


## 2021-26 REGULATORY PROPOSAL - SHORT ON TIME





**"Jemena"  
is an Aboriginal  
word that means  
"to hear, to listen,  
and to think."**

**JEMENA ELECTRICITY NETWORKS (VIC)**  
**2021-26 ELECTRICITY DISTRIBUTION PRICE**  
**REVIEW REGULATORY PROPOSAL (PROPOSAL)**  
**COVERING 1 JULY 2021 TO 30 JUNE 2026 (NEXT REGULATORY PERIOD)**

Monetary values are reported in June 2021 dollar values unless indicated otherwise.

# OUR COMMITMENT

## Message from the Board

Having joined the Jemena Board last year, I am pleased to see the comprehensive involvement our customers played in shaping the development of Jemena Electricity Networks' 2021-26 Proposal.



The members of the Board and I have been encouraged by the number of meetings, engagements and opportunities across the JEN distribution area which residents, small businesses, large industrial customers and all range of electricity stakeholders have had to speak directly with members of the Jemena team as we developed this Proposal.

As the unique distributor operating North West of Melbourne, it was important that we approached this review through the lens of the customer to fully understand the challenges they face. I believe the customer engagement process has allowed us to meet this challenge and made us a better company in the process.

By listening, hearing and thinking about what our customers have said, we are in a position to deliver a submission to the Australian Energy Regulator that has truly been shaped and endorsed by our customers.

Customers told us that their number one issue was affordability. This Proposal has taken this challenge into account and will help drive down network prices.

We also heard from our customers that they want us to innovate for a future so they can maintain their lifestyles. This Proposal outlines a number of digitally driven initiatives which are aimed at providing a reliable supply of electricity and creating a sustainable future for the community we serve.

As the Chair of the Board, I will be working with Board members, and everyone at Jemena to continue to work with customers to deliver the initiatives outlined in this Proposal.

### Jiang Longhua

Chairman of the Board, SGSPAA  
(parent company of Jemena)

## Message from our Managing Director



We have listened to our customers and heard about the difficulties many of them are facing in making ends meet. Not only have electricity bills been rising, so has the cost of living and the cost of doing business.

We have also understood that many of our customers want a smarter, more efficient future grid that enables the community to share renewable electricity.

The response from our customers provides a strong direction that decisions being made today must consider the impact on the community as a whole, and future electricity customers.

In January 2019, we published a draft version of this Proposal for consultation to test whether we had accurately heard and understood the preferences of our customers, and to check whether we had appropriately implemented their feedback into our plans. I am pleased to say that during further consultation with our customers, they confirmed their support.

The Management Team, with guidance from the Board, has thought deeply about developing a Proposal that meets these expectations. We want to ensure that we deliver an affordable and reliable energy supply while facilitating a low emissions future for today's community as well as future generations.

Our Proposal is our attempt at continuing to enhance the long-term value for our customers. It intends to find the right balance between delivering lower prices now, and a sustainable future whilst maintaining reliability in electricity supply.

I'm pleased that our Proposal seeks to put downward pressure on electricity bills. Over the 2021-26 period and excluding the impact of inflation, a typical residential customer will save approximately \$320 (14 per cent), a typical small business will save approximately \$739 (10 per cent) and our large business customers will save an average of 9%.

### Frank Tudor

Managing Director

## SHORT ON TIME?

We are an electricity Distribution Network Service Provider (DNSP) and we are subject to economic regulation which is administered by the Australian Energy Regulator (AER), under the National Electricity Rules (NER).

Our revenue is approved in five-year cycles by the AER and, in the build-up to each new term, we submit a proposal to them which outlines our plans for the upcoming regulatory period—the five years from 1 July 2021 to 30 June 2026 (next regulatory period)—and how we expect to fund them. This document and related attachments constitute our Proposal for the next regulatory period that we will provide to the AER for their consideration.

