



# Jemena Electricity Networks (Vic) Ltd

## 2021-26 Electricity Distribution Price Review Revised Proposal

Attachment 01-01

Response to the AER's draft decision - Customer engagement



## Table of contents

<b>Glossary</b> .....	<b>iii</b>
<b>Abbreviations</b> .....	<b>iv</b>
<b>1. Responding to our customer's feedback</b> .....	<b>1</b>
1.1 Our People's Panel .....	1
1.2 Responding to the Energy Consumers Australia.....	3
<b>2. Our engagement activities since submitting the initial proposal</b> .....	<b>6</b>
<b>3. Customer Engagement Assessment Framework</b> .....	<b>8</b>
<b>4. An ongoing commitment to our customers</b> .....	<b>10</b>

## List of tables

Table 1–1: Feedback from our People's Panel .....	1
Table 1–2: Responses to ECA's questions .....	3
Table 2–1: Stakeholder engagement since submitting our initial proposal .....	6

## List of figures

Figure 3–1: People's Panel validation feedback on JEN's proposal.....	9
---	---

## Glossary

AER	Australian Energy Regulator
CCP	Consumer Challenge Panel (Subpanel 17)
CESS	Capital Efficiency Sharing Scheme
DER	Distributed Energy Resources
DNSP	Distribution Network Service Provider
ECA	Energy Consumers Australia
ESV	Energy Safe Victoria
HIA	Housing Industry Association
IAP2	International Association of Public Participation
NSP	Network Service Provider
VaDER	Value of Distributed Energy Resources

## Abbreviations

current regulatory period	The regulatory control period covering 1 January 2016 to 31 December 2020
draft decision	The draft decision on the determination that will apply to setting JEN's distribution prices for the next regulatory period
initial proposal	The initial proposal to the AER for the setting of regulated pricing for JEN for the next regulatory period
next regulatory period	The regulatory control period covering 1 July 2021 to 30 June 2026
revised proposal	The revised regulatory proposal to the AER for the setting of regulated pricing for JEN for the next regulatory period

# 1. Responding to our customer's feedback

As a part of our commitment to our customers, we have re-engaged with our customers and customer representatives following the release of the Australian Energy Regulator's (AER's) 2021-26 regulatory control period (**next regulatory period**) draft decision (**draft decision**). We did this to seek our customers' views on the AER's draft decision and to help us shape our revised proposal (**revised proposal**) for the next regulatory period.

Below, we outline the feedback received through our customer engagement processes and how we have responded to concerns within this revised proposal. We have responded to feedback from our People's Panel and Energy Consumers Australia (ECA). Feedback from other stakeholders was generally consistent with the themes raised by our People's Panel and the ECA.

## 1.1 Our People's Panel

Following the release of the draft decision, we held several meetings<sup>1</sup> with our People's Panel to engage on topics that surrounded the energy trilemma which we co-developed with our People's Panel members. These topics were aligned to the key issues raised in the draft decision, and include:

- **Reliability** – The capital investment needed to maintain current levels of reliability
- **Sustainability** – Focusing on the People's Panel recommendation to 'green the grid' and aligned to our future grid strategy
- **Affordability** – Focusing on general affordability issues, especially addressing the base year operating expenditure decision.

Our engagement in these topics takes our People's Panel members to a new and deeper level, particularly when we raised the conversation on benchmarking methodology. This was intentional because the AER's draft decision noted a concern around the depth we achieved when engaging our customers on operating efficiency.<sup>2</sup>

A summary of our People's Panel members feedback is outlined in the table below, along with an explanation of how we incorporated this feedback into this revised proposal.

