimate of total opex if the level of efficient base year opex and the rate of change in opex does not already account for the proposed step up in costs that is required to meet the opex criteria. This means that step changes should not double count costs implicitly provided through other components of forecast opex, such as the base year and rate of change.[38]

Under the top-down revealed cost approach we use to forecast total opex, actual total opex in the base year should reasonably reflect the opex criteria.[39] That is, it should be representative of the level of efficient, ongoing overall cost needed to provide the required

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

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

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

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

38 AER, *Final decision – Expenditure forecast assessment guideline – electricity distribution*, October 2024, p. 24.

39 AER, *Final decision – Expenditure forecast assessment guideline – electricity distribution*, October 2024, p. 22.

level of safe and reliable distribution services in the next regulatory period. The base year is then trended forward to account for the overall increase in costs in the next period, considering the required increase in the quantity of inputs, the costs of those inputs, and the level of productivity or efficiencies that can be achieved by implementing good industry practices. The trend or rate of change component in our top-down base-step-trend opex forecasting approach is based on econometric modelling of a total opex cost function.[40] That is, trend is calculated on a top-down basis, and is intended to model the change in total opex over time, such as for continued growth and adaptation of the business.

Where base and trend opex do not capture all cost changes that reasonably reflect the opex criteria, we may add step changes, such as for the cost of complying with a new regulatory obligation.[41] However, in assessing a step change, we must ensure it does not double count costs likely to be already provided for through the base and trend components of our top down opex forecasting approach, which can include costs otherwise provided for though the output measure, efficient discretionary changes in inputs, or costs from increased regulatory burden over time, which forecast productivity growth may already account for.[42]

For example, if the forecast increase in the regulatory burden over the regulatory period is consistent with the increase in regulatory burden over the sample period, step changes would not be required. We will only approve step change costs if they demonstrably do not reflect the historic 'average' change in costs.[43] Namely, the costs represent an upward step up in regulatory costs, and it can be demonstrated that it is not capable of being managed otherwise under total forecast opex through in-built provisions for output, price and productivity growth.[44]

We consider what might constitute a step change at each revenue reset, on a case-by-case basis, but our starting position is that only exceptional events are likely to require explicit compensation as step changes.[45] In determining whether the incremental cost of a proposed step change may be double counted, we do not apply a quantitative threshold, but may have regard to a range of factors, and the specific circumstances of a decision. These can include, but are not limited to, the extent to which the proposed cost represents an increase in a business's existing recurrent opex requirements, is likely to otherwise be provided for through the base year and trend growth used to forecast total opex; and is the result of an exceptional change to a business's existing inputs, activities, or level of service provision.

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40 AER, *Final decision – Expenditure forecast assessment guideline – electricity distribution*, October 2024, pp. 22–24.; AER, *Better Resets Handbook*, July 2024, p. 26.

41 AER, *Expenditure forecast assessment guideline – Explanatory statement – Final*, November 2013, pp. 9-10.

42 AER, *Final decision – Expenditure forecast assessment guideline – electricity distribution*, October 2024, p. 24.

43 AER, *Final decision – Expenditure forecast assessment guideline – electricity distribution*, October 2024, p. 24.

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

45 AER, *Final decision – Expenditure forecast assessment guideline – electricity distribution*, October 2024, p. 24.

Our final decision includes total step changes of $12.6 million, which is $29.0 million lower than Jemena's revised proposal, but $26.9 million higher than our draft decision. We discuss each step change further below.

Table 3-1 above sets out Jemena's revised proposal step changes, our alternative estimate for the final decision and the differences between these forecasts.

3.4.4.1 ICT services step change

Jemena proposed a revised $34.1 million step change for a range of ICT projects with related capex. Jemena submitted that the revised amount consisted of:

- costs for ICT projects we accepted at the draft decision, which Jemena has reproposed
- costs for ICT projects that we did not accept in the draft decision, which Jemena has reproposed
- ICT project implementation costs (propex) Jemena had previously proposed as a base year adjustment, which has been reproposed as part of the step change
- $11.8 million in new costs required in the next period to comply with new regulatory obligations, including Market Interface Technology Enhancements (MITE) initiatives and the Victorian Emergency Backstop Mechanism No.2 (VEBM2). Jemena noted that these new costs are consistent with the amounts included in cost pass through applications for costs it has been incurring in the current period for these reforms.[46] These cost pass through applications were approved by the AER in April 2026.

Our alternative estimate for the final decision includes $10.3 million for an ICT services step change. This is based on our assessment that the project costs accepted at the draft decision continue to be justified. Other reproposed costs (including those not accepted in the draft decision and those initially proposed as a base adjustment) have not been included as we consider that, in the specific circumstances of this decision, these costs are either already provided for through the base and trend components of our base-step-trend forecasting approach, or can be met through efficiencies not fully accounted for in the revised step change cost build up. We consider the new regulatory obligation costs as justified. They have been included in the ICT step change at reduced amounts as they will be largely provided for in the next period through the related cost pass through approved costs included in the final year increment component of our alternative estimate of total opex.

Table 3-7 below summarises Jemena's revised ICT step change and our final decision.