### The bottom line

Our Proposal includes a number of initiatives that will deliver reductions in our network prices over the 2021-26 period, continuing the trend we began in 2016. We also provide smart metering services to our residential and small business customers and are able to decrease these charges too.

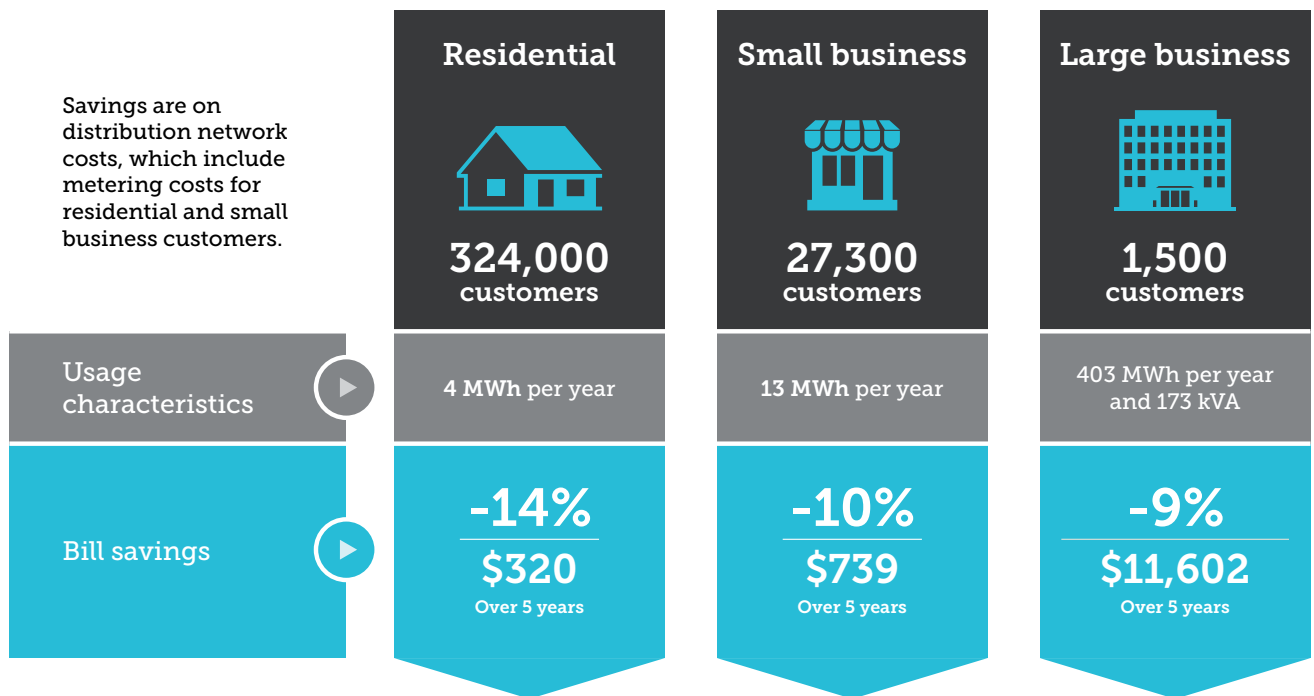
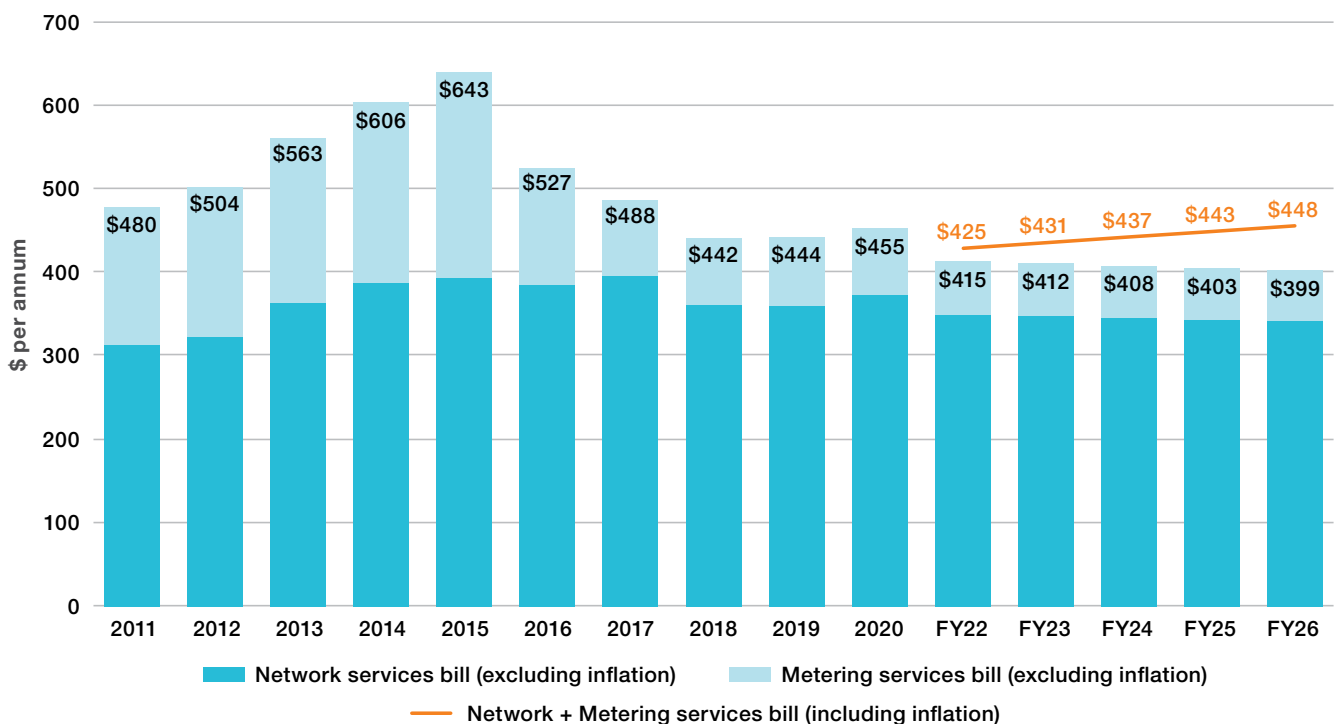
These price reductions exclude the impact of inflation and are presented, as is other financial information throughout this Proposal, using the value of a dollar in 2021.

