



Jemena Electricity Networks (Vic) Limited

AMI Charges Revision Application

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Contact Person

Anton Murashev

Manager Asset Regulation & Strategy

Phone

03 8544 9036

Email

anton.murashev@jemenal.com.au

**Jemena Electricity Networks (Vic)
Limited**

ABN: 82 064 651 083

321 Ferntree Gully Road

Mt Waverley VIC 3149

Ph: (03) 8544 9000

Fax:(03) 8544 9888

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1 Executive summary

1.1 Summary of proposed charges 2014-2015

Jemena Electricity Networks (**JEN**) proposes to retain its 2014 metering tariffs consistent with those previously approved by the Australian Energy Regulator (**AER**), and to lower its 2015 charges below what the AER previously approved.

History of AER charge approvals

On 28 February 2011, JEN submitted an initial charges application to the AER (setting out initial charges for 2012 to 2015), which was later, with some amendments, approved by the AER (**initial charges application**).

On 31 August 2012, JEN submitted a charges revision application for 2013-2015 metering tariffs (**2012 charges application**), which was later approved by the AER. JEN's 2012 charges application did not propose any changes to the original AER-approved charges. This document is JEN's charges application for revised charges for 2014 to 2015 for costs associated with Regulated Services, as required under the AMI Cost Recovery Order in Council (**CROIC**)¹.

Proposed charges

The charges proposed in this application are consistent with the CROIC, and with the pricing principles in the AER's Framework and Approach Paper².

The proposed 2014 charges are consistent with JEN's approved initial charges application, while proposed 2015 charges are slightly lower. The reduction to 2015 charges is driven mainly by a lower assumed Weighted Average Cost of Capital (**WACC**) for 2014 and 2015.

A summary of the previously approved and JEN's revised proposed charges is set out in Table 1-1 below.

¹ Order under Section 15A and Section 46D of the Electricity Industry Act 2000 made on 28 August 2007, as amended by the Advanced Metering Infrastructure Order in Council 2008 made on 25 November 2008.

² AER, *Framework and approach paper – Advanced metering infrastructure review 2009-11, Final Decision*, January 2009

Table 1-1: Approved and revised regulated services charges for 2014 to 2015

| Nominal \$/meter | 2014 approved | 2014 revised | 2015 approved | 2015 revised |
|--|---------------|--------------|---------------|--------------|
| Single phase single element | 195.26 | 195.26 | 219.90 | 216.32 |
| Single phase single element meter with contactor | 195.26 | 195.26 | 219.90 | 216.32 |
| Three phase direct connected meter | 239.95 | 239.95 | 270.24 | 265.85 |
| Three phase current transformer connected meter | 266.78 | 266.78 | 300.45 | 295.56 |

1.2 Structure of this charges revision application

This application is structured as follows:


Table 1-2: Report structure

| Section | Title | Details |
|------------|---|--|
| 2 | Regulatory requirements | This section outlines the relevant regulatory requirements for this charges revision application and explains how JEN has complied with those requirements |
| 3 | Revised charges for Regulated Services | This section sets out JEN's revised proposed charges for 2014 to 2015 and describes how those charges comply with the AER's pricing principles. |
| Appendices | | |
| 1 | 2012 JEN RIN Response – Regulatory Accounting Statements (confidential) | |
| 2 | KPMG audit report on 2012 actual costs (confidential) | |
| 3 | Filled out AER template (confidential) | |
| 4 | Submission on the rate of return to apply to the charges revision applications for Advanced Metering Infrastructure | |

1.3 Confidentiality

JEN requests that the AER keeps Appendices 1, 2 and 3 confidential for the following reasons.

JEN's response to the AER's Regulatory Information Notice (**RIN**) in Appendix 1 contains detailed financial information that is commercially sensitive. Keeping it confidential is consistent with the historical treatment of regulatory accounts. JEN has also previously provided a public version of this information to the AER.



KPMG prepared its audit report on 2012 actual costs (Appendix 2) for the information of JEN and the AER on terms and conditions that preclude the report from being distributed to any other party.

JEN considers the filled-out AER templates (Appendix 3) to be confidential information because they enable unit price forecasts to be established for meters and installation services, which may yet be tendered by JEN (or by others, on behalf of JEN). JEN does not want to prejudice any future competitive tender processes that JEN or other parties may conduct in relation to AMI.