Table 3-7 ICT services step change ($million, 2025-26)

	2026–27	2027–28	2028–29	2029–30	2030–31	Total
Jemena revised proposal	6.0	9.7	9.9	5.5	2.9	34.1

[46] Jemena, *JEN 2026-31 Revised Proposal*, December 2025, p. 38.

AER alternative estimate	1.1	1.4	1.7	2.5	3.6	10.3
Difference	**–4.9**	**–8.3**	**–8.2**	**–3.0**	**0.6**	**–23.8**

Source: Jemena, *RP - Att 06-03M SCS Opex model,* December 2025; Jemena, *RP - Support - ICT step change calculation*, December 2025; AER analysis.
Note: Numbers may not add up to totals due to rounding. Values of '0.0' and '–0.0' represent small non-zero amounts and '–' represents zero.

In the draft decision we included a placeholder amount of $8.1 million for the ICT services step change, or $13.6 million less than Jemena proposed.[47] This was based on our view, informed by advice from our technical consultant EMCa, that Jemena had not sufficiently justified some projects. Other projects were not been included because we considered that while they may be justified to some level, the proposed increase in costs was double counted in Jemena's proposal as it would be provided through the base and trend component of our base-step-trend forecasting approach, or would be met through efficiencies not fully accounted for in Jemena's step change cost build up.

Table 3-8 below shows each component of the initial and revised proposals along with reasons for our positions in our draft and final decisions.

Table 3-8 Proposed ICT step change and Alternative Forecast ($million, 2025-26)

ICT Project	Initial proposal	Draft decision / rationale	Revised proposal	Final decision	Final decision / rationale
Customer systems	0.4	not included: covered by base / trend	accepted our draff decision	–	–
Network operations geospatial enhancements	0.2	not included: covered by efficiencies	accepted our draft decision	–	–
Cyber program	2.3	2.3	2.3	2.3	included
Digitising network switching	0.5	not included: covered by efficiencies	0.5	–	not included: covered by efficiencies
Cloud capacity growth	2.7	2.7	2.6	2.6	included
Enterprise content uplift	0.6	not included: covered by base / trend	0.7	–	not included: covered by base / trend

47 AER, *Attachment 3 - Operating expenditure - Draft decision - Jemena distribution determination 2026-31*, September 2025, pp. 22–24.

ICT Project	Initial proposal	Draft decision / rationale	Revised proposal	Final decision	Final decision / rationale
Data foundations governance	0.3	not included: covered by base / trend	0.4	–	not included: covered by base / trend
NEM reform – flexible trading arrangements	4.3	not included: more information needed	1.1*	–4.9	cost pass through related - refer below
Outage preparation and response	0.7	not included: covered by base / trend	accepted our draff decision	–	–
Contract lifecycle management	0.8	not included: covered by base / trend	0.7	–	not included: covered by base / trend
Customer education	0.8	not included: covered by base / trend	accepted our draff decision	–	–
Dynamic network planning and automation	0.4	not included: covered by efficiencies	0.4	–	not included: covered by efficiencies
3D digital twin	0.2	not included: covered by efficiencies	accepted our draff decision	–	–
CER integration – flexible exports	3.0	3.0	2.4	2.4	included
CER integration – strategic network analytics platform – data hub	1.3	not included: not justified / covered by base / trend	1.4	–	not included: partly efficient / covered by base / trend
CER integration – VVC rollout	3.2	not included: covered by base / trend	accepted our draff decision	–	–
NEW - Reform – VEBM2			9.2*	6.1	cost pass through related - refer below

ICT Project	Initial proposal	Draft decision / rationale	Revised proposal	Final decision	Final decision / rationale
NEW - Reform – MITE IDX/IDAM/Portal Consolidation			2.7*	2.0	cost pass through related - refer below
NEW - Project operating expenditure (propex)			9.7	–	not included: our estimate of $2.0m as covered by base / trend
Accelerating smart meter deployment (ASMD)				–0.2	cost pass through related - refer below
TOTAL	**21.6**	**8.1**	**34.1**	**10.3**	

Source: Jemena, *Att 06-04 Operating expenditure step changes*, January 2025, p.11; Jemena, *RP - Support - ICT step change calculation*, December 2025; AER analysis.
Notes: May not add due to rounding. * These project amounts relate to cost pass through costs incurred in the current period and already included in the final year increment component of our alternative estimate of total opex.

In its revised proposal, Jemena proposed an updated $34.1 million ICT step change.[48] Jemena submitted that the revised amount consisted of:

- Costs for ICT projects we accepted at the draft decision, which Jemena had reproposed.
- Costs for ICT projects that we did not accept in the draft decision because we considered these costs would be provided for in the next regulatory period through cost savings Jemena had not accounted for in the proposed step change cost build up.
    - In its revised proposal, Jemena did not repropose two of the projects we did not include in our draft decision due to unaccounted for efficiencies (i.e. network operations geospatial enhancements and 3D digital twin). However, Jemena did not accept our decision to not include the digitising network switching, and dynamic network planning and automation components, reproposing these and submitting that they should be included in our final decision as they are not "business as usual" activities.[49]
- Costs for ICT projects that we did not accept in the draft decision because we considered these costs would be provided for in the next regulatory period through the base and trend components of our top down total opex forecast.