**Table 1–1: Feedback from our People's Panel**

Discussion topic	What are People's Panel members told us	How we have incorporated the panel member feedback into this revised proposal
Reliability	<p>Our People's Panel members told us they relied on their electricity supply more than when we met with them earlier in the process. They told us:</p> <ul style="list-style-type: none"> <li>- They depended on communications equipment (mostly internet access) for work, school and to keeping in touch socially, particularly during the isolation period in 2020. They acknowledged their equipment could only operate if there was a reliable electricity supply</li> <li>- That the way we managed outages was very effective during the COVID-19 lock-down, having received multiple outage notifications through letters, SMS and phone calls</li> </ul>	<p>Whilst our People's Panel members expressed a heightened dependence on the electricity supply and were acutely more aware of outages when they did arise, none expressed a desire to increase the levels of reliability. Additionally, there was no discussion around reducing reliability levels.</p> <p>Based on this outcome, we have maintained our reliability-related capital and operating forecasts in our revised proposal.</p>

<sup>1</sup> Which was attended by consumer representamen groups such as CCP, Brotherhood of St Lawrence and ECA.

<sup>2</sup> AER, *Draft Decision – Jemena Distribution Determination 2021 to 2026, Overview*, September 2020, pg. 45.

Discussion topic	What are People's Panel members told us	How we have incorporated the panel member feedback into this revised proposal
	<ul style="list-style-type: none"> <li>- They accepted outages were a necessary part of our work, and that the inconvenience was understandable.</li> </ul>	
Sustainability	<p>Our People's Panel members told us that 'greening the grid' continued to be important to them. They valued the benefits of more renewable generation.</p> <ul style="list-style-type: none"> <li>- They valued greener generation, more for its environmental benefits, they see this as extremely important.</li> <li>- They believed having the option to put energy into the electricity network is important, but wanted to make sure the benefits of having a PV system stacked up.</li> <li>- When presented with the benefits case—and breakeven point for our future grid strategy<sup>3</sup>—the People's Panel members were still keen to support the initiative.</li> </ul>	<p>We have mostly maintained our future grid strategy originally presented in our next regulatory period initial proposal (<b>initial proposal</b>).</p> <ul style="list-style-type: none"> <li>- We have removed our Distributed Energy Resources (<b>DER</b>) settings initiative (\$1.8M) as the benefits lacked certainty</li> <li>- We reclassified two other initiatives as capital expenditure (\$2M)</li> </ul> <p>These changes are relatively minor and do not materially affect our delivery of the future grid program.</p>
Affordability	<p>We presented the bill impacts for residential customers in:</p> <ul style="list-style-type: none"> <li>- our initial proposal (~\$64 per annum)</li> <li>- the draft decision (~\$73 per annum)</li> <li>- an updated initial proposal<sup>4</sup> (~\$70 per annum)</li> </ul> <p>and focused our discussions on JEN's base year operating expenditure.</p> <p>Our People's Panel members recognised there are some vulnerable members in our community where the bill impacts are important; the People's Panel members were sympathetic to them.</p>	<p>Our revised proposal continues the operating expenditure reduction of \$4M per annum, resulting.</p> <p>This approach strikes this middle ground in terms of bill impacts and addresses the concerns we raise around the AER's benchmarking approach.</p>
Depth of engagement	<p>We asked our People's Panel members whether they felt they had been engaged to a sufficient level of depth on price reset matters. We did this by presenting an example of a complex issue—namely, the operating expenditure adjustment made to our base year amount using benchmarking techniques.</p> <p>Whilst concerned about their capabilities to understand the issues; we have over 60% of attendees signing up to participate in a workshop series to get a better understanding of the issues.</p>	<p>We are running a series of workshops to elaborate on benchmarking practices—including, having subject matter experts attending.</p> <p>Our People's Panel members will make their own submission to the price reset process based on their findings.</p> <p>Noting that the People's Panel meetings were held quite late in the development of our revised proposal, we made a commitment that we would facilitate a separate submission on behalf of the People's Panel as a part of the public consultation process by the 8 Jan 2021 due date if their view was manifestly different to those in this revised proposal.</p>

<sup>3</sup> See Attachment 04-02.

