

For and on behalf of the Jemena Electricity Networks People's Panel – submission to the AER draft decision and Jemena revised proposal

Summary of opex positions

A submission by the Jemena Electricity Networks People's Panel to the Victorian 2021-26 Electricity Distribution Price Review process – revised proposal stage.

1. PURPOSE OF THIS SUMMARY

This summary collates the views of the Jemena Electricity Networks (Jemena) People's Panel (panel) expressed after a series of three deep dive workshops on opex and efficiency benchmarking.

2. OVERVIEW OF PEOPLE'S PANEL DECEMBER 2020 BRIEFINGS

Background

In November Jemena held several meetings with the People's Panel to engage on topics from the draft decision and revised proposal (or 'counter proposal') relating to reliability, sustainability and affordability. Within the topic of affordability, Jemena explained the difference between its initial opex forecast, updated forecast and the AER's draft decision, and introduced its concerns with the AER's benchmarking.

After discussion on the depth of engagement on opex and efficiency benchmarking, Jemena offered the People's Panel a series of deep dives throughout December to explore this issue in more detail.

Deep dives

11 panel members signed up to attend three deep dives. These were held for 1.5 hours on Monday 7, 14 and 21 December.

Ahead of the first deep dive, Jemena sent the panel members a frequently asked questions document with background on relevant opex and benchmarking terms along with a copy of the People's Panel survey. This survey was to be completed after the final 21 December deep dive, and was provided upfront so that panel members could use the three sessions to raise their questions and seek information they wanted to understand in order to be able to respond to the survey.

At the end of each session, the panel was asked:

1. If there was anything additional they wanted to discuss at the next session and the agenda and content were prepared accordingly, and
2. Whether any panel members had heard enough and did not want to continue attending the remaining sessions (all elected to continue to the end).

Between the sessions, some panel members emailed follow-up questions to Jemena which it responded to ahead of the next meeting.

The content covered in each session is summarised below, and the presentations are provided at **Appendix B**.

1. First deep dive on 7 December:
 - a. Overview of various parties involved in distribution determination processes who seek to represent the interests and views of customers—this included presentations from a customer challenge panel (CCP) member about the CCP’s role, a consumer representative about their role, and an economic consultant about the roles that experts play in supporting the process
 - b. Explanation of the AER’s draft decision on efficiency benchmarking and base opex costs and its reasoning.
2. Second deep dive on 14 December:
 - a. Recap of the AER’s draft decision and reasoning
 - b. Explanation of the JEN’s counterproposal on base opex costs and what concerns it has with key aspects of the AER’s benchmarking method and outcomes
3. Third deep dive on 21 December:
 - a. Recap of the AER’s draft decision and reasoning, and JEN’s counter proposal and reasoning
 - b. Further Q&A between panel members and JEN staff
 - c. Group discussion of survey questions (without Jemena present).

A representative of the CCP17 attended and observed all three deep dives. They presented at the 7 December session and provided comments to the panel during all three sessions.

An external consultant also attended the sessions, facilitated the panel discussion in deep dive three (without Jemena staff there) and collated this summary report on behalf of the People’s Panel. A copy of this report has been provided to all panel members and to the CCP17 attendee.

Panel members agreed to their responses being submitted to the AER in a deidentified manner.

Additional materials

Following a panel request at deep dive one for more background reading, Jemena staff sent panel members links to relevant benchmarking documents from the AER and Jemena’s revised proposal. These documents covered:

1. The AER’s forecasting assessment and the data gathering requirements to develop the benchmarks
 - a. [Fact sheet](#)
 - b. [Benchmark data reporting](#)
2. The AER’s 2020 annual benchmarking report
 - a. [Annual benchmarking report](#)
 - b. [Economic Insights report](#) (the AER’s economic advisor)

3. JEN's revised proposal to the AER (i.e. its counter offer)
 - a. [Jemena's revised proposal](#)
 - b. Jemena's main contentions with the benchmarking methods as outlined in section 2.1 of [Attachment 05-01](#) to its revised proposal.

Questions from several panel members at the subsequent deep dives showed that they had read these materials in preparation for the deep dives two and three. Some panel members then quoted from these materials in their survey responses.

3. SUMMARY OF PEOPLES' PANEL FEEDBACK

The following section summarises themes and key points raised by panel members in the survey responses and in discussions of the questions. The full responses of the panel members are set out in **Appendix A**. These have been deidentified as agreed with the panel.

Q 1. Having discussed the role of different stakeholders involved in evaluating benchmarking, which parties do you think are best placed to also represent the views of the People's Panel?

The panel discussed this question and agreed that multiple views should be considered. A panel member read the response below out, which others also supported:

'No single party can represent all different points of view, but all have a role to play, including the views of the people's panel. Each one is unique in abilities, competencies, skill-sets, experiences, mental and spiritual capacities. Some may be more outstanding in some areas but not so in others.'

In their survey responses, many identified that those specifically placed to represent views of the panel were independent consumer welfare representative organisations like Energy Consumers Australia and St Vincent De Paul. Several also specifically called out the roles of the CCP, economic consultants and the Clean Energy Council.

On the Clean Energy Council, the panel discussion identified a concern across the panel that the 'greening the grid' part of their recommendations to Jemena was not likely to always be adequately represented by consumer groups or given sufficient weight by the AER.

One also identified Jemena, stating:

*'Jemena- has already shown due diligence in working with the peoples panel to gain insights and develop their transformation project. They have the right to be involved in the benchmarking process as I believe they have an understanding of the benchmarking shortcomings and how they will impact future planning. They should be allowed to **go in to bat for us as our supplier.**'*

Q2. Which views / perspectives did you hear that you think align well to the opinions of the People's Panel?

This question attracted responses based on both who's views and what perspectives were raised.

On the question of who's views, a number of panel members observed that the panel itself brings uniquely helpful views, and that some consumer representatives may be more focussed on vulnerable customers.

For example, a panel member wrote:

'With Jemena's people's panel process our panelists are more aware of the operator's perspective whilst balancing our original concerns as consumers that motivated us in joining the process in the first place hence not sure anyone of the stakeholder groups can fully cater for the opinions of the panel.'

And another wrote:

'These groups [from question 1], along with the AER, are trying to get the price of electricity supply to the consumer as low as possible. The People's panel has been aligned with this, however there have also been the issues of reliability of supply and the sustainability/environmental advantages in renewables, etc. These latter need additional income for network suppliers, which goes against getting the lowest price possible for the consumer. Therefore, a balance must be struck with these additional aims as well as reducing costs to the consumer. Hence the use of economic consultants or experts in the field of electricity delivery.'

On the matter of specific perspectives, panel members wrote:

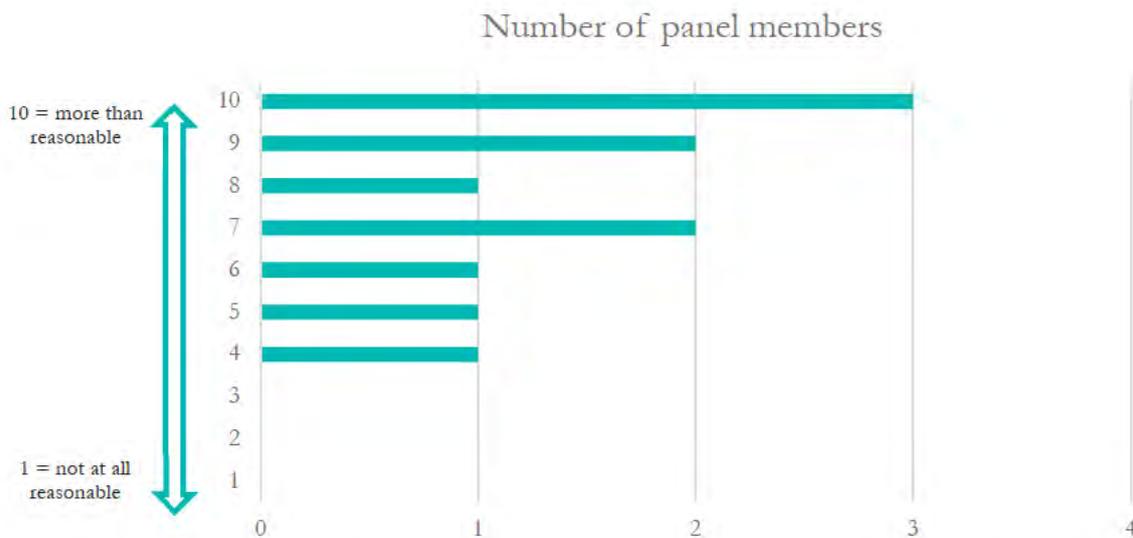
'Current, service availability from Jemena must not be impacted with decrease in operational expenses and if it is impacted, who will be held responsible.'

