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Sebastian Roberts
General Manager
Australian Energy Regulator
GPO Box 520
Melbourne Vic 3001

Dear Sebastian

Capital Expenditure Incentive Guidelines and Efficiency Benefit Sharing Scheme

Jemena Limited (**Jemena**) welcomes the opportunity to respond to the Australian Energy Regulator's (**AER's**) draft decision on the capital expenditure incentive guidelines (**incentive guidelines**) and proposed efficiency benefit sharing scheme (**EBSS**).

Jemena appreciates the extensive amount of effort from the AER to produce a comprehensive draft decision within the limited timeframe available to the AER under the national electricity rules (**NER**). Jemena also appreciates the interactive and consultative approach adopted by the AER in holding numerous workshops in developing its draft decision. Jemena supports this approach and believes it should continue to be used as part of the guideline process, as well as being applied to other AER processes.

Jemena contributed to and fully supports the submissions on this topic from:

1. The Energy Networks Association (**ENA**), and

2. The Victorian distribution businesses.

Rather than re-state the points made in those submissions, Jemena's short submission only provides incremental information and views from Jemena on specific issues by exception. Jemena's incremental comments focus on the exclusions that Jemena Electricity Networks (**JEN**) believes the AER should make from the EBSS.

JEN has been subject to an EBSS or equivalent operating cost efficiency incentive mechanism since 1996. Over the 20 years up to when the AER's new EBSS guideline will come into effect, the relevant regulator (or appeal body) has always deemed it appropriate to apply exclusions from the incentive mechanism. For example, the Office of the Regulator General and subsequently the Essential Services Commission adjusted for the difference between actual and forecast demand to limit efficiency assessment to matters within management control.

During the last Victorian Electricity Distribution Price Review (**EDPR**) an earlier version of the EBSS was carefully considered and applied by the AER. Extensive consideration was given to uncontrollable costs that should be excluded from the EBSS to ensure incentives are not diluted, or unfairly affected. The AER concluded that the following costs are beyond the reasonable control of distributors and should be excluded:

- superannuation costs for defined benefits schemes
- Demand Management Incentive Allowance expenditure
- expenditure on non-network alternatives
- recognised pass-through events and recognised regulatory change events or service standard events
- debt raising costs
- Self-insurance costs
- Guaranteed Service Level payments

The AER's recent draft decision, however, proposes to remove these exclusions, without providing a rationale for this change. Jemena considers that the exclusions currently in place are appropriate and should be maintained going forward. These exclusions ensure that the costs subject to the scheme are those that can reasonably be controlled by the distributor, encouraging the distributor to focus on those costs.

If you wish to discuss this submission, please contact me on (03) 8544 9053 or at robert.mcmillan@jemena.com.au

Yours sincerely

Robert McMillan
General Manager Regulation
Jemena Limited