<sup>4</sup> Prior to the release of the draft decision, JEN discussed with the AER the possibility of adjusting our operating expenditure down by \$4M per annum as a part of an update to our initial proposal. This was not accepted in the AER's draft decision. Nevertheless, it is incorporated into our revised proposal. This adjustment in operating expenditure resulted in residential bill impacts of \$70 per annum.

Our People's Panel has been instrumental in shaping our initial proposal and revised proposal, they have developed a capability to understand the issues to a sufficient level, and are satisfied that their contribution is at the right level and that JEN is reflecting those preferences.

A report from our People's Panel sessions is included at Attachment 01-02.

## 1.2 Responding to the Energy Consumers Australia

Shortly after releasing the draft decisions for the Victorian Distribution Network Services Providers (**DNSPs**), the AER held its pre-determination conference to outline its views on the draft decisions it made and to hear from the Victorian DNSPs and a range of Customer representative group. One of those groups was ECA.

In its presentation, ECA outlined several key concerns with the Victorian DNSP draft decisions and initial proposals. We consider the issues raised to be relevant, and we outline how we address each of these concerns in our revised proposal.

**Table 1–2: Responses to ECA's questions**

Topic	Evidence gap	Assurance sought	JEN's response
Operating expenditure	<p>Step changes were significant and, in some cases, unjustified</p> <p>Pleased at withdrawal of Environmental Protection Authority step-changes</p> <p>Change in economic circumstances make previous forecasts untenable</p> <p>Impact of pass-through of superannuation guarantee changes on labour costs.</p>	<p>A consistent approach is applied to similar step changes</p> <p>Forecasts reflect new economic circumstances</p> <p>What is the evidence that distributors will pass on superannuation guarantee as increase in total remuneration, not just reduction in take home wage?</p>	<p>In this revised proposal we have:</p> <ul style="list-style-type: none"> <li>withdrawn our step change for Environment Protection Act changes. We have moved the management of these costs to a nominated cost pass through event.</li> <li>amended our real escalators in line with updated forecasts for those driven by changes attributable to the COVID-19 pandemic</li> </ul> <p>We have factored in the introduction of superannuation guarantee, recognising that a portion of the increase is offset through a real wage decrease</p>
Capital expenditure	<p>It is not clear why replacement capital expenditure would increase to the extent proposed in the next period</p> <p>Significant costs applied to Rapid Earth Fault Current Limiters (REFCL)</p> <p>Will accelerate depreciation help put downward pressure on prices in the next period?</p>	<p>Assurance that CESS payments are not being paid for projects not delivered in the current period</p> <p>Demonstrate how cost savings in the current period have been incorporated into forecast program costs</p> <p>REFCL costs updated to reflect the latest Energy Safe Victoria (<b>ESV</b>) discussions &amp; consistent approach to compliance across Victoria.</p>	<p>Replacement capital expenditure increase – JEN's forecast represents only a modest (approximately 10 per cent) increase from the current period, and the AER has found our replacement capital expenditure forecast to be efficient and below its modelled 'Repex' threshold. Reasons for our increase are outlined in Attachment 05-01 to our initial proposal.</p> <p>REFCLs – our revised proposal reflects the outcomes of discussions with ESV and granting of exemptions, which will result in lower costs in relation to our Coolaroo zone substation.</p> <p>Accelerated depreciation – this is not applicable to JEN</p> <p>Capital Efficiency Sharing Scheme (<b>CESS</b>) payments – the AER has calculated JEN's CESS outcome by applying its standard framework, through which it found that JEN did not pass the materiality tests relevant to project deferrals. As explained by the AER's Capital Expenditure Incentive Guideline, these tests are in place to ensure that customers do <i>not</i></p>