'OPEX efficiency initiatives should be explored by Jemena, but at the same time AER needs to improve how they conduct benchmarking exercises.'

'Jemena needs to be able to maintain the current service levels, and invest in upgrades to enable solar feed-in in areas where the grid is approaching capacity, and upgrade/ repair aging infrastructure in areas with declining reliability. This also needs to be balanced with reducing costs to consumer.'

Q3. How reasonable is the statement “ The approach taken by the regulator to benchmarking Jemena’s operational costs is *not* in the long term interests of Jemena’s customers?”

The majority of People’s Panel members considered that it was quite reasonable to say that the AER’s approach to benchmarking was not in Jemena’s customers’ long term interests. The average result was 8.5, and 50% considered it was more than reasonable (i.e. 10) and or very reasonable (i.e. 9).



Q4. Were you able to form a view on which methodology was in the long term interests of customers?

If yes / no why?

All panel members submitted detailed reasoning about their concerns on the unreasonableness of the AER's benchmarking approach. Panel discussion in deep dive three (without Jemena staff present) noted a common concern that the People's Panel had previously been presented options by Jemena that involved lower costs but different service outcomes. The panel did not choose the lowest cost option because it valued the goals it proposed to Jemena including greening the grid and service sustainability and reliability. They considered the opex approach was 'too narrowly focussed on cost alone'.

One panel member summed this discussion up in their survey response as follows:

'The AER's approach appears to require a large reduction in budget, which is significantly less than current levels, and far below the levels proposed by Jemena, which already include reductions for increased efficiency. If the cuts are to severe, it could possible affect the service levels. In the people's panel process, the feedback given was that people want investment and service levels to be maintained, even if the cost reductions for consumers are lower.'

Common concerns raised by panel members included:

- The need to normalise for a constant capex to opex ratio
- The need to investigate the drivers of capex differences amongst businesses and exclude capex differences that are irrelevant in the assessment of opex benchmarking
- The need to consider the benchmarking results based on the current (2019) cost allocation
- The need to 'consider the goals identified by the People's Panel and which were adopted by Jemena'.

While many responses acknowledged that benchmarking has a role to play and is necessarily a top-down approach, they also responded that differences across businesses should be catered for and considered including through bottom-up assessment.

One panel member captured this sentiment as follows:

*'I think that the AER's methodology for benchmarking needs to be reviewed by the AER and some weeds need pulling from their lawn to achieve effective benchmarking instead of comparing apples to oranges to anchovies. It would behove the AER to work with independent consultants to improve the analytical methodologies used in their current framework in *fairness* to all applicants and their customers.'*

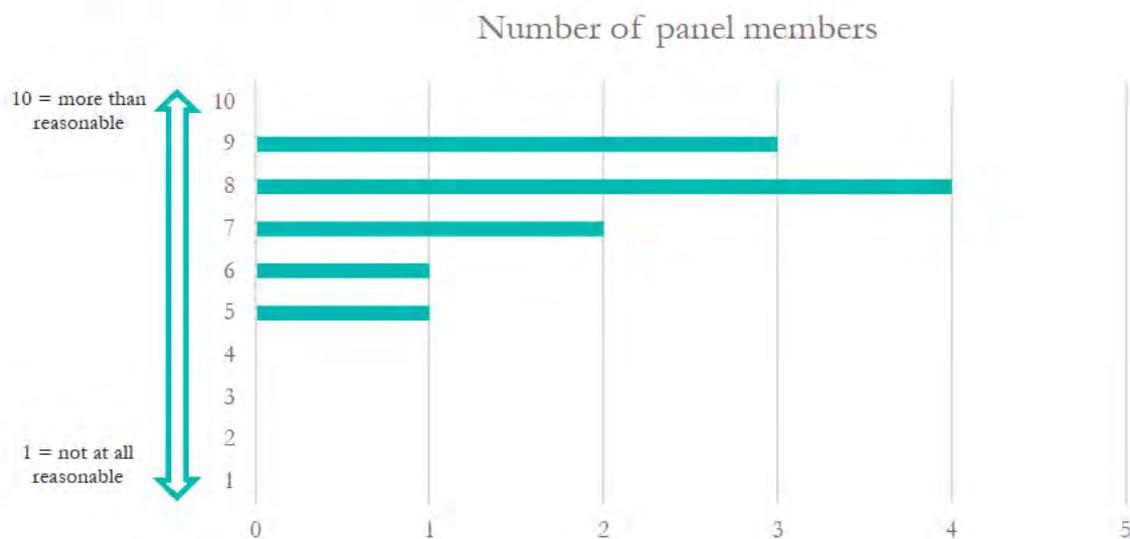
Another responded:

'Yes the AER needs to improve the methodology (opex to totex) on how it does benchmarking, but its a good starting point, jemena should also see how they can save opex costs internally by efficiency gains and transformation projects that directly impacts opex savings.'

One panel member responded with specific concerns with various aspects of the AER's draft decision as set out in Appendix A. This panel member explained these concerns to the rest of the panel in deep dive three.

Q 5. How reasonable is Jemena's response / counter proposal?

The clear majority of panel members considered Jemena's revised regulatory proposal opex was reasonable, with an average score of 8.4.



Why did you give the above response?

While there was a common view that Jemena's counter proposal was reasonable, there was some diversity in the reasons for this view in the survey responses.

A common theme in the discussions at deep dive three (without Jemena staff present) was a concern about Jemena's ability to fund the service outcomes and goals that the full People's Panel had recommended to Jemena. This concern was captured in the response shared by another panel member (different to the ones quoted in question 4) who expressed their concerns to the group (which agreed) and then wrote:

'I think it is important that the regulator is asked to understand that the original people's panel identified other desirable outcomes aside from having the cheapest possible delivery. By all means, nobody wishes to see a company living off the fat of largess, but

surely the regulator can make sustainability and greening the grid additional KPIs. These deserve their own weighting in the benchmarking process. There may be differences in how important these factors are around the country, but I cannot believe that we are alone in having concern about these matters - and are willing to pay for the provision of these desirables. It is not always down to the bottom line in all products we purchase.'

APPENDIX A. SURVEY RESPONSES

The following is a full record of the 11 People's Panel members who attended the deep dives and submitted their surveys. Any emphasis is as submitted by the panel member.

Q 1. Having discussed the role of different stakeholders involved in evaluating benchmarking, which parties do you think are best placed to also represent the views of the People's Panel?

Panel member a:

I believe a range of organisations/stakeholders should be involved in evaluating benchmarking to ensure a fair, equitable and balanced outcome for all. A selection of key stakeholders could include: (not in any order)

- **Independent customer lobby groups : Welfare organisations** such as St Vincents De Paul offer insights into how decisions may impact the vulnerable and minority groups.
- **Energy Consumers Australia-** representing residential and small business energy consumers can offer views and opinions on how any changes to benchmarking can affect SMEs .
- **Economic Consultants** can offer unbiased additional advice in the quest to achieve fairness across benchmarking and the impacts to Jemena's proposed working budgets.
- **Consumer Challenge panel:** ensures interests and concerns of the public are addressed when there are changes to energy policies. (Unbiased/ universal/transparent feedback)
- **Jemena-** has already shown due diligence in working with the peoples panel to gain insights and develop their transformation project. They have the right to be involved in the benchmarking process as I believe they have an understanding of the benchmarking shortcomings and how they will impact future planning. They should be allowed to **go in to bat for us** as our supplier.
- **Of course - AER/and Government** are also included. As they represent **the** wider Australian perspective and long term energy planning/outcomes.