2 Regulatory requirements

This section sets out the regulatory requirements relevant to this charges revision application and explains how JEN has complied with those requirements.

2.1 Overview of regulatory obligations

Under clauses 5G.1 and 5G.2 of the CROIC, by 31 August 2013, JEN must submit a charges revision application to set revised charges for the year commencing 1 January 2014 (**2014 revised charges**).

The form and content of this charges revision application is determined by the CROIC, guidance provided by the AER's Framework and Approach Paper (**the AER Approach Paper**), and the AER's information template. In particular, this application complies with the general application requirements in clauses 5 and 5A of the CROIC, and the process and content requirements set out in clauses 5G, 5H and 5I.

The AER's determination is to be made in accordance with the regulatory principles in clause 4.1 of the CROIC, the general application requirements in clause 5, and the process set out in clauses 5G and 5I.

2.2 Clause 5.3

Clause 5.3 of the CROIC states that:

An application must set out the information and identify the documents upon which the distributor relies. Provided that if a distributor relies on information it previously provided to the Commission for an application or a Pricing Proposal, it does not need to set out that information again in its application if the distributor identifies where that information may be found in that previous application or Pricing Proposal (as the case may be).

This application relies on:

- (a) all information previously provided by JEN to the AER with its initial budget application, initial charges application, and 2012 and 2013 charges applications
- (b) The Regulatory Accounting Statements that form part of JEN's RIN response for the 2012 calendar year, provided to the AER on 30 April 2013 and also attached to this application for convenience as Appendix 1
- (c) KPMG's audit report relevant to clause 5H.2 of the CROIC, provided as Appendix 2

- (d) the AER's charges application template, as filled out by JEN, attached to this application as Appendix 3.
- (e) The submission on the rate of return to apply to the charges revision applications for Advanced Metering Infrastructure, prepared jointly by the Victorian Electricity Distribution Businesses and attached to this application as Appendix 4

2.3 Clause 5.4

Clause 5.4 of the CROIC states that:

An application must also include the information specified by:

- (a) any framework and approach paper (as amended from time to time) of the Commission; and
- (b) information templates (as amended from time to time) of the Commission.

In relation to 5.4(a), the AER Approach Paper sets out the following requirement:

In relation to verification, an appropriate verification statement in respect of historical information (where that historic information is not addressed by any required audit certification) could be to the effect that the officer has reviewed the information provided, made all relevant and appropriate enquiries in relation to the information provided, and is satisfied it is true and correct and drawn from the internal business records of the distributor. Specifically, budget applications, budget variation applications, charges applications and charges revision applications should include a verification statement signed by the distributor's chief executive officer or equivalent officer.

In relation to forecast and estimated information, including budget applications, an appropriate statement would set out that the officer has reviewed the basis on which the forecast or estimate is made and is satisfied that the forecast or estimate is a genuine forecast or estimate made on a reasonable basis.³

This application is accompanied by a cover letter from JEN's CEO, providing the verification required by the AER.

In relation to 5.4(b), the AER has provided JEN with a set of information templates, which JEN has filled out and provided as Appendix 3.

³ AER Framework and approach paper – Advanced metering infrastructure review 2009-11, Final Decision, January 2009, pages 75-6.

2.4 Clause 5.5(b)

Clause 5.5(b) of the CROIC requires that this application must also include:

a forecast of the number of metering installations that the distributor proposes to install for each year of the period covered by the application

The required information on the forecast number of metering installations JEN proposed to install is presented in the table below.

Table 2-1: Metering installation forecast

| Calendar Year | 2013 | 2014 | 2015 |
|------------------------|---------|--------|-------|
| Meters to be installed | 128,036 | 34,525 | 4,488 |


2.5 Clause 5H.1

Clause 5H.1 of the CROIC states that:

In addition to the information and documents required pursuant to clause 5, a charges revision application shall:

- (a) state the period to which it relates;
- (b) set out the actual:
 - (i) Total Opex and Capex (broken down into actual capital expenditure and actual maintenance and operating expenditure); and
 - (ii) revenue (calculated in accordance with clause 4.1(k)) of the distributor from the provision of Regulated Services in the year ('year t-1') immediately preceding year t; and
- (c) contain an updated forecast of the:
 - (i) Total Opex and Capex (broken down into forecast capital expenditure and forecast maintenance and operating expenditure); and
 - (ii) revenue (calculated in accordance with clause 4.1(k)) of the distributor from the provision of Regulated Servicesfor:
 - (iii) year t; and (iv) the remaining year or years of the initial AMI budget period or the subsequent AMI budget period (as the case may be).