Topic	Evidence gap	Assurance sought	JEN's response
			<p>bear the costs of material deferrals by a DNSP under the CESS, and also that the administrative costs of making adjustments to CESS payments do not outweigh the benefits of any potential savings to customers.</p> <p>Current period cost savings – as explained in Attachment 05-01 to our initial proposal, JEN employs a range of methods to ensure its forecasts reflect efficient costs, including through the use of revealed costs for key volume-driven expenditure programs such as routine replacement and general connections, and also through bottom-up independent review of major project cost estimates.</p>
Poles	<p>Will ESV findings will be applied to the same extent across all Victorian distribution businesses?</p> <p>Concerned about backlog of pole replacement in current period &amp; implications for broader Asset Management Programs.</p>	<p>Assurance that Asset Management Programs are sound and are being delivered in a safe, staged way that also minimises affordability impacts.</p>	<p>JEN has considered ESV's findings on pole replacement and does not consider that they require any material changes to our forecast asset replacement programs.</p>
Distributed Energy Resources	<p>While there has been significant effort to model when constraints will occur, there is less transparency around how program costs were constructed.</p>	<p>Application of consistent approach to solar PV benefits</p> <p>Assurance that costs of program are not biased towards more expensive solutions.</p>	<p>Valuation of benefits – we acknowledge the wide range of issues associated with the valuation of DER exports (as raised during the VaDER study undertaken for the AER during 2020). Some of the methods outlined in the final VaDER report are extremely complex, and we believe that further clarity needs to be provided on the practical application of these methodologies in the AER's Assessing DER Integration Expenditure Guideline, due to be published in 2021. However, in recognition of uncertainty in DER valuation methods, we have undertaken sensitivity analysis of our program to demonstrate that it is in customers' interests at a broad range of DER export values</p> <p>Program costs – The majority of our proposed investments are focussed on building foundational capabilities, which represents the 'least regrets' steps to efficiently enable DER over the long-term. We also note that our program represents a relatively small proportion of our overall capital expenditure forecast.</p>
COVID-19	<p>Dramatic impact on economy</p>	<p>Forecasts updated to reflect most recent economic data</p> <p>Testing of HIA data against industry forecasts</p>	<p>Updating for recent economic data – the impacts of COVID-19 on the economy create a wide range of uncertainties:</p> <p>Labour price escalation (operating and capital expenditures) – we have updated our proposal with new external forecasts which incorporate the impacts of COVID-19 on the labour market,</p>



Topic	Evidence gap	Assurance sought	JEN's response
		<p>Use of multiple forecasters in a period of uncertainty.</p>	<p>consistent with the AER's standard methodology</p> <p>We have considered a range of information and tested this against the draft decision. On balance, and noting the continued uncertainty (both upside and downside) in the economic outlook and the associated impacts on our future expenditure, our revised proposal accepts the AER's draft decision values for connections capital expenditure, augmentation capital expenditure, smart metering capital expenditure and standard control services operating expenditure output growth.</p> <p>Testing of Housing Industry Association (<b>HIA</b>) – We have considered a range of forecasts (such as the latest forecasts from the Australian Construction Industry Forum) and leading indicators of connections activity (such as recent building approvals data) to determine that the draft decision strikes an appropriate balance in the face of continued forecast uncertainty.</p> <p>We consider that an alternative approach to forecasting connections capital expenditure is unlikely to result in a materially different forecast to the AER's draft decision. However, we have requested that the AER incorporates the latest November HIA forecasts into its final determination, as we were unable to incorporate these within the submission timeframes for our revised proposal.</p> <p>In relation to expenditure forecasts, we note that the NER require us to propose (and the AER to determine) 'point estimates' for expenditure, rather than a range of values.</p>
<p>Tariff Structure Statements</p>	<p>Appetite for greater innovation and reform.</p>	<p>Assurance that the proposed tariffs are delivering the best optionality for consumers and maximising capacity utilisation.</p>	<p>Our proposed tariffs provide residential and small business customers with three tariff options—single rate, time of use and demand tariffs. We have also recognised within our Tariff Structure Statement the potential for further trials of more cost-reflective tariff options for customers over the next regulatory period.</p> <p>For large business, we have provided optionality to transition to cost-reflective price levels for our new tariff structure that includes a summer demand incentive charge. This new tariff structure better targets our summer coincident peak and de-emphasises the current incentive to avoid using capacity at other times. This should help improve overall utilisation.</p>

## 2. Our engagement activities since submitting the initial proposal

Since submitting our initial proposal in January this year, we have continued to engage with our customers, and customer representatives on the price review matters to continue to test our approach—particularly with the changing environments—and gather customer views for this revised proposal.