Panel member b:

All stakeholders and parties have different perspectives, perceptions, cognition, comprehension, vested interests, objectives, and queries, but in reference to actually particularly representing the *customer's voice* - the People's Panel, independent customer lobby groups, Energy Consumers Australia, the Consumer Challenge Panel, welfare groups such as St Vincent De Paul and the Brotherhood of St Laurence, Consumer Affairs, and the Clean Energy Council. It has been challenging for me to have my particular concerns heard and represented as I am in the disabled minority, single, living alone, no children or partner, and living within extremely limited income, and this has sometimes been at odds with the objectives of others within the Peoples Panel who are high income earners with families and homes with solar panels installed, and that they may be selling and feeding solar energy back into the grid.

Panel member c:

Agreed with other panelists that because each stakeholder groups represents for a somewhat narrowed perspective it is deficient to rely on one, as it remains a matter of balancing both the costs/ profitability of the operators, as well as the paying consumers concerns.

If one is forced to choose one that is 'best placed' (despite far from sufficient) then Energy Consumers Australia may well be a group that may seem to come to mind.

Panel member d:

To represent the view of the People's panel, the best parties would be the independent customer lobby groups (ie St Vincents and Energy Australia) as well as the Consumer Challenge group. My own opinion was that economic consultants would also be of benefit to balance the viewpoints.

Panel member e:

AER, Consumer challenge panel

Panel member f:

No single party can represent all different points of view, but all have a role to play, including the views of the people's panel. Each one is unique in abilities, competencies, skill-sets, experiences, mental and spiritual capacities. Some may be more outstanding in some areas but not so in others.

ACCC, Consumer Affairs Victoria and Clean Energy Council may be considered.

Panel member g:

Any decision related to biller must include consumer group in the decision process. However, they are not expert on global trends or technology advancements in energy seator. So all existing groups must provide details to consumer groups and they must be able to informed decision.

Panel member h:

I think Energy Consumers Australia, Clean Energy Council, the various charities and the Consumer Challenge Panel can all represent aspects of the People's panel.

Panel member i:

I think that those mentioned in the presentation are all worthy contributors and should be kept for future representations. The more the better. Reiterating, those stakeholders are:

- Economic consultants
- Independent customer lobby group
- Energy Consumers Australia
- Welfare group (eg , St Vincent De
- Consumer Challenge Panel
- Australian Energy Regulator
- Government
- Jemena

I also believe that representatives of welfare groups should be listened to so that evaluations can be deduced to help the most needy and vulnerable. Emma from one welfare group was a good example of one to listen to.

Panel member j:

[No written feedback was provided for this question by this panel member.]

Panel member k:

Consumer Challenge Panel and a Welfare Group.

Q2. Which views / perspectives did you hear that you think align well to the opinions of the People's Panel?

Panel member a:

Consumer Challenge Panel - Mark - discussed the way this panel evaluates and offers critical advice/feedback to all Energy proposals. Offering detailed analysis into possible shortcomings or highlighting the benefits and/or making improvements.

Welfare organisations: (Apologies unable to recall his name) - Spoke of how they review all proposals to ensure the longterm outcomes are of benefit to all community groups.

We would rely on them to provide a voice for the most vulnerable groups.

Panel member b:

We really only heard the voices of Jemena and the People's Panel in these sessions. All of the perspectives of the above parties are important to have a balanced, open discussion and to make informed opinions. It seems that the AER has appeared to act in *hearing* Jemena's objections, however, I am concerned that if an *ideal* compromise cannot be reached that this may not only affect Jemena's and the People's Panel's short-term goals, such as cost to customers and response to outages, but that the long-term goals to reach for sustainability, maintenance and upgrades, and environmentally-friendly technology may not be achievable. I am also concerned that if an ideal outcome is not reached, it may set a precedent for the AER's responses to future applications submitted by Jemena.

Panel member c:

With Jemena's people's panel process our panelists are more aware of the operator's perspective whilst balancing our original concerns as consumers that motivated us in joining the process in the first place hence not sure anyone of the stakeholder groups can fully cater for the opinions of the panel.

Panel member d:

These groups, along with the AER, are trying to get the price of electricity supply to the consumer as low as possible. The People's panel has been aligned with this, however there have also been the issues of reliability of supply and the sustainability/environmental advantages in renewables, etc. These latter need additional income for network suppliers, which goes against getting the lowest price possible for the consumer. Therefore, a balance must be struck with these additional aims as well as reducing costs to the consumer. Hence the use of economic consultants or experts in the field of electricity delivery.

Panel member e:

OPEX efficiency initiatives should be explored by Jemena, but at the same time AER needs to improve how they conduct benchmarking exercises.

Jemena does need to catchup with other DNSPs on OPEX efficiency

Panel member f:

Something such as being a critical friend in relation to AER, challenging different aspects of their decisions, soft and tough alike. It is important to meet up with AER on regular basis in order to touch base core issues of concern for the sake of advancing public interests and best practices in the industry.

Panel member g:

Current, service availability from Jemena must not be impacted with decrease in operational expenses and if it is impacted, who will be held responsible.

Panel member b:

Jemena needs to be able to maintain the current service levels, and invest in upgrades to enable solar feed-in in areas where the grid is approaching capacity, and upgrade/ repair aging infrastructure in areas with declining reliability. This also needs to be balanced with reducing costs to consumer.

Panel member i:

Strangely, it seems that the People's Panel has become a separate entity governing body that gave good insights. We are all in this together, and again, the more perspectives we hear the better.

Panel member j:

A change is needed to consider Jemena's circumstances. Accounting for environmental factors, such as, fire is looked at, but so should the structure and size of the company. A comparison should be made to consider whether following benchmarking opex/capex vs current Jemena model proves that Jemena follows good benchmarking.

Panel member k:

I think the consumer challenge panel has some great expertise (economic regulation, energy networks and consumer representation) which I know the People's Panel would really appreciate to draw on.

On the other hand, a welfare group, such as St Vincent would represent those who are the most disadvantaged in our society, to make sure to balance the scales.

Q3. How reasonable is the statement “ The approach taken by the regulator to benchmarking Jemena’s operational costs is not in the long term interests of Jemena’s customers?”

Panel member a:

10. Definitely Not reasonable & Not in the best interest of Jemenas customers

Not in the best interest of Jemenas customers

As the benchmark system is not comparing apples with apples. The current benchmarking (based on 2014) severely impacts Jemenas plans to deliver on their strategic transformation program.

Panel member b:

9. Question 3 is worded confusingly and this may be reflected in the answers you receive. How I have answered is that I feel that the AER's approach to Jemena is *not* in the long-term interests of Jemena's customers (score 9).

Panel member c:

4.

Panel member d:

8.

Panel member e:

7.

Panel member f:

5. moderately reasonable — for both sides modelling approaches need improving and addressing blind spots and shortcomings which insightful unbiased outsiders may be able to assist with.

Panel member g:

10.

Panel member h:

9.

Panel member i:

10.

Panel member j:

6.

Panel member k:

7. I would say 7 to this, because I think there does need to be compromise. I think this is a pretty reasonable statement.

Q4. Were you able to form a view on which methodology was in the long term interests of customers? If yes / no why?

Panel member a:

Applying a constant & average APEX/OPEX ratio for all businesses not just the top 4 will provide a fairer & more workable average that all companies can benefit from.

- Using a more current (2018) OPEX benchmark will be more relevant for all suppliers at this is takes into account all the major changes that have occurred. The 2014 benchmark is outdated and should not be used as the barometer for ongoing performance.

- Perhaps review how companies modify the OPEX to CAPEX in a little more detail to ensure they capture their true performance. (taking into account the suppliers diverse networks and customers in more detail.)

