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By email: AERInquiry@aer.gov.au

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Dear Arek

Submission on AER's draft guidance note on impact of capitalisation differences

Jemena Electricity Networks (Vic) Ltd (**JEN**) welcomes the opportunity to respond to the Australian Energy Regulator's (**AER**) draft guidance note on the impact of capitalisation differences on benchmarking (**draft note**). In the draft note the AER has proposed to change its approach to treatment of capitalisation differences and sought stakeholder views on its conclusions and key implementation issues.

JEN was supportive of the AER's previous approach which the AER applied in JEN's final determination for FY2022-26 of using opex to capital ratios. We understand the change in AER's position reflects its further thinking and analysis. To help understand the AER's revised position and key implementation issues JEN engaged expert advice from CEG.

We have attached CEG's report as **Annexure A** which addresses the implementation issues raised by the AER (see Section 2.4 of the report). CEG has also raised some further implementation issues that we recommend the AER to consider and engage on with network businesses –

- The AER will need to clearly articulate how the results from econometric benchmarking analysis (including capitalised corporate overheads) be used in assessment of:
  i. base year opex
  ii. forecast of capitalised corporate overheads in the AER's opex and capex models.
- The AER needs to consider the appropriateness of forecasting capitalised corporate overheads based on a single base year given the high variability in year on year capitalised corporate overheads and the weak relationship with opex cost drivers.
- The AER would need to separately account for capex/opex trade-off decisions that are outside of the capitalisation policy differences.
- The AER needs to consider any unintended adverse benchmarking impact on smaller scale networks that face a higher proportion of fixed corporate overheads compared to larger networks.

- The AER would need to address some anomalies in RIN data such as negative overheads.

The CEG report discusses the implementation issues in more detail. We recommend the AER engage and consult on these issues to ensure the change in position provides a material improvement to the previous approach of using opex to capital ratios.

We are committed to working constructively with the AER and welcome any further queries in relation to this submission. Please contact [redacted] if you would like to discuss this submission further.

Yours sincerely

Sandeep Kumar
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