Throughout this revised proposal, we will demonstrate how we have taken this feedback into account.

In Table 2–1, we outline the engagement activities undertaken.

**Table 2–1: Stakeholder engagement since submitting our initial proposal**

Engagement	Purpose	Attendees	Date
Your grid update and email to People's Panel members	Inform that JEN's initial proposal has been submitted and provide a link to the overview document.	People's Panel members	3 February 2020
Customer Council	Inform of JEN's initial proposal submission.		7 February 2020
Your grid update and email to registered stakeholders	Inform that the AER's public forum and consultation were moved to online due to COVID-19. Also to Inform that the ENA released a report highlighting how networks are adopting new and innovative approaches to support customers; and 'Jemena won the 2019 Energy Networks Consumer Engagement Award in recognition of the gas network's deliberative forum in NSW and its electricity network People's Panel in Victoria.'	Registered users include People's Panel attendees, other stakeholder representatives	27 April 2020
Your grid update	Added a web-link on the <i>yourgrid</i> website to the responses to stakeholder questions in the public forum the AER published that were provided by JEN.		13 May 2020
Yarra Council virtual meeting	Streetlighting – smart light controls.		27 May 2020
Customer Council virtual meeting	COVID-19 customer impacts. Enabling solar exports in distribution networks.		19 June 2020
Customer Council – 2 sessions (virtual meetings)	Tariff Consultation – Fixed charge levels and new ToU Tariff for residential customers, and transition approach. How to engage with culturally and linguistically diverse customers.	Residential and Vulnerable Customers Commercial and Industrial Customers	22 June 2020
Your grid update and email to People's Panel members	Inform re the AER's draft decision and notification of upcoming webinars.	People's Panel members	12 October 2020
Customer Council virtual meeting	Presentation on JEN's draft decision and discussion regarding revised proposal focus.	All Customer Council Members	16 October 2020
Customer Council – 2 sessions (virtual meetings)	Focus on tariff structure because of JEN's draft decision. Residential Tariffs. Large Business Tariffs.	Residential and Clean Energy Stakeholders / Advocates	22 October 2020

Engagement	Purpose	Attendees	Date
		Large Customers and Stakeholders / Advocates	
Bilateral Meetings (virtual)	Follow up on Customer Council – COVID-19 impact in the communities serviced by JEN and Smart Grid / DER. Follow up on Customer Council – Operating expenditure efficiency and the AER's draft decision	Specific Customer Council and CCP members	Weeks ending 30 October 2020, 6, 13 and 20 November 2020
People's Panel draft decision (virtual) Webinar	Communicating the draft decision. Gaining an opinion on perceptions of depth of engagement and reaffirming direction for the JEN revised proposal submission.	People's Panel and Customer Council	20 & 23 November 2020

Following the submission of this revised proposal, we have scheduled a series of workshops for our People's Panel members to get more involved in the question of operating expenditure efficiency.

### 3. Customer Engagement Assessment Framework

In the draft decision, the AER set out a draft *framework for considering consumer engagement* which outlines how it will take customer feedback into account when assessing a Network Service Providers (**NSP**) regulatory proposal. We consider having a *framework for considering consumer engagement* is an important part of the price review process as it gives NSPs certainty around their approach to engaging with their customers.