Our Proposal will result in bill decreases of 14% over the 2021-26 period, or \$320 for a typical residential customer, when compared to their bills within the current regulatory period (see Figure X.1).

Figure X.2 provides a long-term view of a typical residential customer's network bill. With an expected network bill of \$448 or \$399 in 2021 dollars, customers in 2026 will enjoy their lowest network bill relative to their incomes in 15 years.



Our Proposal continues to deliver a reliable electricity service

**Figure X.1** Network bill impacts of our 2021-26 regulatory proposal**Figure X.2** Typical residential customer network services and advanced metering charges

### Changing our regulatory years

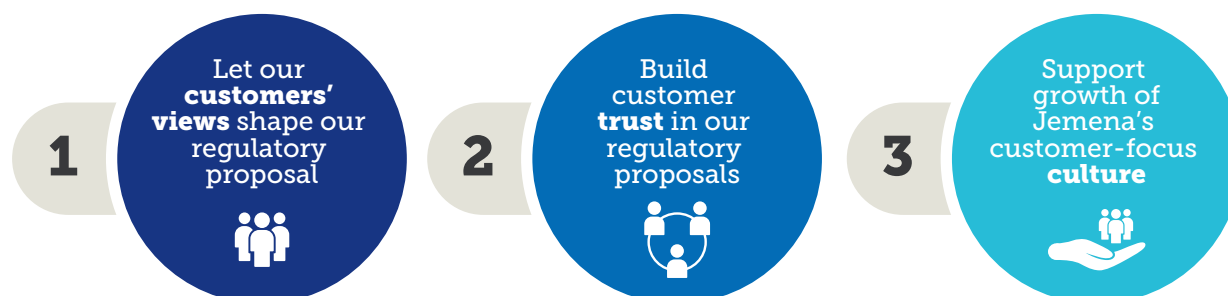
For the next regulatory period, we are changing the years for which our proposal applies from a calendar year to a financial year. This is the reason why our charts in this Proposal report amounts on a different time basis.