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48 Jemena, *Attachment 06-01 Response to the AER's draft decision - Operating expenditure*, 1 December 2025, pp. 25–26.

49 Jemena, *RP - Att 05-01A Technology expenditure addendum*, 1 December 2025, p. ix–xii.

    - In its revised proposal, Jemena did not repropose four ICT cost components we did not include in our draft decision because we considered these costs would be provided for through the base and trend components of our opex forecasting approach (i.e. customer systems, outage preparation and response, customer education and CER integration – VVC rollout). However, Jemena did not accept our decision to not include four other cost components on the same basis (i.e. the enterprise content uplift, data foundations governance, contract lifecycle management, and CER integration – strategic network analytics platform data hub components).[50]
    - Jemena stated in its revised proposal that it considered our draft decision approach, to not include these costs in the ICT step change amount as they were already provided for through the base and trend components, was not consistent with AER decisions on step changes in recent revenue determinations. Jemena submitted that it appeared the AER's draft decision had considered the relative immateriality of the individual component costs of the ICT step change but had not addressed the potential materiality of the aggregate impact of not accepting multiple otherwise immaterial cost components. Jemena further submitted that it was not appropriate to apply the 'base and trend growth' rationale to ICT step changes because the intent of the trend component is to provide an increase in opex resulting from increased demand and network size. However, Jemena submitted that many of the proposed ICT cost components are not driven by increasing demand or network scale. Instead, Jemena stated that the increase in costs is driven by ICT industry trends such as the shift to cloud computing, increasing business cyber security and data analytics needs, and vendor pricing power.[51]
- ICT project implementation costs, or propex, Jemena had initially proposed as a base year adjustment, which it reproposed as part of the ICT step change.
- $11.8 million in new cost components required in the next regulatory period to comply with new regulatory obligations, including the Market Interface Technology Enhancements (MITE) initiatives, and the Victorian Emergency Backstop Mechanism No.2 (VEBM2). Jemena noted that these new costs are consistent with the amounts included in cost pass through applications for costs it is incurring in the current period for these reforms, and which were subsequently approved by the AER.[52]

We considered Jemena's revised ICT step change, assessing each reproposed and newly proposed cost component, considering Jemena's submissions on our draft decision rationales, and reviewing the technical advice provided for the draft decision by our consultants EMCa.

We consider that the ICT projects we included in our draft decision continue to be justified, including the cyber security program, cloud capacity growth, and CER integration – flexible

50 Jemena, *2026-31 Revised Proposal,* December 2025*,* section 4.3.

51 Jemena, *2026-31 Revised Proposal,* December 2025*,* section 4.3.

52 Jemena, *2026-31 Revised Proposal*, December 2025, p. 38.

exports components. Jemena's revised proposal forecast the cost of these 3 projects to be $7.4 million, slightly less than the $8.1 million we accepted in the draft decision.[53]

The ICT components that were not included in our draft decision due to the costs being covered by implementation efficiencies were also reconsidered. These included the digitising network switching, and dynamic network planning and automation components. As Jemena did not supply new evidence to change our draft decision view that these costs would be self-funding, we have not included these for the final decision.

Consistent with our draft decision, we have also not included the four reproposed ICT cost components that we previously found likely prudent and efficient but already accounted for through the base and trend components of our opex forecast. These include the enterprise content uplift, data foundations governance, contract lifecycle management, and CER integration – strategic network analytics platform data hub components. We do not consider, when taken individually or in aggregate, that a step up in total opex is required to fund these incremental costs because they can be met through the base and trend growth components of our top-down forecasting approach. In coming to this view, we have had regard to a range of factors, and the specific circumstances of this decision, including that:

- we have used Jemena's actual 2024–25 opex as the base year for our alternative estimate of total opex for the final decision
- the rate of trend growth provided in the final decision, which is higher than that provided for in our draft decision
- the proposed incremental costs and activities do not represent an exceptional change to a business's existing inputs, activities, or level of service provision.

We consider that Jemena's criticisms of our draft decision rationale for not including these ICT components because we considered them to be covered by base and trend, to be based on a mischaracterisation of the approach we applied in the draft decision, and of the revealed cost, top-down forecasting approach we use to forecast total opex more generally. Under our framework, we rely on the actual total opex in a business's base year as being reasonably representative of the level of opex the business requires to meet all ongoing, recurrent costs to provide the required level of safe and reliable distribution services. This is then trended forward to account for the overall increase in costs in the next period, considering the increase in the quantity of inputs, the costs of those inputs, and the level of productivity or efficiencies that can be achieved by implementing good industry practices.