As noted by the CCP in its submission to the Victorian DNSP regulatory proposals,<sup>5</sup> customers' interests are best served by having a range of different engagement techniques, customised to a customer's needs:

*It has been pleasing to see the variety of different methodologies applied by the businesses (e.g. scenario planning, People's Panel, Customer Forum), and the thoughtfulness with which each business tailored their chosen methodology to the characteristics of their business and customer base.*

We agree with the CCP. From our experience, we have found that customers will engage better if we meet them in a format and time that better suits them. For example:

- Our residential customers engaged well through the People's Panel and were enthusiastic to participate when they had access to experts and senior management
- Our small business customers were especially time-poor and lacked expertise in electricity matters. Engaging them through surveys and meeting on their premises helped them contribute
- Our large customers had more expertise, however, preferred to meet individually to discuss their issues.

Because of this diversity, there cannot be a single customer engagement approach across NSPs and across all customer segments.

The AER's *framework for considering consumer engagement* is built around four key activities, these include:

- Nature of engagement
- Breadth and depth
- Clearly evidenced impact
- Proof point.

Having a framework for assessing proposals based on principles rather than prescription is vital to encouraging NSPs to engage more fully with their customers. It also encourages diversity and innovation in developing customer engagement approaches and the ability to learn through the engagement approaches of other NSPs over time. This will assist in refining future customer engagement activities across the National Electricity Market..

We have considered the AER's framework and provide two key responses to its design:

- Engaging the public or customers in the decisions of an organisation has been long-established practice, and there are many methods for engaging customers. One such framework is the International Association of Public Participation (**IAP2**) which is considered leading and has been adopted by the AER in the past. In our view, these frameworks are grounded in a deep understanding of the best practice participation models, have been refined over time, demonstrate independence in methods and design and establish trust in the process. We believe the AER's framework should draw from these independent sources when designing its own assessment framework.

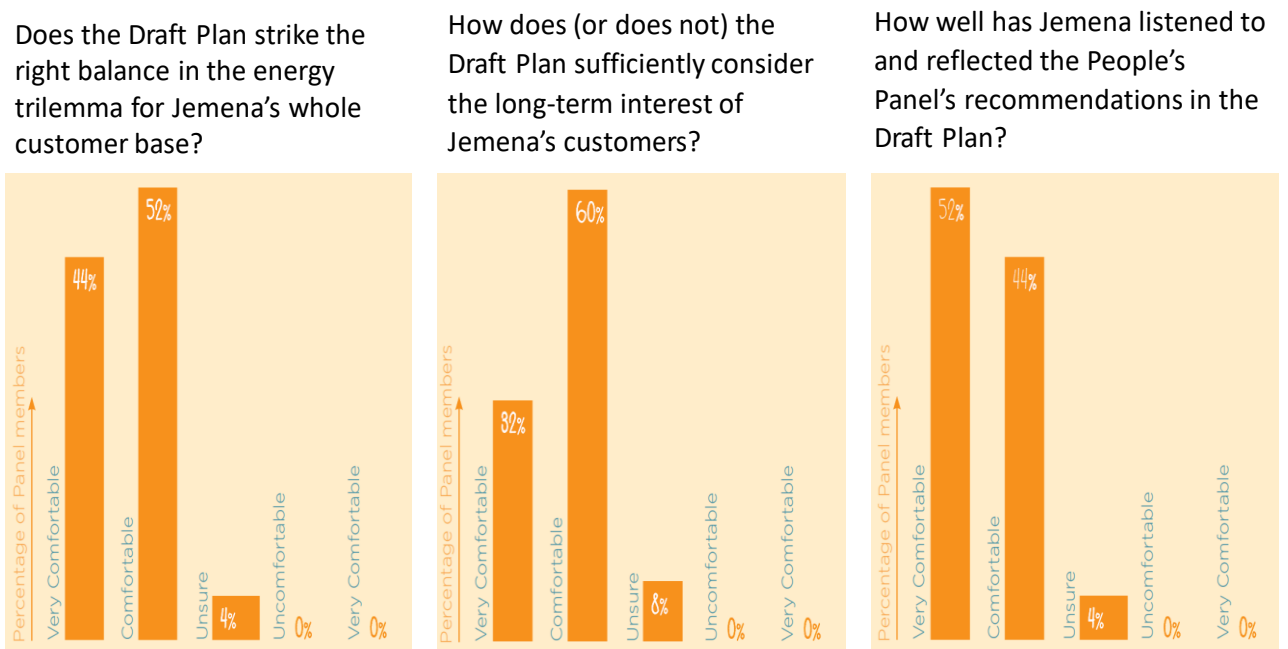
<sup>5</sup> CCP, *Advice to the AER on the Victorian Electricity Distributors' Regulatory Proposals for the Regulatory Determination 2021-26*, 10 Jun 2020.