Panel member b:

Yes, but it is just my opinion as I am not qualified in this field - A. averaging needs to be applied to normalise benchmarking between companies, B. the AER *must* consider the goals identified by the People's Panel and which were adopted by Jemena, and C. as per what was indicated in the slides: "If the AER wants to rely on OPEX to TOTEX ratio to assess this difference, it needs to: 1. investigate the drivers of CAPEX differences amongst businesses, and 2. exclude CAPEX differences that are irrelevant in the assessment of OPEX benchmarking. And to better reflect current circumstances, the AER needs to: 1. consider the benchmarking results based on the current (2019) cost allocation, and 2. make appropriate adjustments to our benchmarking results to reflect more updated information." To reiterate, I

am concerned that if an ideal outcome is not reached, it may set a precedent for the AER's responses to future applications submitted by Jemena. I think that the AER's methodology for benchmarking needs to be reviewed by the AER and some weeds need pulling from their lawn to achieve effective benchmarking instead of comparing apples to oranges to anchovies. It would behove the AER to work with independent consultants to improve the analytical methodologies used in their current framework in *fairness* to all applicants and their customers.

Panel member c:

Because the regulator's role is to benchmark and measure across different operators their tools are necessarily likely to be oriented towards top-down, aggregated measures. However clearly being more blunt instruments they may not capture the unique operating conditions of Jemena which calls for the need to point out causes of such differentials, and whether the differentials can be largely cater for (reconciled) to be deemed acceptable by the regulator.

Panel member d:

Whilst there is immediate difference in the costs to the consumer depending on which approach is taken (ie AER Opex allowance vs Jemena Opex proposal), we do not have information on how the consumer may benefit from improvements in other aspects such as reliability of supply and use of renewables. If this question boils down to the very basic desire to reduce costs for the consumer, then it is the AER's approach that wins out. If we are to support a different model that results in a similar to slightly higher cost for the consumer, there must be other tangible benefits, which could be on the reliability or sustainability of supply. We have not been given any tangible figures associated with these.

Panel member e:

yes the AER needs to improve the methodology (opex to totex) on how it does benchmarking, but its a good starting point, jemena should also see how they can save opex costs internally by efficiency gains and transformation projects that directly impacts opex savings.

May be Jemena can see some of the opex work can be treated as CAPEX or not.

Panel member f:

4. **Cost Allocation Methodologies using 2019** more updated version rather than 2014 year: economic benchmarking undertaken using data that reflects current CAMs, rather than those that applied in 2014, can provide useful insights without concern of bias or gaming.(P.23)

(P.24) Given this, we propose that the AER should assess the efficiency of JEN's base operating expenditure using both its 2014 and 2019 CAMs, with the latter being the most relevant given that it better reflects the current cost structure of DNSPs and that most likely to apply over the next regulatory period:

Table 2–5: JEN's operating expenditure efficiency score under different CAMs

	Economic Insights (2014 CAMs)	2019 CAMs
2006–2019		
Average all models	0.62	0.71 (+15%)
Average Cobb-Douglas models	0.63	0.74 (+17%)
2012–2019		
Average all models	0.55	0.64 (+15%)
Average Cobb-Douglas models	0.60	0.69 (+15%)

5. **Base, Step and Trend Approach** (p.6-p.9) for Opex forecasts with clear systemic steps and stages to follow through the process from start to finish.
6. **Economic Benchmarking Analysis of AER** (economic benchmarking—productivity measures used to assess a business's efficiency overall)

(Top-Down Analysis giving a big picture but not a full accurate indication of efficiency level of the service provider VS Bottom-Up Detailed Analysis of Costs for Opex and Capex is better):

The current practice has several problems:

- Lack of precision
 - High-Level information provision only: high level view of the net efficiency
 - Prone to error, assumption, and statistical inconsistencies
 - Pretty subjective rather than objective in outset
 - Impacts of differences in capitalisation practice (opex vs capex tradeoff as well as capitalisation policies) across business are not considered, recognised by AER (See P.16)
7. **MTFP (p.15) model output weights** need investigation if more than 3 complaints being received. Economic Insights and the AER noted in the 2020 benchmarking report that an error was identified in the way the MTFP (p.30) output weights were calculated in all previous AER benchmarking reports. This has a significant impact on the MTFP and MPFP results for all DNSPs and causes a substantial reshuffle of DNSPs' rankings in favour of rural DNSPs.
 8. **DNSPs' Evaluation** should be comprehensive, thorough, detail-minded, taking all core factors into due consideration along the process, including potential hidden costs, adverse impacts on daily operations and service levels provisions.
 9. **DNSP's efficiencies** should not be judged purely on monetary terms and revenue requests. Efficiencies can be achieved by wisdom and understanding in planning, spending, recruitment, management and customer engagement.
 10. **AER economic benchmarking tools and practices** need an adequate overhaul so that they do not rely on economic insights experts or elite class opinions heavily or excessively, but they can have access to a broader scope of expertise and different layers and angles of perspectives.
 - category level analysis—comparing how well a business delivers services for a range of individual activities and functions, including over time and with its peers

- predictive modelling—statistical analysis to predict future spending needs, currently used to assess the need for upgrades or replacement as demand changes (augmentation capex, or augex) and expenditure needed to replace aging assets (replacement capex, or repex)
- trend analysis—forecasting future expenditure based on historical information, particularly useful for opex where spending is largely recurrent and predictable
- cost benefit analysis—assessing whether the business has chosen spending options that reflect the best value for money
- project review—a detailed engineering examination of specific proposed projects or programs
- methodology review—examining processes, assumptions, inputs, and models that the business used to develop its proposal
- governance and policy review—examining the business’s strategic planning, risk management, asset management and prioritisation.

Panel member g:

No, AER must close all the loopholes in their benchmarking framework. Companies must not have different accounting rules. AER must give them notice that all companies should adopt the same accounting process in next year. It will eliminate such challenges in the next planning session.

Panel member h:

The AER's approach appears to require a large reduction in budget, which is significantly less than current levels, and far below the levels proposed by Jemena, which already include reductions for increased efficiency. If the cuts are too severe, it could possibly affect the service levels. In the people's panel process, the feedback given was that people want investment and service levels to be maintained, even if the cost reductions for consumers are lower.

Additionally, the constant TOTEX to OPEX ratio proposed by Jemena in its updated proposal (in purple on the slide) captures a wider picture of the total cost of running the business, encapsulating the differences in OPEX and CAPEX between businesses.

Panel member i:

Yes, I have formed the opinion that Jemena's Counter Proposal to the AER is ideal in answer to this question. Why? Because Jemena's methodology and explanation makes a lot of sense.

Panel member j:

No, the 2019 option seemed to advantage some big companies and therefore would receive more funding than needed, while the other option of excluding certain factors was vague and needed further explanation as to when it would apply.

Panel member k:

I think there needs to be more investigation into the capital expenditure for Jemena as compared to other companies - because the AER's benchmarking doesn't account for capex differences between companies and this seems unfair. It seems like Jemena chooses more opex solutions for its customers (for certain reasons like higher population growth in its network than its peers). I think capex differences need to be accounted for between companies, so instead of comparing 'oranges to apples' we can compare 'oranges to oranges'.

Q 5. How reasonable is Jemena's response / counter proposal?

Why did you give the above response?

Panel member a:

9. Very reasonable.

Jemenas proposal is fair and reasonable. They have based their operation cost benchmarks on the 2018 numbers to establish a realistic and sustainable proposal. Similarly their methodology on opex/apex choices are fair. They are reducing their overall expenditure by a considerable amount yet providing existing service levels, introducing new energy green programs and more importantly working towards implementing changes that will reduce our energy bills. Of course there is always areas for Jemena to improve their operational cost, and Im confident that they will continue to review all costs on an ongoing proess. If however the 2014 benchmarks are used this doesn't provide a realistic budget for Jemena to work with to deliver the proposed projects or offer the customers a reasonable reduction in costs.