## What our customers have said

We embarked on the process of developing our next regulatory proposal with the following three objectives:

**Figure X.3** Customer engagement objectives



To deliver on our objective to truly allow customers to shape our Proposal, we started engagement early, in 2017, with two key questions:

- How do customers want to engage?
- What topics do customers want to engage on?

We conducted several focus groups with customers to understand the best way to engage with them. After the early sessions, it was clear that retailers, large business customers and local councils had different needs to residential and small business customers. While the former wanted one-to-one sessions or, in the case of local councils, workshops to provide their feedback, it was clear that the latter group needed far more support, information and time to form opinions.

To really unlock the benefits of collaborating with our residential customers, what we needed was an innovative approach. Our customers' initial feedback confirmed that standard engagement processes tend to struggle to reach a broad section of the community, and time pressures lead to frustrations because of a lack of information about the subject, and give little chance to hear other views.

As the electricity network covers a relatively small geographical area, we felt the most effective way to engage with our customers was through a '**People's Panel**'. This kind of approach is designed to be deliberative. It's a highly collaborative and engaging process held over several sessions and based on the concept of a jury. Critical to the success of this process, is the selection of a group that matches the demographic mix of the customer base, to form a 'mini-public', and this empowers them to make decisions confidently on behalf of our customers. For those who formed our People's Panel, it was a responsibility they took very seriously.

What struck us throughout our People's Panel process was how community-minded customers were. We found that while the affordability of electricity was a primary concern for all members of the community, the panel was also very keen to push towards a 'greener' grid.

From our meetings, large customers expressed interest in securing supply and lowering costs through collaboration and innovation. Our electricity retailers focused on tariff design, and local councils were focused on sustainability initiatives.

## What we are proposing

The recommendations of our People's Panel have shaped our Proposal—in fact we have adopted them all. As a result, we believe we have developed a plan to deliver the network that our customers need to meet their long-term requirements.

During our extensive program of customer engagement, we heard, loud and clear, that we needed to ready the network for increased feed-in of solar electricity and other renewable generation. As a result, our Proposal includes a number of initiatives that enable more feed-in to the grid from distributed energy resources (DER)—where the generation of power is decentralised and no longer needs to be transmitted over long distances; this includes solar panels and battery storage that sit on the customer side of the meter.

Over the long term, we will continue to embrace smart networks and the new and innovative technologies they bring. We also plan to leverage the infrastructure provided by the Advanced Metering Infrastructure (AMI) program to develop the kind of smart, robust and efficient network required to meet ever-changing customer needs.

## What this Proposal means for our customers

Our Proposal is designed around delivering the kind of network our customers have told us they want.

Broadly speaking, the feedback from our customers was aligned to the energy trilemma of affordability, reliability and sustainability and, as such, we have devised a proposal that we believe delivers what our customers want, in a balanced and cost-effective way.



### Affordability

We are committed to efficient expenditure. In our Proposal, we have clearly stated that we will continue to make efficient decisions for the future, like:

- Keep making replacement decisions based on the condition of assets, rather than to a fixed timescale.
- Spending money to prolong the life of existing assets rather than purchasing new ones, where it is cost-effective to do so.
- Proposing changes to network tariffs that reward customers who take steps to manage their usage.
- Investing in smart technology to monitor the grid and optimise spending.

