



Jemena Electricity Networks (Vic) Ltd

Response to the Price Reset Regulatory Information Notice

Written Response

Information for the 2021-2026 Regulatory RIN



1. Material assumptions

- 1.8 Provide for each *material* assumption identified in the response to paragraph 1.7(b):
- (a) its source or basis;
 - (b) if applicable, its quantum;
 - (c) whether and how the assumption has been applied and was taken into account; and

#	Assumption	Source and application
1	Inflation forecast	<p>JEN adopts the AER's preferred approach to use a ten year geometric annualised average of the Reserve Bank of Australia (RBA) forecast headline rate (in its monetary policy statement) for 1 and 2 years ahead and the mid-point of the RBA target range of 2% to 3% for years 3 to 10.</p> <p>The inflation forecast was applied in the post-tax revenue models, and RAB roll forward models as provided by the AER.</p>
2	Real input price growth	<p>JEN has adopted an approach of using an average of BIS-Oxford Economics (BIS) and Deloitte-Access Economics (DAE) forecasts to estimate real labour costs escalation.</p> <p>JEN has provided BIS's forecasts at Attachment 05-07 of our regulatory proposal and obtains DAE's real price escalator¹ from the regulatory decisions made by the AER in respect of the NSW electricity distribution businesses.</p> <p>The resultant escalator was applied to in the trend component of the operating expenditure forecast (included at Attachment 06-04 of our regulatory proposal) and in the labour component of the capital expenditure forecast (included at Attachment 05-11 of our regulatory proposal).</p>
3	Scale or output related growth in operating expenditure	<p>JEN's operating expenditure is forecast to increase in line with network growth based on growth in customer numbers, circuit length, ratcheted maximum demand and energy. The supporting information includes:</p> <ul style="list-style-type: none"> - Customer numbers: ACIL Allen Consulting report (Attachment 05-03 of our regulatory proposal) - Circuit lengths: Internal forecast² - Ratcheted demand: ACIL Allen Consulting - Energy: ACIL Allen Consulting <p>The resulting output was incorporated into the trend component of the operating expenditure forecast which is included at Attachment 06-04 of our regulatory proposal.</p>
4	Operating expenditure productivity	<p>The productivity factor has been derived from the AER's March 2019 final decision on operating expenditure productivity growth for all electricity distribution networks operating in the National Electricity Market (NEM).³</p>

¹ DAE, *Labour Price Growth Forecasts, Prepared for the Australian Energy Regulator*, 28 February 2019.

² Circuit lengths forecasts have been developed based on a combination of known network changes (e.g. augmentation projects, where the project scope identifies sections of circuit added or removed) as well as the continuation of the historical trend of the amount of circuit added which is associated with new customer connections.

³ AER, *Final decision paper, forecasting productivity growth for electricity distributors*, March 2019