Panel member b:

9. I feel that Jemena should have asked for a bit more as I am concerned that the AER will again agree to less than what Jemena has presented in the counter-proposal, and to reiterate, that this may set a precedent for the AER's future responses. This would also have allowed the goals identified by the People's Panel to be achieved without the impact of the cost reductions applied in the counter-proposal, however I understand that this can put Jemena into a precarious position in formulating a rational proposal under providing burden of proof in benchmarking to the AER, and possibly being perceived as unreasonable by the AER. I feel that the cost reductions applied by Jemena to the draft decision to compromise with the AER are not sufficiently significant to consumers and the goals of the People's Panel. I do, however, believe that the individuals working through this process and producing outcomes are experts in their fields and respond efficiently and intelligently to these challenges, and I appreciate that they have endeavoured to, and continue to, seek the input, opinions, and scrutiny from the People's Panel.

Panel member c:

7. If the regulator's benchmarking model is flawed in some way then Jemena is well within reason to point out and seek adjustments from the regulator. The key is in identifying the factors that cause the extreme outcome from AER's benchmarking model (unique factors that are particularly unfavorable to Jemena relative to others), and if found reasonable and accepted, should reconcile most of the differences in the numbers of both sides.

Panel member d:

8. If the proportion of allowance not given immediately back to the consumer is retained for improvement in the other desirable outcomes (such as reliability or greening the grid), then there is a long term benefit for the consumer. This needs to be outlined to the regulator. I think it is important that the regulator is asked to understand that the original people's panel identified other desirable outcomes aside from having the cheapest possible delivery. By all means, nobody wishes to see a company living off the fat of largess, but surely the regulator can make sustainability and greening the grid additional KPIs. These deserve their own weighting in the benchmarking process. There may be differences in how important these factors are around the country, but I cannot believe that we are alone in having concern about these matters - and are willing to pay for the provision of these desirables. It is not always down to the bottom line in all products we purchase.

Panel member e:

5. Definitely some of the points that are raised by Jemena are reasonable in terms of how AER is using benchmarking and there is room for improving the formula so there are comparing apples with apples.

Panel member f:

I give 7 in view of Jemena's presented major arguments in their proposal.

1. Previous regulatory cycles may have given the impression that Jemena was not competent enough to control "opex" elements. There were big rises in CY12 and CY17, ridiculously high. 5 years hike with 2 extremely high balanced by 5 year dropped prices
2. AER may have been expecting more "stable" or "predictable" opex throughout the regulatory period. If a business is efficient and has been responding to our expenditure incentives measures, its past expenditure is often a good indicator of how much it will need to spend in future (See the expenditure forecast assessment guideline)
3. CY14-15, CY18,19,20 appear to be more "reasonable" falling within community expectations.
4. The AER's operating expenditure economic benchmarking does not account for differences in capitalisation practices applied by other DNSPs. The AER recognises this potential issue in its draft 2020 benchmarking report – noting that differences in capitalisation practices may materially impact the comparability of operating expenditure benchmarking results. The AER states that it intends to consult on this issue during 2021 (See P.16)
5. Fair and balanced comparison: comparing three expenditure ratios for JEN—namely operating expenditure to total expenditure, operating expenditure to total cost and operating expenditure to total inputs—to those of its benchmark DNSPs.
6. Benchmarking workable satisfying outcomes are achieved by attaining accuracy, correctness, well-consideration of all factors and give and take compromises.
7. Benchmarking process should always be guided by timeless principles such as being well-balanced, fair, just, transparent/open rather than secretive, accountable, auditable, subject to public scrutiny and constructive criticism, realistic, truth and evidence-based, not self-interested, free from conflicts of interests, up-to-dated, timely, and clearly and concise in its terms and communications.

Panel member g:

8. Jemena proposal is reasonable. However, it is not addressing the root cause. I feel, Jemena is catching up with benchmarking and they will be in the same boat during the next planning session. Hence, they should also submit that what are they doing to address the gaps in benchmarking or what updates are expected from AER.

Panel member h:

9. Jemena's response was well thought out, and offered additional savings for consumers, while maintaining the current service levels, with additional investments as appropriate.

Panel member i:

8. Because it takes into account fair factors for all involved on a fair, long term condition and the AER SHOULD adopt Jemena's Counter Proposal.

Panel member j:

6. Presentation had a lot of statistics, but was lacking certain comparisons. A comparison of now vs moving forward - how does this decision change the way Jemena would operate and does this mean more cost to jemena but more funding would be given to them. This is still left unclear. As mentioned previously, the statistics on making these changes and crunching the numbers was not provided. - what would be the gap then and how much more funding would be given?

Panel member k:

I would say about 8. I think the counter proposal seems like a good compromise between the AER and Jemena, especially considering that the AER's benchmarking is not perfect, and there seems to be some flaws in the way that the benchmarking compares companies. There is still a cost reduction, but a small one and any cost savings would be passed on the customers, which is great. In the meantime, Jemena will work on reducing its opex over the years. This is positive.

APPENDIX B. PRESENTATIONS

Peoples Panel: 7- 23 Dec 2020

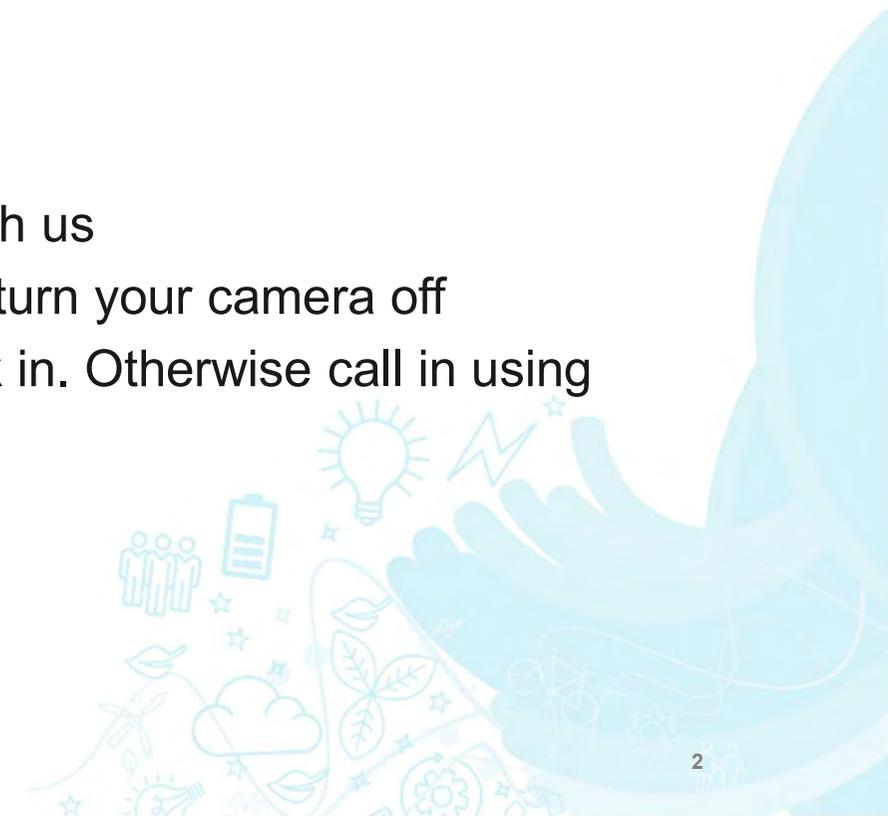
Deep dive into benchmarking



Welcome People's Panel

A little bit of housekeeping before we get started:

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Session 1 – 7th Dec

QU: What other parties do the People's Panel think represent the views of the customer well?

Session 2 – 14th Dec

QU: What outcomes or principles do the People's Panel think are important for benchmarking?

Session 3 – 21st Dec

QU: Has the approach taken to benchmarking been in the interests of Jemena's customers

QU: How reasonable is Jemena's counter proposal?