- The fourth criteria of the AER's *framework for considering consumer engagement* can be characterised as a validation step which seeks to cross-check the customer engagement materials represented in a NSPs proposal and the proposed expenditures. Having a cross-check is a valuable feature of the framework, however, we consider the framework could be strengthened by having customers undertake the cross-check themselves. This would empower customers and truly give the customer voice more credence and build trust in the process. Whilst there are many options on developing a cross-check, the design should be left with the NSPs working in collaboration with their customers.<sup>6</sup> Only when the cross checking is missing should the AER consider developing its own.

In JEN's People Panel process, we developed a validation step by:

- (i) demonstrating how we incorporated their feedback into our proposal, and
- (ii) asking them to comment on whether they believed their views have been captured, focusing on whether their long-term interests have been met. Our People's Panel gave us their feedback as validation which is outlined in Figure 3–1 below.

**Figure 3–1: People's Panel validation feedback on JEN's proposal**



In our experience, co-designing the engagement process—including the validation step—ensures greater participation and that customers' voices are best captured in the regulatory proposals.

6 On the IAP2 spectrum, this would need to be at the collaborate stage.

## 4. An ongoing commitment to our customers

JEN has developed a strong culture around our customers and a commitment to serving their needs; we do this on a day to day basis delivering services to the levels our customers expect of us. Our commitment to our customers is also demonstrated through our Energy Charter.



# The Energy Charter

Jemena is proud to be a founding member of the Energy Charter, which was launched in early 2019 and has grown to represent nearly 20 signatories across Australia's energy sector. Right from the start, Jemena has been a proactive leader within the Energy Charter, holding leadership positions within key working groups and working hard to drive collaborative efforts across the sector to deliver better customer outcomes and rebuild trust in the energy sector.

The increased openness and transparency that the Energy Charter is delivering through annual reporting to the Independent Accountability Panel is providing a process for gaining useful insights for industry and stakeholders to inform continuous improvement in customer outcomes. Over the last year, it has been exciting also to develop the capability for undertaking collaborative cross-sector projects to drive customer outcomes and put these into action quickly through a program of Better Together initiatives. Jemena has focused heavily on embedding the Energy Charter, participating in 7 of 12 Better Together Initiatives.

The Energy Charter is providing a helpful framework for cross-sector collaboration and fostering invaluable knowledge-sharing not only to enable the cultural change that is required to unlock better customer outcomes in a business-as-usual environment but also more collaboratively and cohesively respond to significant and unprecedented events, such as COVID-19. Jemena collaborated to support customers by chairing the weekly Energy Charter COVID-19 information-sharing forum and developed and translated materials for the communal content hub and the We've Got You campaign. We worked to actively push these messages out on our social media channels to reach customers on platforms that they use. Jemena has also led and disseminated research, and consumer trend analysis in our JEN to better understand the COVID-19 lived experience for our customers (with a focus on vulnerable customers) and have actively encouraged a cross-sector response through our Energy Charter and other networks.

Jemena looks forward to continuing to make a significant contribution to the Energy Charter and especially continuing to learn and improve on how we make a difference in driving better customer outcomes in not only our distribution network area but across the energy sector.