This application relates to the period commencing 1 January 2014 and ending on 31 December 2015, being the final year of the initial budget period. JEN has provided the information required by clauses 5H.1(b) and (c) in the filled out information template, which is included as Appendix 3.



When forecasting revenues for the purposes of clause 5H.1(c)(ii), JEN has used updated meter number forecasts consistent with JEN's latest customer growth forecasts. It should also be noted that the CROIC provides for a true up of actual costs and revenues, which adjusts for any variation between forecast and actual meter numbers.

2.6 Clause 5H.2

Clause 5H.2 of the CROIC states that:

A charges revision application must be accompanied by an audit report prepared and signed by an external auditor certifying that:

- (a) the actual expenditure incurred is for activities within scope; and
- (b) the actual expenditure incurred has been incurred in the amount claimed.

Provided that where year $t-1$ is the year commencing 1 January 2009 an audit report that complies with clause 5I.3 must instead accompany the charges revision application.

Pursuant to clause 5H.2, JEN sought and obtained an audit report from KPMG. KPMG's report is provided as Appendix 2.

2.7 Clause 5I.2(a)(iii)

Clause 5I.2(a) requires that in determining the building blocks to be used in calculating the revenue that can be recovered, the AER must include actual capital expenditure and actual maintenance and operating expenditure where that actual expenditure satisfies a number of conditions. One such condition, articulated in clause 5I.2(a)(iii), is that the actual expenditure:

“in the case of the subsequent AMI budget period, does not exceed the Approved Budget for that year”

JEN's actual expenditure for 2012 satisfies this condition.

3 Revised Charges for Regulated Services

In its Approach Paper, the AER stipulated pricing principles to be used when setting charges.

This chapter sets out JEN's revised proposed charges for 2014 to 2015 and describes how those charges comply with the AER's pricing principles.

3.1 Proposed revised charges

For 2014, JEN proposes to maintain the charges proposed in its initial charges application, which were approved by the AER in October 2011. For 2015, JEN proposes to reduce the previously approved charges. Table 3-1 shows JEN's previously approved and proposed revised charges for 2014 to 2015.

Table 3-1: Approved and revised regulated services charges for 2014 to 2015

| Nominal \$/meter | 2014 approved | 2014 revised | 2015 approved | 2015 revised |
|--|---------------|--------------|---------------|--------------|
| Single phase single element | 195.26 | 195.26 | 219.90 | 216.32 |
| Single phase single element meter with contactor | 195.26 | 195.26 | 219.90 | 216.32 |
| Three phase direct connected meter | 239.95 | 239.95 | 270.24 | 265.85 |
| Three phase current transformer connected meter | 266.78 | 266.78 | 300.45 | 295.56 |

3.2 Compliance with AER pricing principles

In section 4.5.2 of its Approach Paper, the AER set out a number of pricing principles. The AER accepted JEN's initial charges application as being compliant with those pricing principles. As JEN is not proposing to vary the 2014 charges put forward in its initial charges application, JEN considers that its revised 2014 charges comply with the AER's pricing principles. JEN is proposing to reduce previously approved 2015 charges by the same percentage across all tariff classes, with the balance between tariff classes remaining the same. JEN therefore considers that its revised 2015 charges also comply with the AER's pricing principles.



Appendix 1: JEN RIN Response for calendar year 2012 – Regulatory Accounting Statements

Attached as a separate file (confidential).

Appendix 2: KPMG audit report on 2012 actual costs

Attached as a separate file (confidential).

Appendix 3: Filled out AER template

Attached as a separate file (confidential).

Appendix 4: Submission on the rate of return to apply to the charges revision applications for Advanced Metering Infrastructure

Attached as a separate file (confidential).