Homework

- > Each participant completes their homework sheet
- > Send it to Rob McMillan

>



- > What will we do with it:
 - > Jemena has asked Rob McMillan to write a summary of the PP's views
 - > We'll send it to the AER



Session 1 – let's get started

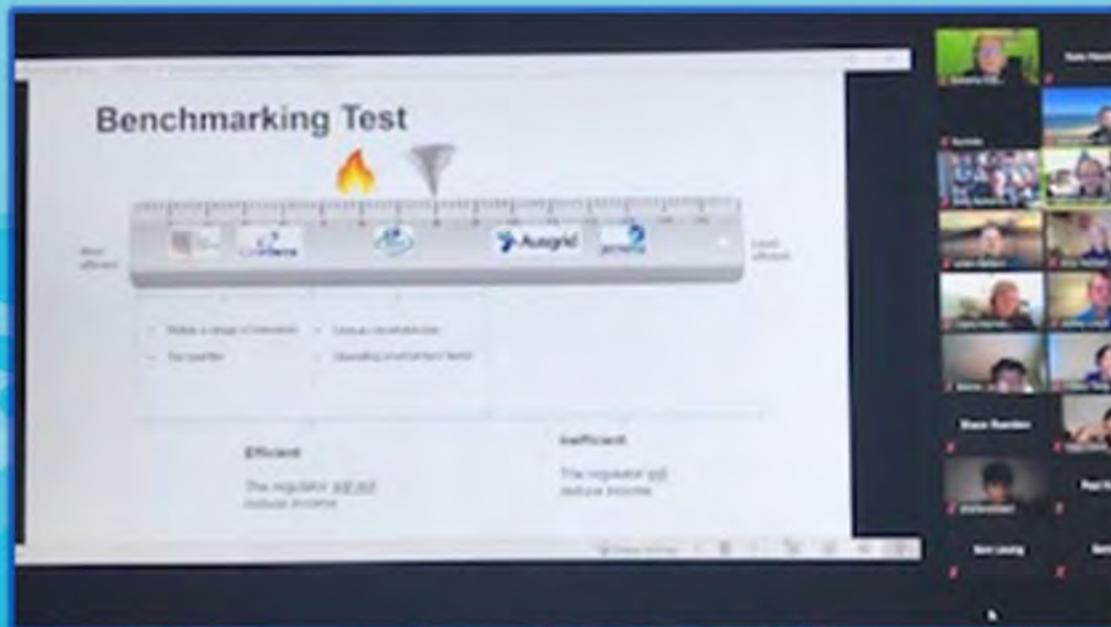


Key homework question

- > Which parties do you think are best placed to also represent the views of the People's Panel?
- > Which views / perspectives did you hear that you think align well to the opinions of the People's Panel?

Remember - You don't need to answer now, but these questions are in your homework

Recap on our last session



Benchmark

Operational costs

Revenue

Your bill

Types of costs – Electricity networks

One off ✓

Regular ✗



Transformers



Running the control room

Slide 9

DC4

Is your intent to skip through these 4 slides quickly rather than walk through them? I like the idea of them being here, I am thinking of the short time we have only.