### Sustainability

We are committed to the sustainability of the network. The expected increase in the amount of DER across the electricity network in the coming years will benefit us, our customers and the environment. Our proposal includes the following:

- Investment to increase the amount of renewable energy that can be fed into the grid.
- Flexibility to use demand response to manage peak consumption across the network, where it makes economic sense.

### Reliability

We are committed to delivering on our customers' expectation that we keep the electricity network as reliable as it is today. As such, we will be delivering:

- Improvements to the electricity network to detect faults early and protect customers from the risk of bushfires.
- Continuation of our long-term program to replace assets whose condition continues to degrade, and which pose the highest risk to safety and our ability to maintain our current reliability levels.

## Customer views on our draft Proposal

In January 2019, we published a draft version of our Proposal (Draft 2021-25 Plan) for customer consultation. Our aim in publishing was to make sure we had properly understood what our customers told us, and that the decisions we propose to make about our services and prices, accurately reflect their priorities and long-term interests.

Once published, we resumed our interactions with customers who were part of our 2018 engagement program. This included customers who participated in our People's Panel, customer representatives from our Customer Council, and the Customer Challenge Panel. We aimed to understand whether or not we had accurately captured and applied the feedback we had received and whether they felt that our Draft Plan reflected customers' long-term interests.

To answer this question, we reconvened the Peoples Panel on two occasions—on the 14 and 23 March 2019—to again get feedback on our Draft Plan. Voting by our customers at these forums confirmed that 92% of participants were comfortable or very comfortable that the Draft Plan was in their long term interests; the remaining 8% were unsure and none were uncomfortable. They also confirmed that we had struck the right balance in the reliability, affordability and sustainability trilemma with a 96% vote being comfortable or very comfortable.

When releasing our draft Proposal, we specifically sought a separate submission from our customer council, independently compiled, to understand whether we achieved these objectives. We also received written submissions on our draft Proposal from Energy Consumers Australia (ECA) and the Customer Challenge Panel (CCP).

Given the feedback we received from our customers, we have not made significant changes since we released an early version of this document in January 2019. The updates we have made have primarily been to reflect new or updated data and information.

## Deep diving into our proposal

Soon after releasing our Draft Plan, we asked stakeholders what they thought about our proposal, and if there were any areas they would like us to explain in more detail. In early March 2019, we held an open forum with the customer challenge panel, customer advocates and the AER where we addressed the areas of concern. The key topics we discussed included:

- detailing our information technology program and expenditure
- demonstrating our prudence and efficiency decision framework
- our Capex program
- the network of the future
- our proposed Opex
- and benchmark performance.

At the conclusion of the deep dive forum, the attendees said that they felt better informed and we committed to providing more information to make it easier to understand our proposal.

## Revised timetable for a regulatory proposal

Soon after the two People's Panel sessions held in March 2019, a change in the regulatory year for Victorian electricity distribution businesses was announced. This change invariably meant that the timeline for submitting our regulatory proposal to the regulator would have to change, but we wanted to recheck whether our customers' views stayed the same.

We reconvened the Peoples' Panel on 24 July 2019 to ask the question "would your recommendations change as a result of the delay in the regulatory period?" We took a vote on the question, and the result was unanimous; the Panel confirmed that their recommendations would not change.