#	Assumption	Source and application
		The resulting output was incorporated into the trend component of the operating expenditure forecast which is included at Attachment 06-04 of our regulatory proposal.
5	Base year	<p>JEN has selected the base year of CY18 for the standard control services (SCS) forecast, consistent with AER's approach for adopting an efficient base year that is not impacted by any one-off transformation costs. The source information for the base year calculations is our response to the annual RIN for 2018 as amended and provided to the AER on 7 November 2019. This has been applied in the development of JEN's SCS operating expenditure forecast.</p> <p>JEN has selected CY19 for the development of JEN's smart metering services (alternative control services) operating expenditure forecast, noting that it is the most current year of audited data when the AER makes a final decision, which importantly, does not include transformation costs.</p>
6	Operating expenditure step changes	JEN is proposing several operating expenditure step changes reflecting changes in the external business environment, as well as legal and regulatory obligations. The costs are developed using techniques specific to each forecast. Details of each step change can be found at Attachment 06-05 of our regulatory proposal. These step changes have been applied in the development of JEN's SCS operating expenditure forecast.
7	Expensing of corporate overheads	JEN is proposing to expense all corporate overheads from 1 Jan 21 for regulatory and accounting purposes, instead of capitalising part of these costs. The source information for forecasting the expensed corporate overheads has been derived from our annual RIN responses. This has been applied in the development of JEN's SCS operating expenditure forecast. The approach to forecasting the expensing of corporate overheads is detailed in Attachment 06-01.
8	Peak demand and customer numbers forecast	JEN has obtained a peak demand, and customer numbers forecast developed using a method adopted by the Australian Energy Market Operator (AEMO) and takes into account environmental, economic and policy factors. The forecast has been developed by ACIL Allen Consulting and is provided at Attachment 05-03 of our regulatory proposal. This has been applied in the development of JEN's SCS capital expenditure forecast.
9	Capital expenditure forecast	<p>JEN utilises bottom-up and top-down estimation methodologies to estimate project and program costs, which are aggregated to form a total capital expenditure forecast on a bottom-up basis. In doing so, JEN utilises information including historical costs and unit rates (contained in our annual RIN responses) and a range of other information (contained in our internal business records).</p> <p>The Value of Customer Reliability (VCR) is also used to forecast customer connection capital expenditure. The VCR used was issued in AEMO's report⁴ and escalated by CPI. At the time of preparing this regulatory submission, the AER's amended forecast VCR value⁵ was not available.</p> <p>These assumptions have been applied in the development of JEN's SCS capital expenditure forecast.</p>

The quantum impacts of each of these assumptions are set out in the capital expenditure forecast model, the operating expenditure forecasting model, and post-tax revenue models forming part of JEN's regulatory proposal.

⁴ AEMO, *Value of customer reliability, final report*, September 2014.

⁵ AER, *Values of Customer Reliability: Final report on VCR values*, December 2019.

(d) the effect or impact of the assumption on the capital and operating expenditure forecasts in the *forthcoming regulatory control period* taking into account:

- (i) the actual expenditure incurred during the *current regulatory control period*; and
- (ii) the sensitivity of the forecast expenditure to the assumption.

#	Assumption	Impact of the assumption on the capital and operating expenditure forecasts in the forthcoming regulatory control period
1	Inflation forecast	Inflation does not impact the capital or operating expenditure as the expenditures are presented in real dollar amounts.
2	Real input price growth	We explain the impacts of real input price growth on our operating expenditure in Attachment 06-01 of our regulatory proposal (see section 5.2).
3	Scale or output related growth in operating expenditure	We explain the impacts of scale or output related growth on our operating expenditure in Attachment 06-01 of our regulatory proposal (see section 5.3).
4	Operating expenditure productivity	We explain the impacts of productivity on our operating expenditure in Attachment 06-01 of our regulatory proposal (see section 5.4).
5	Base year	We explain the impacts of the base year on our operating expenditure in Attachment 06-01 of our regulatory proposal (see section 4).
6	Operating expenditure step changes	We explain the impacts of step changes on our operating expenditure in Attachment 06-01 of our regulatory proposal (see section 6).
7	Expensing of corporate overheads	We explain the impacts of expensing corporate overheads on our operating expenditure in Attachment 06-01 of our regulatory proposal (see section 4.5).
8	Peak demand and customer numbers forecast	<p>Peak demand is an input into our growth-related augmentation capital expenditure, and we explain its impact in Attachment 05-01 of our regulatory proposal (see section 6.2).</p> <p>Customer numbers are used as inputs into:</p> <ul style="list-style-type: none"> • our connections capital expenditure – we explain its impact in Attachment 05-01 (see section 5). • our growth-related operating expenditure – see para 3 above.
9	Capital expenditure forecast	<p>Because we develop our capital expenditure forecast on a bottom-up basis, unit rates contribute to the construction of the overall capital expenditure proposal amount.</p> <p>The VCR is an input into some parts of our network capital expenditure forecast.</p>