Deb Capicchiano, 30/11/2020

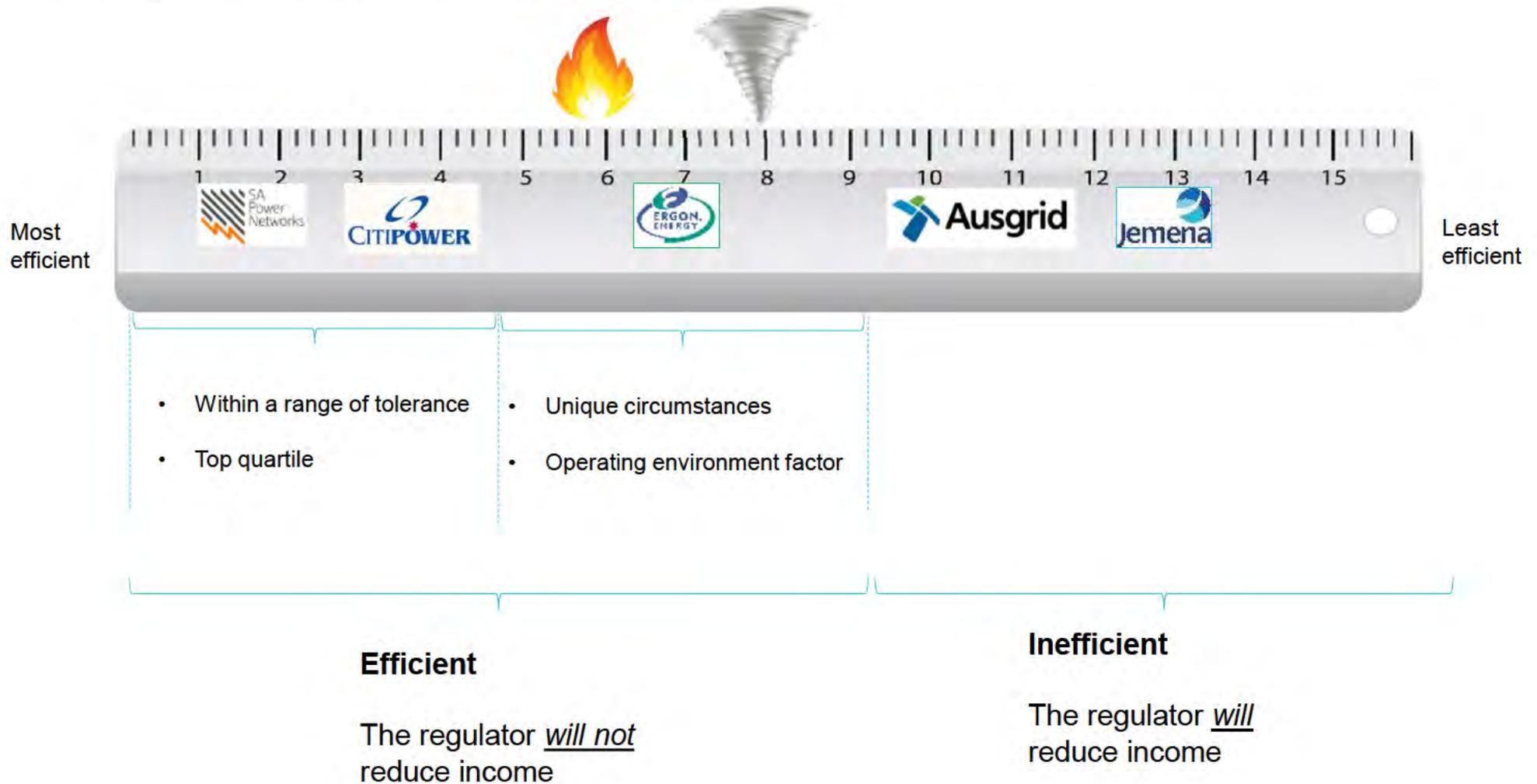
Benchmark Rankings



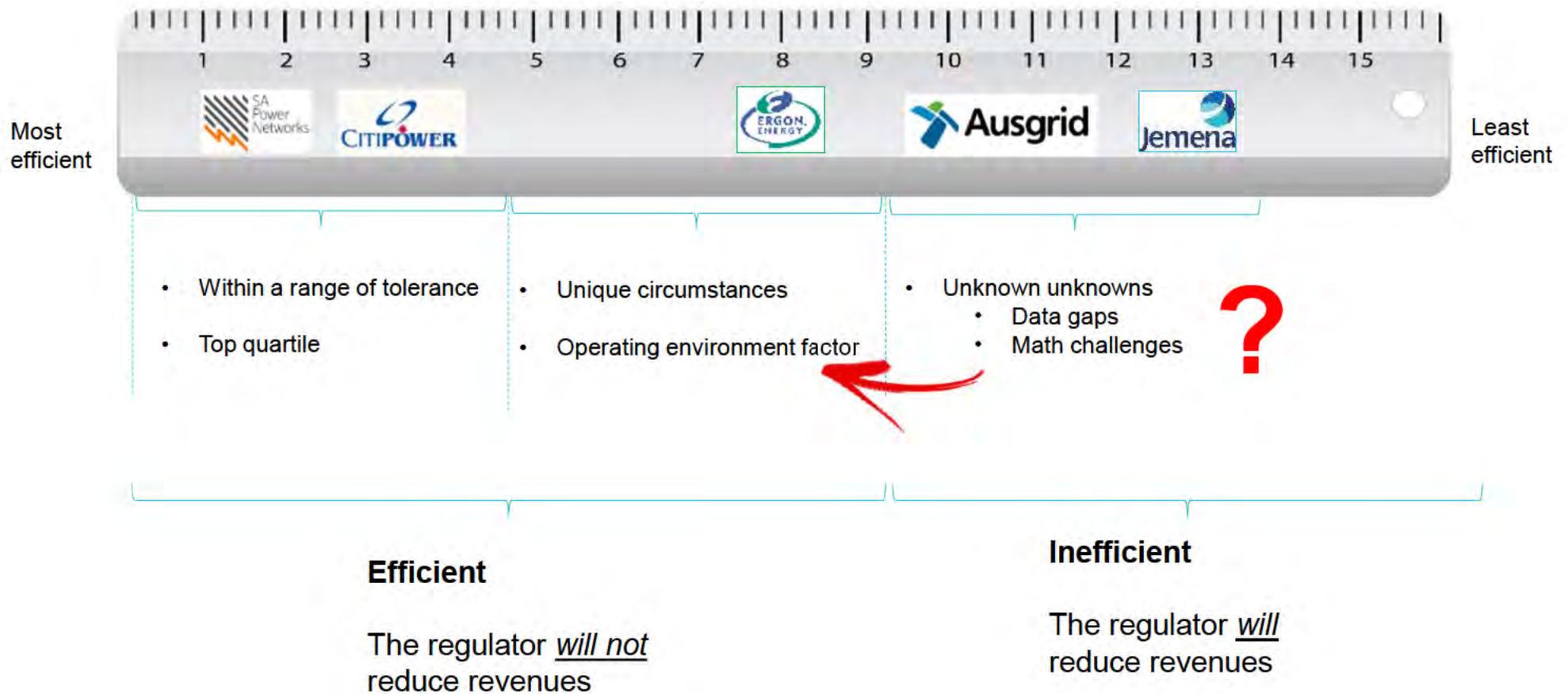
 **Most efficient**

Least efficient 

Benchmarking Test



Better Benchmarking



Who considers the impacts for customers?



The Council on the Ageing VIC (COTA VIC)



Brotherhood of St Laurence



Kildonan UnitingCare



The St Vincent de Paul Society



Energy Consumers Australia

Benchmark



Operational costs



Revenue



Your bill

Stakeholders contributing to the process

Stakeholders have and will continue to provide views on Jemena's proposal

- Economic consultant
- Independent customer lobby group
 - Energy Consumers Australia
 - Welfare group (eg, St Vincent De Paul)
- Consumer Challenge Panel
- Australian Energy Regulator
- Government
- Jemena



What did you tell us?

Who should provide a customer view on how Jemena's operating efficiency is measured?

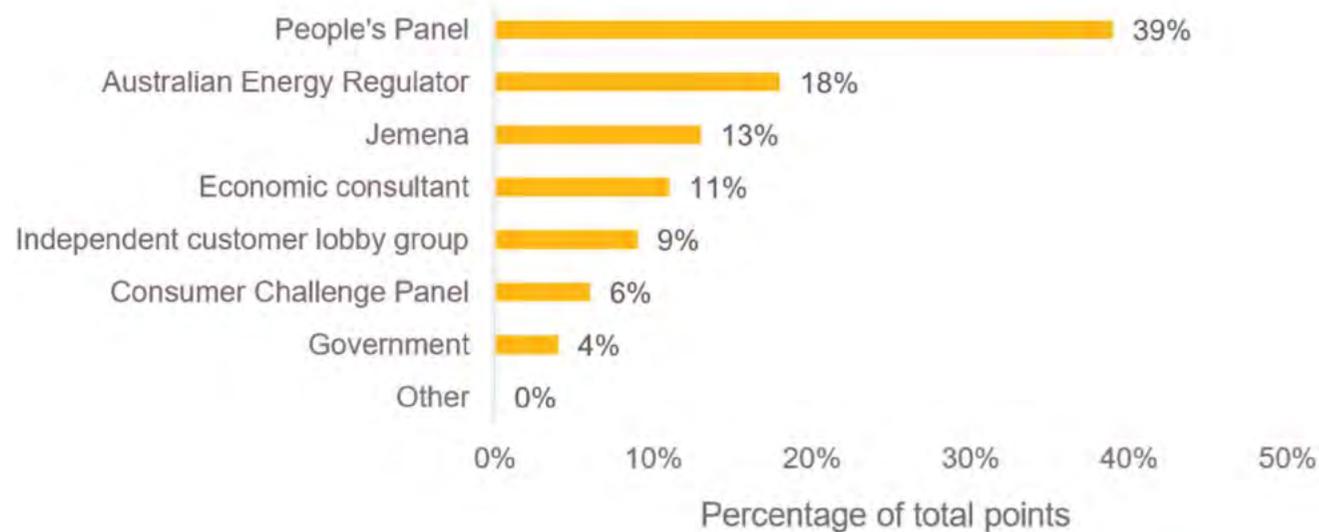


Figure 2: Forum 1 participants indicated who should provide a customer view on Jemena's operating efficiency measurement with a 100-point scale (n=600)

What did you tell us?

To conclude the forum, participants were asked: *if you didn't feel that you could participate in the conversation, who would you want to represent your voice?* Their responses were:

- Energy Consumers Australia
- AER
- Economic consultant
- Consumer Challenge Panel
- Independent customer lobbying group
- A combination of the Consumer Challenge Panel and Energy Consumers Australia and an economic consultant
- Consumer advocate like St Vincent de Paul Society
- Energy Users Association of Australia
- Australian Competition and Consumer Commission (ACCC)

Three questions

- > What are the different roles of the organisations involved
- > How do they consider customers interests
- > Do they have any views on benchmarking or efficiency to share



Let's hear from some of the people involved

- > Mark Henley - CCP
- > Emma Chessel – Botherhood of St Lawrence
- > Rob McMillan – Economic consultant

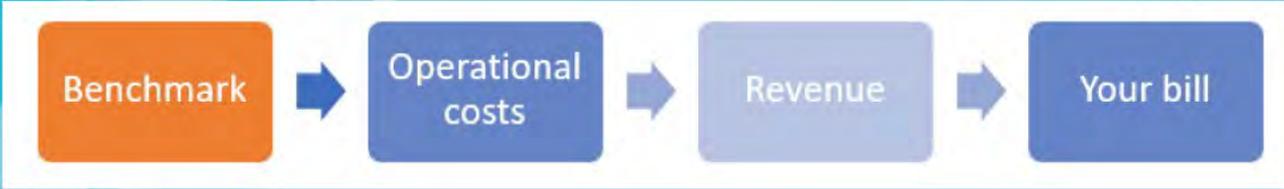


Who have we missed?

- > Jemena
- > Australian Energy Regulator
- > Government



Introduction to benchmarking



What is benchmarking?

A tool to compare who is more efficient in managing its costs

If we compare the ongoing spend of 2 identical households both with a family of 4 people (monthly):



Products/services	Family A	Family B
Place to stay	Rent \$2500	Rent \$2000
Utility bills	\$700	\$500
Groceries	\$600	\$1000
Eating out	\$500	\$300
Total opex	\$4300	\$3800
Which one benchmarks better?		✓

Benchmarking is top-down

It assess costs at a total level and not individual category level – benchmarking is not fully informed of reasons for differences between individual categories

For example, family A spend *less* on groceries but *more* on eating out



Products/services	Family A	Family B
Place to stay	Rent \$2500	Rent \$2000
Utility bills	\$700	\$500
Groceries	\$600	\$1000
Eating out	\$500	\$300
Total opex	\$4300	\$3800
Which one benchmarks better?		✓

Other factors to consider in benchmarking

Costs may not be comparable due to factors such as geographical location, different requirements between states, and other operating environment factors

Family A's area has *colder winters* and *higher average housing price* - need adjustments to compare like-for-like:



Products/services	Family A	Family A (adjusted)	Family B
Place to stay	Rent \$2500	Rent \$2000	Rent \$2000
Utility bills	\$700	\$500	\$500
Groceries	\$600	\$600	\$1000
Eating out	\$500	\$500	\$300
Total opex	\$4300	\$3600	\$3800
Which one benchmarks better?		✓	

What benchmarking does not account for currently

It does not account for capex or totex efficiencies – or interactions between opex and capex

If family B buys a house, it no longer pays rent, it appears more cost efficient:



This is not accounted for in AER's opex benchmarking

Products/services	Family A	Family B
Place to stay	Rent \$2000	Rent \$0 (Home owner)
Utility bills	\$500	\$500
Groceries & Eating out	\$1100	\$1100
Total opex	\$3600	\$1600
Which one benchmarks better?		✓
Purchase of property (capex)	-	\$1 million

In the context of network businesses...

