

1 March 2021

Sebastian Roberts
General Manager, Transmission and Gas
Australian Energy Regulator
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Jemena Electricity
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Dear Mr. Roberts,

Re: Jemena Electricity Networks (Vic) Ltd, 2021-26 Electricity Distribution Price Review

Jemena Electricity Networks (Vic) Ltd is committed to looking out for the long term interests of our customers, including making sure we invest in our network and our people to provide sustainable, reliable and affordable services that our customers told us is important to them (the energy trilemma). This commitment is reflected in our culture and values. Our regulatory proposal for the 2021-26 regulatory control period also captures this commitment.

Since submitting our revised regulatory proposal, several key events have taken place that causes us to reassess the efficient level of operating expenditure we require to fulfil our commitment. These events include:

- assessing the effectiveness of our efficiency program conducted in 2019, *and*
- intensive engagement with our People's Panel on operating expenditure and benchmarking.

Below, we elaborate on how these events impact our forecast operating expenditure.

Efficiency program effectiveness

In early 2021 we started the process to close out our 2020 accounts. Early indications reveal that we incurred approximately \$2M lower operating expenditure during 2020 than we outlined in our revised regulatory proposal. While the 2020 accounts will be audited over the next two months, we believe these operating expenditure savings—which are likely driven by lower labour costs—can be passed to our customers.

Intensive People's Panel engagement

In December 2020, we undertook an intensive round of engagement with our People's Panel to test our approach to benchmarking and forecasting operating expenditure from a customers' point of view. This activity was conducted over five separate workshops to ensure the complexity and depth of issues could be covered in sufficient detail and to allow time for our Panel members to form a considered opinion. At the conclusion of this process the People's Panel provided their views to the AER in a separate submission.

When presenting materials to the People's Panel we used the most up to date information available at the time, namely, our revised proposal.¹ The timing of these workshops pre-dates our current view of operating expenditure, meaning the People's Panel's views were based on slightly dated information. We consider the more current information would not materially impact our People's Panel's views because the outcomes we propose—namely meeting the energy trilemma objectives—comes at an even more affordable price, and that their feedback was based on a conceptual understanding of benchmarking.

Updating our revised operating expenditure proposal

With these developments, we believe it is important to pass on the incremental savings to our customers by further reducing our forecast operating expenditure in our revised regulatory proposal. To this end, we are submitting this update to our revised proposal seeking an operating expenditure allowance for standard control services of \$522M (\$2021), which is lower than the \$532M (\$2021) we included in our submission last December.

We ask that the AER considers this update to our revised proposal when making its final decision on revenues and pricing for the 2021-26 regulatory control period.

We have included further details of our updated operating expenditure in the model accompanying this letter. Should the AER wish to discuss this proposal further, please contact Matthew Serpell at [REDACTED].

Kind regards,

[REDACTED]

Ana Dijanosic
General Manager, Regulation

¹ Dated 3 December, 2020.