We typically do not determine if costs for a specific operational input or activity in a given base year trended forward are sufficient to fund the incremental cost of a step change. Similarly, we do not consider step changes are required when opex for a specific cost category is low in the base year, or increasing faster than trend. This is because forecasting some categories bottom up, but others using revealed costs risks upwardly biasing forecasts. NSPs would have an incentive to only use an alternative forecasting approach for those lumpy cost categories where expenditure is atypically low in the base year, or where the rate of growth in atypically higher relative to trend. For categories where expenditure is higher than usual in the base year, or the rate of growth is lower than trend, a business would have

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53 Jemena, *RP - Support - ICT step change calculation*, December 2025.

an incentive to forecast using revealed costs. If total opex is not materially lumpy then a top down, revealed cost forecast is appropriate regardless of whether individual categories are lumpy or not. We further note that the EBSS shares any atypically high or low costs in the base year between the network and consumers.

Finally, we consider the new regulatory obligation cost components as justified. These projects include the NEM reform - flexible trading arrangements, reform - VEBM2, and reform - MITE - IDX/IDAM/Portal Consolidation components. However, the proposed cost components for these projects have not been fully included in the ICT step change as they are already provided for through the cost pass through expenditures related to the same regulatory obligations, which were approved by the AER in the current period, and which are included in the final year increment component of our alternative estimate of total opex. Jemena's revised proposal did not adjust for these amounts, which would have resulted in these costs being double counted in the AER revenue allowance for the next regulatory period.

We have also included an –$0.2 million item related to the accelerating smart meter deployment (ASMD) cost pass through in the step change. This additional item is related to the ASMD cost pass through application in the current period. As outlined below this item is to remove any double counting in the next period.

We have included these step change adjustments to ensure that our estimate of total opex reflects the opex amounts approved in the pass through applications for the 2026–31 period. We calculated the step change as the difference between the forecast opex in the step change and the forecast opex for 2025–26, escalated by the rate of change.

3.4.4.2 New REFCL obligations

Jemena proposed $4.9 million step change for new REFCL (rapid earth fault current limiter) obligations in its initial proposal. In our draft decision we sought additional information relating to costs incurred in preparation for the 2025–26 bushfire season and included a placeholder of $4.9 million.[54]

In its revised proposal Jemena reproposed the $4.9 million step change and provided the actual cost information sought in our draft decision.[55] We have assessed the additional information and concluded the proposed costs for the new REFCL obligations to be prudent and efficient. We have included $4.9 million step change for new REFCL obligations in our final decision.

Table 3-9 New REFCL obligations step change ($million, 2025-26)

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

54 AER, *Attachment 3 - Operating expenditure - Draft decision - Jemena distribution determination 2026-31*, September 2025, pp. 29–30.

55 Jemena, *Attachment 06-01 Response to the AER's draft decision - Operating expenditure*, 1 December 2025, p. 28.

Difference	–	–	–	–	–	–

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

3.4.4.3 Safety – LBRA hazard trees management program

Jemena proposed a $2.6 million step change to expand its existing hazard tree program into low bushfire risk areas (LBRA) of its network.[56] We have not included an amount for this step change in our alternative estimate of opex for the final decision. This is consistent with our draft decision and is because we consider the proposed incremental costs will be provided for in the next regulatory period by the base and trend components of our top down opex forecast.

Table 3-10 Safety – LBRA hazard trees management program step change ($million, 2025-26)

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

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

In the initial proposal, Jemena proposed the same step change of $2.6 million for the expansion of their hazard tree management program to LBRAs. This consisted of hiring a dedicated arborist to develop a proactive assessment cycle of hazard trees and cutting to enhance network operational safety.[57] We did not include this step change in our draft decision alternative estimate.[58] We considered that, while the proposed expansion of Jemena's existing hazard tree program into LBRAs to improve safety was likely prudent and efficient, the proposed increase in opex was already allowed for by the base and trend component of our opex forecast. We also noted Jemena had not provided sufficient information to demonstrate the net-benefits of the program and requested Jemena provide additional evidence in its revised proposal.[59] This position was supported by EMCa's advice, which stated there was insufficient quantitative evidence supporting the program.[60]

In the revised proposal, Jemena reproposed the $2.6 million step change, reiterating the drivers as an increase in climate change driven extreme weather events leading to more

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56 Jemena, *RP - Support - LBRA Hazard Tree Management Program - Business Case,* December 2025.

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

58 AER, *Attachment 3 - Operating expenditure - Draft decision - Jemena distribution determination 2026-31*, September 2025, pp.32–33.

59 AER, *Attachment 3 - Operating expenditure - Draft decision - Jemena distribution determination 2026-31*, September 2025, p.32.

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

hazard trees causing outages, and the benefits as increased safety and reliability from reducing outages.[61] It provided an updated business case to support the reproposed step change,[62] and the underlying quantitative calculations and NPV analysis of four options to improve network safety, demonstrating Jemena's proposed step change was the only option with a positive net benefit (NPV $0.3 million).[63]

Jemena also contested our draft decision position that the base and trend components of our top down forecasting method would provide sufficient revenues to fund the step change of $0.5 million per year.[64] Jemena submitted that it had incurred only $0.1 million in hazard tree cutting costs in its 2024-25 base year out of a total $6 million for general vegetation management. It further noted that the trend allowance on its $6 million vegetation management costs in its base year will be required to meet increasing costs that are likely to result from its introduction of light detection and ranging (LiDAR) technology over the next regulatory period. Jemena submitted that because of this, the proposed step change is required as the trend applied to its current hazard tree cutting over the next regulatory period will be insufficient to cover the $2.6 m step change.

