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Mr Chris Pattas
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Dear Mr Pattas

Advanced metering infrastructure (AMI) charges revision applications 2015

Jemena Electricity Networks (Vic) Ltd (**JEN**) appreciates the opportunity to respond to the submission by the Hon Russell Northe MP, Minister for Energy and Resources and Minister for Small Business on the Victorian electricity distribution businesses' AMI charges revision applications.

JEN wishes to make the following points in response to the issues raised by the Minister's submission to the Australian Energy Regulator (**AER**) as they relate to JEN's revised charges application.

Prudency – benchmarking

The Minister has called for the AER to benchmark the expenditure excess and expenditure forecasts of JEN, United Energy and AusNet Services against those of CitiPower and Powercor.

Jemena does not consider benchmarking (as contemplated by the AER's expenditure guidelines) to be appropriate in this instance for the following reasons:

- the Victorian AMI roll out was essentially limited to three programs which isn't a large enough sample to derive meaningful data for the purpose of benchmarking (noting that Jemena and United Energy ran a joint program for the majority of the roll out). It is methodologically flawed to identify a single firm or single AMI rollout program as a benchmark. Robust benchmarking requires a sufficiently large sample as well as an average derived from that sample, rather than selecting an individual observation from that sample;
- the exogenous events impacted each of the programs were not all the same. For example, Jemena's experience with the sabotage of the AMI program and associated health and safety concerns;
- the operational and financial impact of each of the exogenous events varied between programs. For example, the relative scale of the operations means that costs will be higher for distribution businesses like Jemena with a small customer base; a distributor may have experienced a relatively higher percentage of refusals than the others or had more active anti-smart meters campaigns within

its distribution area (it is difficult to run a comparison of these events because of the different ways in which the distributors captured this data);

- the Victorian Government imposed a moratorium on TOU tariffs. The moratorium was meant to be temporary, but it was later made permanent by amendments to the Cost Recovery Order-In-Council (**CROIC**). JEN had previously adopted a least cost solution for the government's original mandated AMI scope. However, after the amendment to the CROIC, JEN had to modify the IT systems to cater for two-element meters in excess of the government mandated scope. This in turn increased the total cost of the mass roll out, and fragmented the installation schedule, as complex sites needed to be avoided due to their metering arrangements. Powercor and Citipower were not impacted by this CROIC amendment as they already had budgeted for two element meters in their AMI rollout program in excess of the government's mandated scope; and
- contrary to the Minister's submission that the AER should not have regard to the particular circumstances of the distribution business, any determination of efficiency must necessarily take into account the particular context and circumstances of each distributor—section 51.8 of the OIC points to this.

Finally, if the AER elects to undertake benchmarking, the distribution businesses should have an opportunity to review and comment on the benchmarking methodology and any assumptions and/or normalisations used.

Prior year expenditure

Notification and transparency

The submission¹ notes “*While Jemena and United energy had an underspend in 2011 and 2012, they did not fully offset the overspend in 2013 and their metering services charge applications for 2014 did not refer to any timing differences in expenditure*”.

We wish to note that when JEN staff met with AER staff on 4 July 2013 ahead of its 2014 AMI charges application, JEN stated it was considering its options between submitting an expenditure excess application after actual spend had been incurred versus an ex ante budget revision application. This was in the context of preparing to report 2012 underspend, and informing the AER of the expected 2013 to 2015 overspends that would result from the program delays.

The parties agreed that a preferred approach was to seek recovery after the expenditure excess had been incurred in 2013. This was due to the fact that, if a revised budget were to be exceeded by even a small amount, the AER would have to run the full expenditure excess process. Such an outcome would unnecessarily duplicate the application of the relevant regulatory tests—charges revisions applications and budget revision applications.

¹ Submission by the Hon Russell Northe MP on the AMI Charges Revision Applications 2015, 6 October 2014, page 9.

Assessment of prior expenditure

JEN also notes that the AER is not entitled to assess the prudence of the 2011 and 2012 expenditure as a part of the assessment of 2013 expenditure excess as proposed by the Minister's submission. Simply put, this is not how the OIC works.

Cost shifting

In regards to the potential cost shifting matter raised in minister's submission, JEN notes that it has followed the cost allocation methodology agreed with the AER.

If you require further information in relation to the points raised above, please contact me on (03) 8544 9053 or by email robert.mcmillan@jemen.com.au.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Rob McMillan', written in a cursive style.

Rob McMillan

Acting Executive General Manager – Strategy, Regulation & Markets