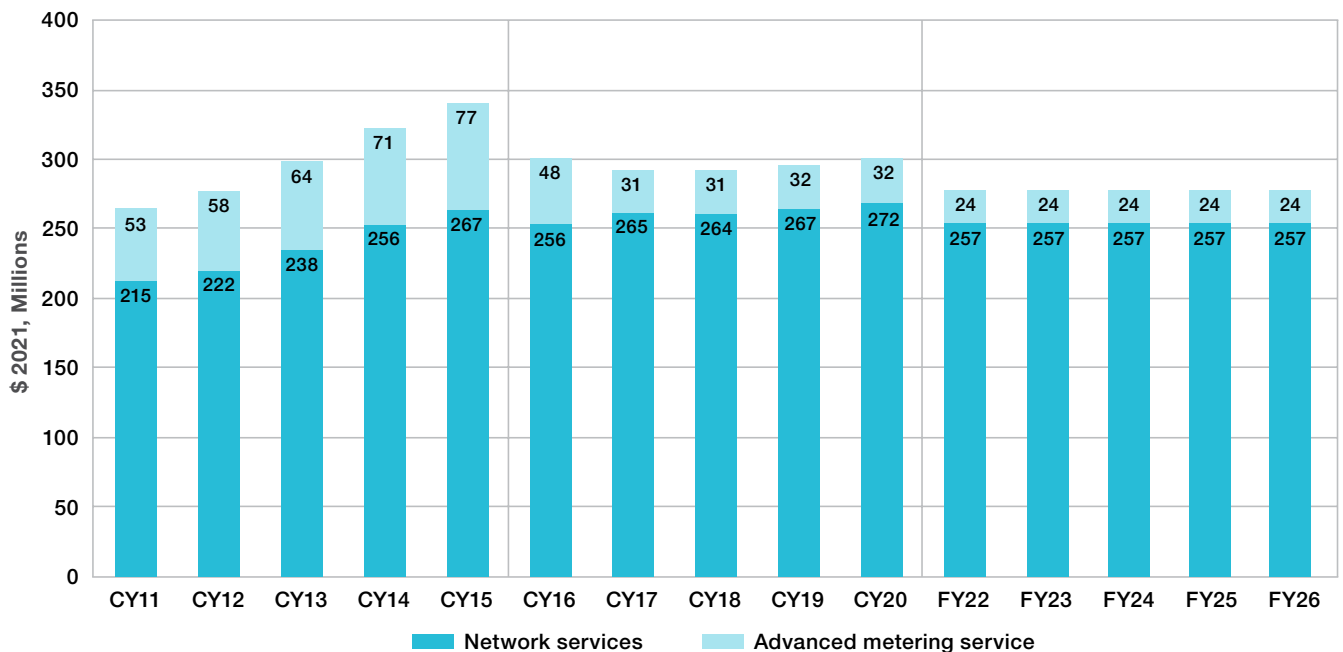
To manage the change to regulatory year, we are developing two regulatory proposals, one that covers the period 1 January 2021 to 30 Jun 2021 (intervening period) and this Proposal which covers the five years between 1 Jul 2021 and 30 Jun 2026.



## How much it will cost

To deliver on this Proposal we are seeking \$1,285 million in network revenue—excluding inflation—over the next regulatory period, which represents a 11 per cent reduction per customer when compared to the revenue allowance the AER approved in the current regulatory period. We are also seeking \$119 million in revenue to deliver advanced metering services to our residential and small business customers, which represents a 37 per cent reduction from the current regulatory period.