Jemena's Energy Reference Group submission on our draft decision expressed concern on the AER's reduction in Jemena's total opex in the draft decision, highlighting that substantial reductions could compromise long-term network resilience and reliability.[65] Jemena also highlighted that customers participating in its engagement program had noted that network reliability carried a high degree of importance for them.[66]

Consistent with our draft decision, we consider the proposed expansion of existing activities and incremental costs to be a prudent and efficient response to increasing extreme weather events across Jemena's network. While we don't consider the step change is required to meet any particular new regulatory obligations, we agree that the increasing frequency of extreme weather events justifies an expansion of the existing hazard tree program on the basis it is driven by an external factor outside the business' control. However, we do not consider a step up in total opex is required to fund the incremental costs because the costs can be met through the revenue allowance provided for by the base and trend components of our top-down forecasting approach. In coming to this view, we have had regard to the range of factors, including:

- we have used Jemena's actual 2024–25 opex as the base year for our alternative estimate of total opex for the final decision
- the rate of trend growth provided in the final decision, which is higher than that provided for in our draft decision
- the step change activities represent an expansion of Jemena's existing hazard tree program and are in support of existing service requirements related to safety and reliability

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61 Jemena, *2026-31 Revised Proposal,* December 2025*,* pp*. 28–29;* Jemena, *RP - Support - LBRA Hazard Tree Management Model,* December 2025*.*

62 Jemena, *RIN – Support – LBRA Hazard Tree Management Program – Business Case,* January 2026.

63 Jemena, *RP - Att 06-01 Operating expenditure*, December 2025, pp. 28–29.

64 Jemena, *2026-31 Revised Proposal,* December 2025, pp. 28–29.

65 Jemena Energy Reference Group, *Submission – Jemena electricity distribution revised proposal 2026-31*, January 2026,, p. 4.

66 Jemena, *Jemena Price Reset – Customers priorities research report,* August 2024, p. 19.

- the proposed incremental costs and activities do not represent an exceptional change to a business's existing inputs, activities, or level of service provision.

We consider that Jemena's criticisms of our draft decision rationale for not including an amount for the hazard tree step change in total opex, (i.e. based on trending forward a bottom up build of Jemena's hazard tree and vegetation management costs in its base year), to be a misunderstanding of the revealed cost, top down forecasting approach we use to forecast total opex. As noted in our assessment of the ICT step change, we typically do not determine if costs for a specific opex category in a given base year trended forward is sufficient to fund the incremental cost of a step change. Similarly, we do not consider step changes are required when opex for a specific category is low in the base year as this risks upwardly biasing forecasts and creates an incentive for NSPs to only use an alternative forecasting approach for those lumpy cost categories where expenditure is atypically low in the base year.

For the reasons outlined above, we have not included this step change amount in our total opex forecast for the final decision.

3.4.4.4 Insurance

We have included a step change of –$2.4 million in our alternative estimate opex for insurance premiums, as shown in Table 3-11. This ensures that forecast opex reflects the premiums Jemena will pay in 2025–26 (plus an amount for the rate of change) and meets the opex criteria.

Table 3-11 Insurance step change ($million, 2025-26)

	2026–27	2027–28	2028–29	2029–30	2030–31	Total
Jemena revised proposal	–	–	–	–	–	–
AER alternative estimate	–0.5	–0.5	–0.5	–0.5	–0.5	–2.4
Difference	**–0.5**	**–0.5**	**–0.5**	**–0.5**	**–0.5**	**–2.4**

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

We have changed our approach from the draft decision because we now consider the EBSS does not allow for the non-recurrent efficiency gain to be used in the way we did in our draft decision.[67] We consider that regulatory certainty is important for incentive schemes to provide effective incentives. Consequently, we have not applied a non-recurrent efficiency gain in this final decision.

The change in approach allows Jemena to retain the benefits of underspending its insurance premium forecasts as a recurrent efficiency gain. The draft decision approach treated Jemena's underspending of its forecast insurance premiums as a non-recurrent efficiency gain.

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67 AER, *Efficiency benefit sharing scheme*, November 2013.

Background and draft decision

In our final decision for the 2021–26 regulatory period we included a significant step change for forecast increases in bushfire liability insurance premiums.[68] In that decision, we considered that the forecast increase qualified as a step change because it was driven by an external factor outside of the control of the business and was not captured in base opex or trend.

However, as noted in our draft decision, the forecast of significant insurance premiums did not eventuate, and Jemena significantly underspent the forecast insurance premiums.

Under our framework, when we approve a step change, we implicitly assume the expenditure forecast in the final year is required in perpetuity. Our standard approach to forecast total opex applies a final year increment to roll forward any additional expenditure required from the base year approved forecast to final year approved forecast.

Including the insurance premium component of the final year increment assumes insurance premiums would rise significantly more than required. We now know these increases will not occur and reflecting them in our alternative estimate of total forecast opex would not meet the opex criteria. That is, forecast opex would be higher than that required by a prudent and efficient operator.

To remove the insurance premium component of the final year increment, in the draft decision we included a combination of a non-recurrent efficiency gain and a negative insurance step change to reduce forecast opex.[69] This ensured our alternative estimate of total forecast opex met the opex criteria and the EBSS shared the efficiency gains and losses between Jemena and network users. Under this approach the EBSS treated the underspend as a non-recurrent efficiency gain and required Jemena to return the 2021–26 insurance premium underspends to network users through EBSS decrements 6 years later. Jemena retained its share of the insurance premiums underspend by retaining the time value of holding the underspends for 6 years.

Jemena's revised proposal

Jemena disagreed with our treatment of insurance premiums in the draft decision and considered the approach to be unlawful. It provided a legal opinion from the DLA Piper (the DLA Piper advice) to support this position.[70]

Jemena considered the draft decision approach would create perverse incentives for distributors and would undermine the objectives and intent of the economic regulatory regime. To support this, it submitted a report from HoustonKemp.[71]

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68 AER, *Attachment 6: Operating expenditure | Final decision – Jemena 2021–26*, April 2021, pp. 48–50.

69 AER, *Attachment 3 - Operating expenditure - Draft decision - Jemena distribution determination 2026-31*, September 2025, pp. 36–38

70 Jemena, *DLA Piper - RP - Att 06-06 John Middleton Legal Opinion for Victorian DNSP Insurance Opex*, November 2025.

71 Jemena, *Houston Kemp - RP - Att 06-07 Victorian DNSP insurance premiums*, November 2025, p. v.

Jemena also provided a confidential report from its insurance broker, Lockton, that sought to demonstrate that the underspends were likely impacted by efficient cost management.

Stakeholder engagement

We received two submissions relating to our draft decision approach to treating insurance in the EBSS and when forecasting opex.

CCP32 stated that it understood that the objective of the EBSS (and incentive regulation) is to share genuine business efficiency gains between a business and its customers. The question for it was whether the insurance premium underspend was a windfall gain, or a result of management efficiency initiatives. CCP32 saw no reason for a business to retain windfall gains and agreed they should be passed back to customers.[72]

CCP32 noted that the distributors' revised proposals included some information about management efficiency initiatives, which the distributors claimed were instrumental in achieving the insurance premium reductions. However, these were heavily redacted. Consequently, CCP32 considered it impossible for customers and stakeholders to understand or form an opinion on the extent to which management actions played a role in achieving the significant insurance premium underspends, and whether they deserved to be rewarded under the EBSS.[73]

Ausgrid submitted that the draft decision approach raises important questions about the integrity of the ex-ante incentive framework that we administer. It considered the approach creates regulatory uncertainty for networks across broader expenditure areas, with potential implications for the effectiveness of incentives to promote efficient cost management and longer-term consumer outcomes.[74]

Our assessment

In this final decision we have changed our approach to treating Jemena's significant underspending of the forecast insurance premiums approved for the 2021–26 period.

In our draft decision we stated that the approach we adopted sought two outcomes:

1. it would return the 2021–26 insurance premium underspends to network users through EBSS decrements 6 years later (treating the underspends as non-recurrent efficiency gains)
2. it set forecast opex equal to that required by a prudent and efficient operator.

HoustonKemp asserted that the draft decision approach did not achieve these objectives. We requested HoustonKemp's modelling and found that it had not applied the EBSS equations. We provided Jemena, and HoustonKemp, our modelling and asked them if they considered the modelling to be incorrect. HoustonKemp did not identify any calculation errors but did, however, raise broader concerns with the draft decision approach.[75] We do not agree with most of the concerns raised by HoustonKemp.

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72 CCP32, *Submission - Jemena electricity distribution proposal 2026-31,* January 2026, p. 18.

73 CCP32, *Submission - Jemena electricity distribution proposal 2026-31,* January 2026, pp. 18–19.

74 Ausgrid, *Submission - Victorian electricity distribution proposals 2026-31,* January 2026, p. 1.

75 HoustonKemp, *Victorian DNSP insurance premiums*, *Supplemental report*, 25 February 2026, pp. 4–6.

We set out below our reasons for changing our approach, as well as our views on the concerns raised by Jemena, the HoustonKemp report and the DLA Piper advice.

The EBSS does not allow a non-recurrent efficiency gain to be used to apply the draft decision approach

As noted in the DLA Piper advice, the EBSS does not define the term 'non-recurrent efficiency gain', and provides limited commentary on what that term means, and how it should be applied.[76] Where we did discuss a non-recurrent efficiency gain in the EBSS explanatory statement, we stated that:

- expenditure should be treated as a non-recurrent efficiency gain in circumstances where a distributor cannot sustain the level of expenditure that it incurred in the base year, as a result of a one-off factor that led to an underspend relative to forecast opex in that base year
- the purpose of the non-recurrent efficiency gain adjustment is to enable revenue to be shifted from the EBSS carryover to the opex allowance, rather than to reduce the overall allowed revenue.