**Figure X.4** Our total network and advanced metering revenue requirement



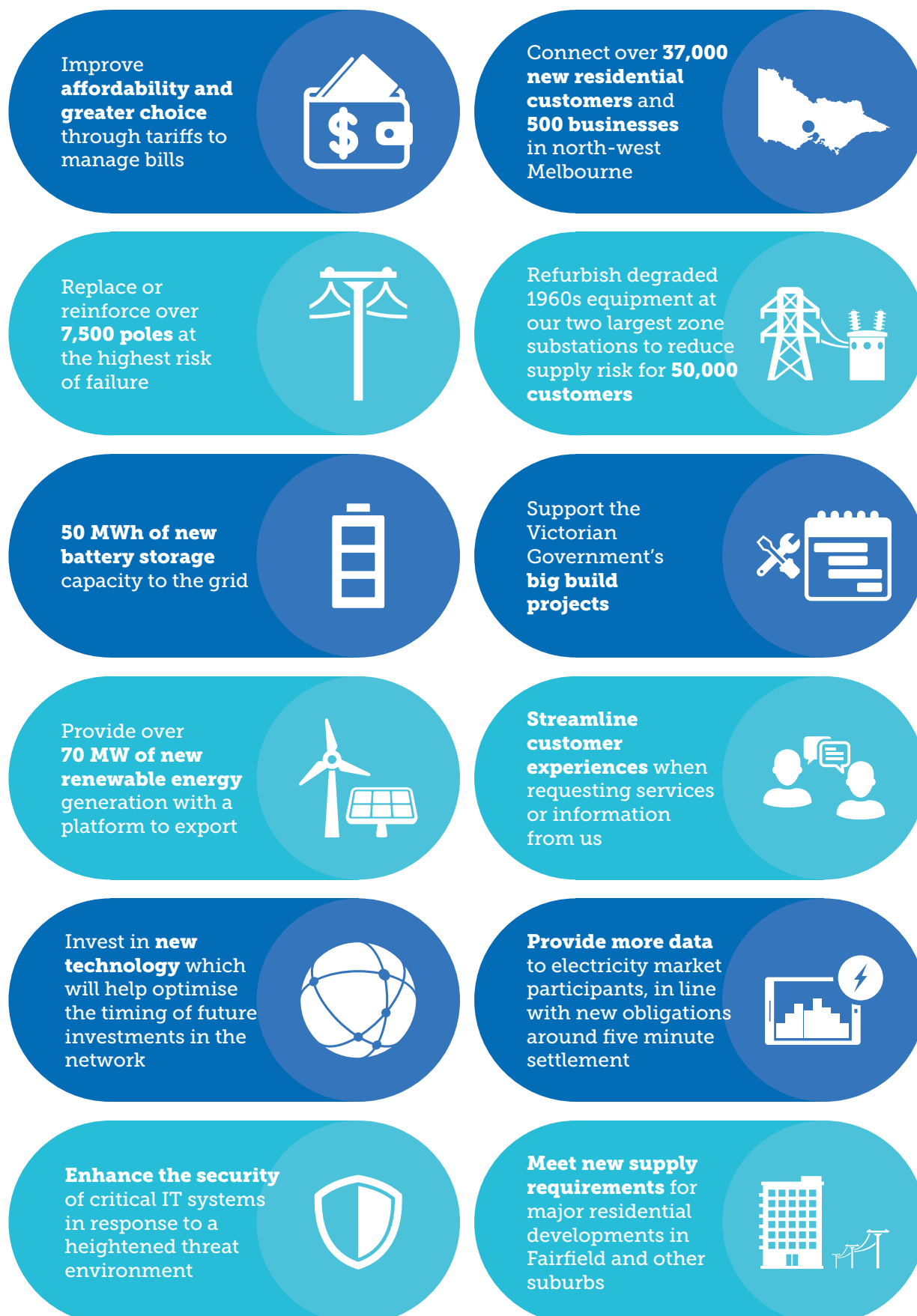
In developing this Regulatory Proposal, we use a building block model. Using this approach, we forecast our costs to work out how much revenue we require over the next regulatory period. We incur many expenses to run our business, and these can change over time, this means our revenues will go up or down relative to the changes in costs that we incur. In the next regulatory period, the following factors will have the most significant influence on changes to our revenue requirement:

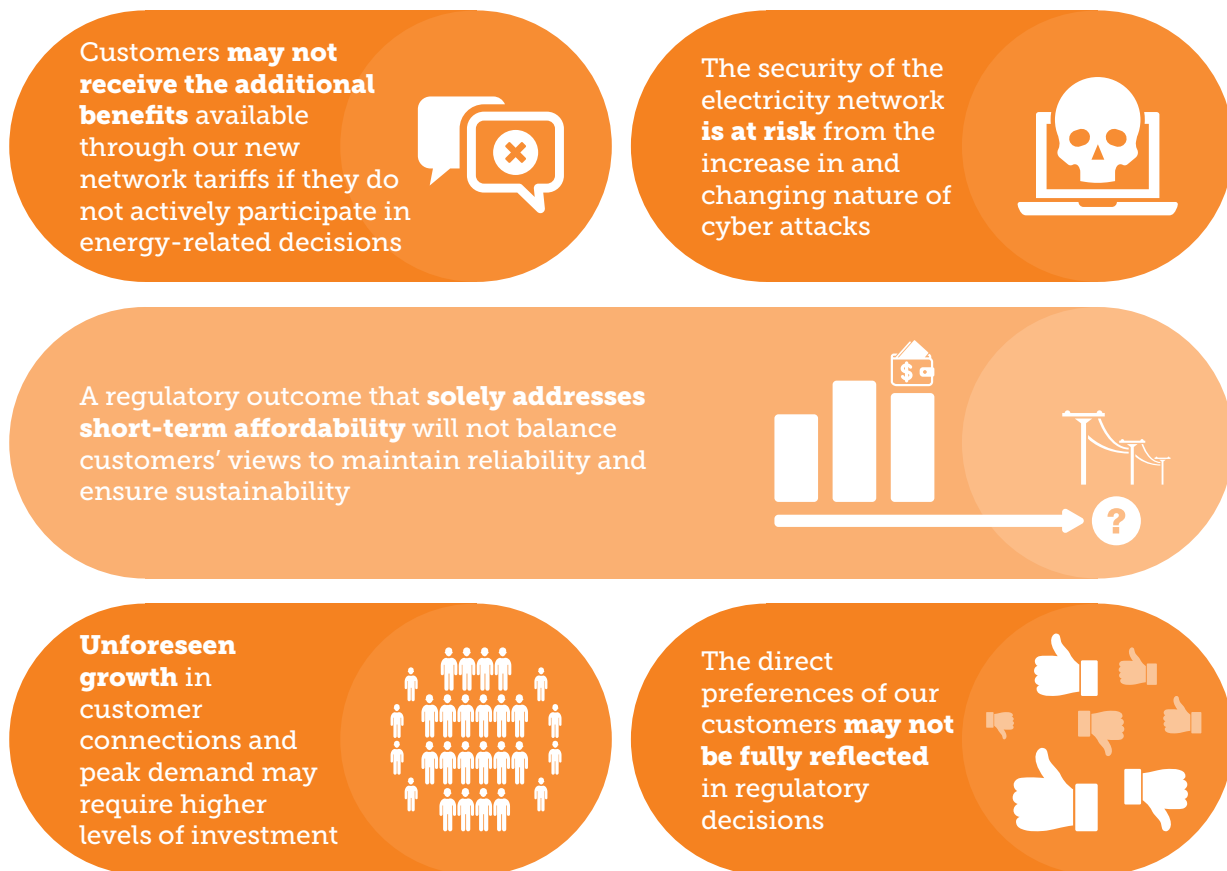
- Operating expenditure will reduce due to the application of productivity adjustments and our transformation program but will be partially offset by increased costs for managing a larger network and once-off costs (see section 6.1 and 6.3).
- Changes in our accounting treatment—where we expense rather than capitalise overhead costs—will influence operating expenditure upwards in the short term, however, reduce in the longer term (see section 6.4)
- Changes to how we calculate tax will reduce the tax allowance (see section 7.1)
- Changes in the approach we use to calculate debt and the return to shareholders will reduce building block costs (see section 7.1)

The net impact of these changes results in an overall reduction, as reflected in the lower revenues required in the next regulatory period.

## Benefits and risks of our Proposal to customers

**Figure X.5** What benefits our Proposal delivers for customers



**Figure X.6** Risks of our Proposal to customers

Note: our Proposal seeks to mitigate against these risks to the extent possible.







**to hear,  
listen  
and think**