The DLA Piper advice considered that the EBSS only allows an opex underspend in the base year to be treated as a non-recurrent efficiency gain in limited circumstances. Further, distributors should not be left worse off in their total revenue allowance because of any base year non-recurrent efficiency gain.[77] We are satisfied that this is accurate and, as such, the EBSS does not allow a non-recurrent efficiency gain to be used in the way we did in our draft decision.

Incentives

HoustonKemp asserted that the draft decision approach would undermine the future regulatory ex ante incentive properties of the NER's economic regulatory regime because networks will no longer have certainty that they will be rewarded for outperforming their opex forecasts.[78] As an underlying principle, we agree with HoustonKemp that regulatory certainty is important for incentive schemes to provide effective incentives.

However, we disagree with HoustonKemp's view that the distributors would no longer have certainty that they will be rewarded for outperforming their opex forecasts under that draft decision approach. We maintain that Jemena would have benefited from underspending its forecast insurance premiums in the 2021–26 period under the draft decision approach. Nonetheless, we consider that it is important the distributors have a clear understanding of how EBSS will be calculated and how actual opex will be used to forecast opex in subsequent period.

Reasonable opportunity to recover efficient costs

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76 Jemena, *DLA Piper - RP - Att 06-06 John Middleton Legal Opinion for Victorian DNSP Insurance Opex*, November 2025, p. 19.

77 Jemena, *DLA Piper - RP - Att 06-06 John Middleton Legal Opinion for Victorian DNSP Insurance Opex*, November 2025, p. 19.

78 HoustonKemp, *Victorian DNSP insurance premiums*, *Supplemental report*, 25 February 2026, p. 6.

In its report, HoustonKemp asserted that the draft decision approach would reduce Jemena's overall compensation for insurance premiums for the 2026–31 regulatory control period and would not allow it a reasonable opportunity to recover its efficient costs.

We provided a mathematical proof to Jemena and HoustonKemp, showing that the draft decision approach would provide a forecast of insurance premiums equal to the final year actual insurance premium amount plus an increment for the rate of change.

HoustonKemp agreed that the draft decision approach has the result that the forecast of insurance premiums for the 2026–31 regulatory control year is equal to actual insurance premiums in the final year of the 2021–26 regulatory control period plus an increment for the rate of change.[79] However, it argued that by also applying negative EBSS carryover amounts, Jemena cannot recover its efficient costs.[80] We consider this conflates two separate building blocks that must be considered separately. Under the NER, the opex building block must meet the opex criteria. If we accept HoustonKemp's interpretation, then EBSS carryovers cannot be negative. However, the rules explicitly allow for EBSS decrements.

The EBSS carryovers Jemena has accrued (regardless of how you calculate them) are not 'compensation for insurance premiums for the 2026–31 regulatory control period'. Rather they are increments or decrements that are meant to share the efficiency gains or losses Jemena has achieved in the 2021–26 period.

Managerial effort

Our draft decision approach treated the insurance premium underspends over the 2021–26 period as non-recurrent efficiency gains. This implicitly attributes the lower than forecast insurance premiums to external factors outside of the control of the businesses and not the result of management efforts to efficiently manage their insurance premiums.

Jemena provided a confidential report from its insurance broker, Lockton, that sought to demonstrate that the underspends were likely impacted by efficient cost management. However, when Jemena proposed a step change for insurance premiums for the 2021–26 period it stated the step change was required because insurance premiums were rising due to material macroeconomic factors outside its control. We accepted this reasoning when we included the step changes in forecast opex.

Jemena's most recent submission appears inconsistent with its earlier position. We recognise that managerial effort would have played some role in Jemena's underspends, but it is difficult to ascertain how much. However, we consider that the proportion of the underspends attributable to managerial efforts would be minimal compared to the impact of external market factors.

The draft decision approach would not effect a claw back

Jemena, HoustonKemp and the DLA Piper advice describe the draft decision approach as a clawback of the insurance underspends in the current period. We disagree with this

79 HoustonKemp, *Victorian DNSP insurance premiums*, *Supplemental report*, 25 February 2026, p. 4.

80 HoustonKemp, *Victorian DNSP insurance premiums*, *Supplemental report*, 25 February 2026, p. 4.

characterisation. It is true that the draft decision approach would return the underspend to network users six years after it was achieved. But we would not characterise this as a clawback. Under the draft decision approach, Jemena retains the time benefit of holding the underspend for six years (they keep the interest earned on the underspend for six years). A clawback would require Jemena to return the underspend and the time value of money.

This is consistent with the sharing of any non-recurrent efficiency gain under the standard application of the EBSS. Under the standard application of the EBSS, networks are required to share non-recurrent efficiency gains with network users six years later (and receive non-recurrent overspends back six years later).[81]

3.4.5 Category specific forecasts

Jemena's revised proposal included 3 category specific forecasts, which were not forecast using the base-step-trend approach. These were for:

- Innovation fund ($2.0 million)
- Guaranteed service level payments ($1.2 million)
- Debt raising costs ($6.7 million)

3.4.5.1 Innovation fund

We included innovation funding of $1.6 million as a category specific forecast in our final decision. This is $0.4 million lower than Jemena's revised proposal and is $0.6 million higher than our draft decision.

[81] AER, *Explanatory Statement, Proposed Electricity distribution network service providers efficiency benefit sharing scheme*, April 2008, p. 27.

Table 3-12 Innovation fund ($million, 2025-26)

	2026–27	2027–28	2028–29	2029–30	2030–31	Total
Jemena revised proposal	0.4	0.4	0.4	0.4	0.4	2.0
AER alternative estimate	0.6	0.4	0.3	0.2	0.1	1.6
Difference	**0.2**	**–0.0**	**–0.1**	**–0.2**	**–0.3**	**–0.4**

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

In the draft decision we included $1.0 million for 3 of the 13 projects proposed for the Innovation fund.[82] This was $3.2 million less than proposed by Jemena and reflects that we were not satisfied it had provided sufficient information in support of the proposed costs and projects. In the revised proposal Jemena reproposed the 3 projects we accepted at the draft decision but with higher costs.[83]

Jemena also proposed 1 new project of $0.6 million for EV Grid 2.0, a collaboration with Monash Energy Institute, which will demonstrate how smart, grid-integrated EV charging can unlock network capacity and reduce costs without compromising stability.[84] The project includes deploying pole-mounted and smart pole chargers plus a study on BESS-integrated charging. Key features include dynamic import control to manage peak demand and battery buffering for fast charging while protecting the grid.

We received 3 submissions relating to innovation funding,[85] indicating stakeholder support for an innovation allowance in the 2026–31 final decision.

Consistent with the capex assessment we have included the 3 reproposed projects at the amounts included in our draft decision as Jemena's documentation did not support the increases sought to projects already approved. The new project was also included in our final decision as we consider it met the innovation criteria.

Attachment 2 provides more detail on our reasoning.

3.4.5.2 Guaranteed service level (GSL) payments

We included Guaranteed Service Level (GSL) payments of $1.2 million as a category specific forecast in our final decision. This is consistent with Jemena's revised proposal and is $0.1 million higher than our draft decision.

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82 AER, *Attachment 3 - Operating expenditure - Draft decision - Jemena distribution determination 2026-31*, September 2025, pp. 38–39.

83 Jemena, *Attachment 03-02 Response to the AER's draft decision - Innovation Fund*, 1 December 2025, p. 5.

84 Jemena, *Attachment 03-02 Response to the AER's draft decision - Innovation Fund*, 1 December 2025, p. 5.

85 Dean Lombard and Gavin Dufty, *Submission - Jemena electricity distribution proposal 2026-31*, January 2026, p. 4; Jemena Energy Reference Group, *Submission - Jemena revised proposal 2026-31*, December 2025, p. 6; and CCP32, *Submission - Jemena electricity distribution proposal 2026-31*, January 2026, p. 14.

Table 3-13 GSL payments ($million, 2025-26)

	2026–27	2027–28	2028–29	2029–30	2030–31	Total
Jemena revised proposal	0.2	0.2	0.2	0.2	0.2	1.2
AER alternative estimate	0.2	0.2	0.2	0.2	0.2	1.2
Difference	–	–	–	–	–	–

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

In its revised proposal, Jemena indicated that they have corrected historical data to remove double-counting in GSL calculations, an issue we identified in the draft decision.[86] We accept the revised GSL amounts and note that it differs slightly from the draft decision due to updated inflation data.

In our draft decision, we noted that the Essential Services Commission (ESC) of Victoria may undertake a review of the GSL scheme and its associated payment rates. As there have been no changes to the payment rates from the ESC, we have maintained the same rates in our final decision.

3.4.5.3 Debt raising costs

Jemena's revised proposal included a forecast of $6.7 million for debt raising costs. As we have not accepted Jemena's proposal, we have included our own alternative estimate of $6.5 million for debt raising costs. This is because of changes to other building block elements that are inputs to the debt raising cost calculation, with the largest factor being the lower capex amount approved in our final decision.

Table 3-14 Debt raising costs ($million, 2025-26)

	2026–27	2027–28	2028–29	2029–30	2030–31	Total
Jemena revised proposal	1.1	1.3	1.4	1.4	1.5	6.7
AER alternative estimate	1.1	1.2	1.3	1.4	1.4	6.5
Difference	0.0	–0.0	–0.0	–0.1	–0.1	–0.2

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

Debt raising costs are transaction costs incurred each time a business raises or refinances debt. Our preferred approach is to forecast debt raising costs using a benchmarking approach rather than a service provider's actual costs in a single year. This provides consistency with the forecast of the cost of debt in the rate of return building block. Table 3-14 outlines Jemena's revised proposal and our final decision.

[86] Jemena, *2026-31 Revised proposal*, December 2025, p.39.

We used our standard approach to forecast debt raising costs.

Shortened forms

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

Term	Definition
REFCL	rapid earth fault current limiter
RBA	Reserve Bank of Australia
RIN	regulatory information notice
SaaS	software as a service
SCS	standard control services
SFACD	Cobb-Douglas stochastic frontier analysis
SNAP	strategic network analytics platform
SOCI	security of critical infrastructure
WPI	wage price index