How is benchmarking undertaken for network businesses?

Costs

What cost does the AER benchmark?

Total opex

(Capex is not considered)

Cost drivers

What drives cost?



Customer numbers



Circuit length



Other drivers

Operating environment factors

What factors impact the comparability of costs across businesses?

- Seasonal storms
- Regulatory obligations
- State taxes and levies
- Proportion of underground network
- Higher cost in maintaining certain assets
- Accounting practices



In the context of network businesses...

AER's benchmarking focuses on opex only - Capex is not accounted for

Opex vs capex?

A business can choose:



Cloud based subscriptions

Purchase licences

Opex

Capex

Accounting treatment

Classification of back office costs:



Opex

Capex

AER's Benchmarking

Current benchmarking models only assess opex – do not account for capex

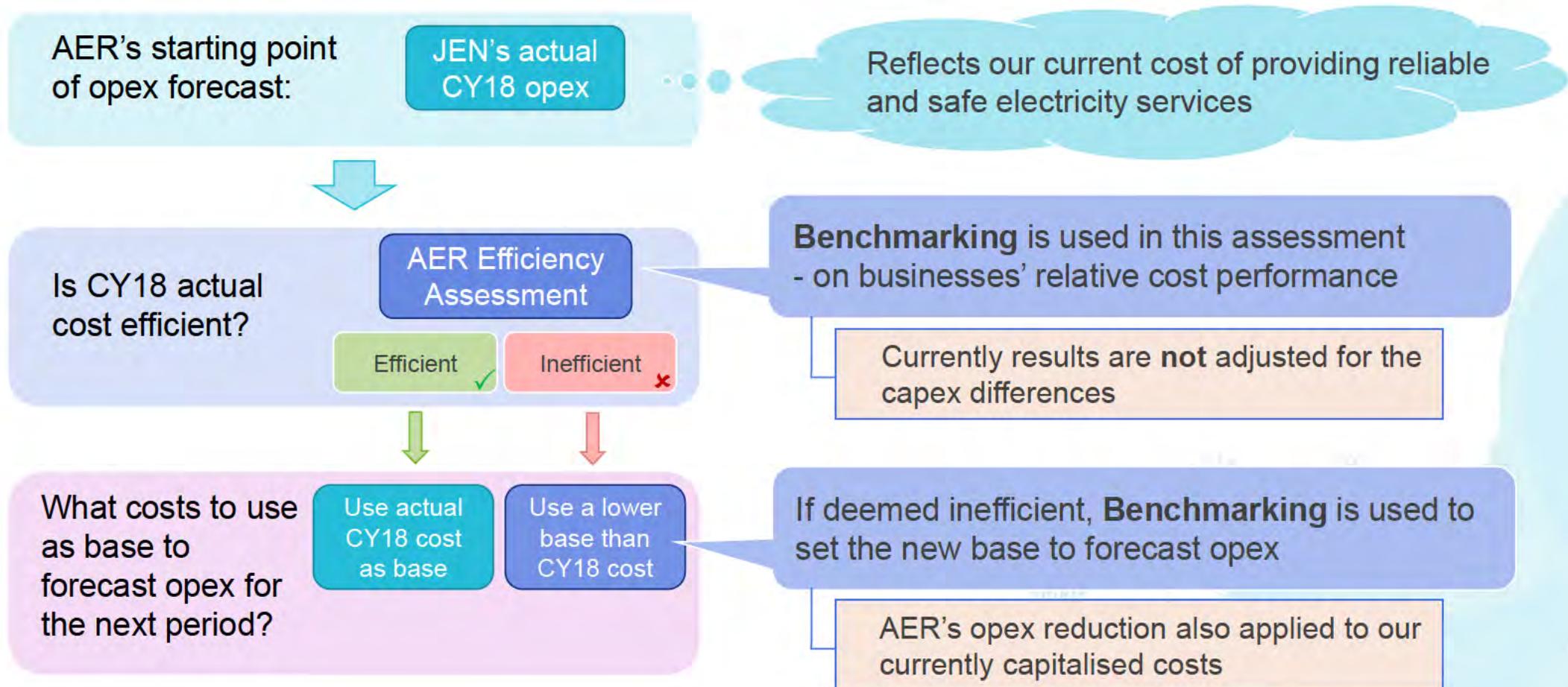
This means that benchmarking results can be biased

Rely on biased benchmarking results can result in an incorrect AER decision

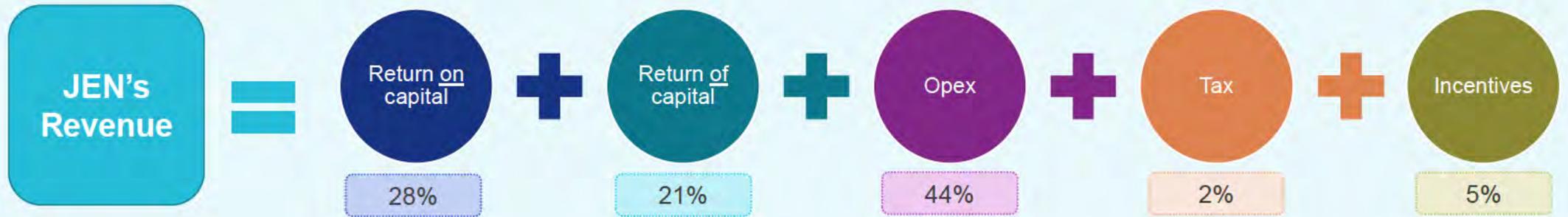
Adjustments required to account for capex differences

JEN cannot accept the AER's decision without such adjustments

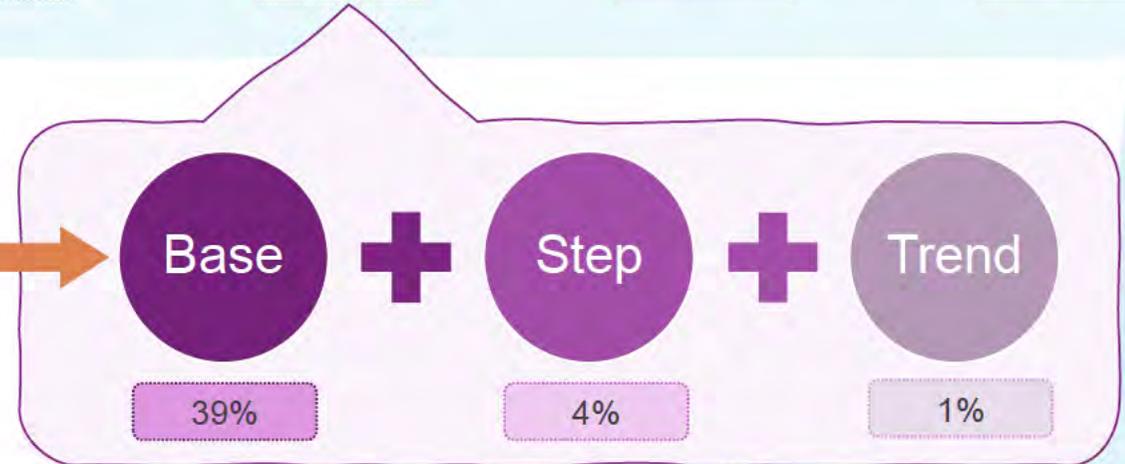
AER's base opex assessment



Why it matters



Benchmarking is used to assess 39% of JEN's revenue over the next 5 years





**KEEP
CALM
AND
WRAP IT
UP**



Jemena

Key homework question

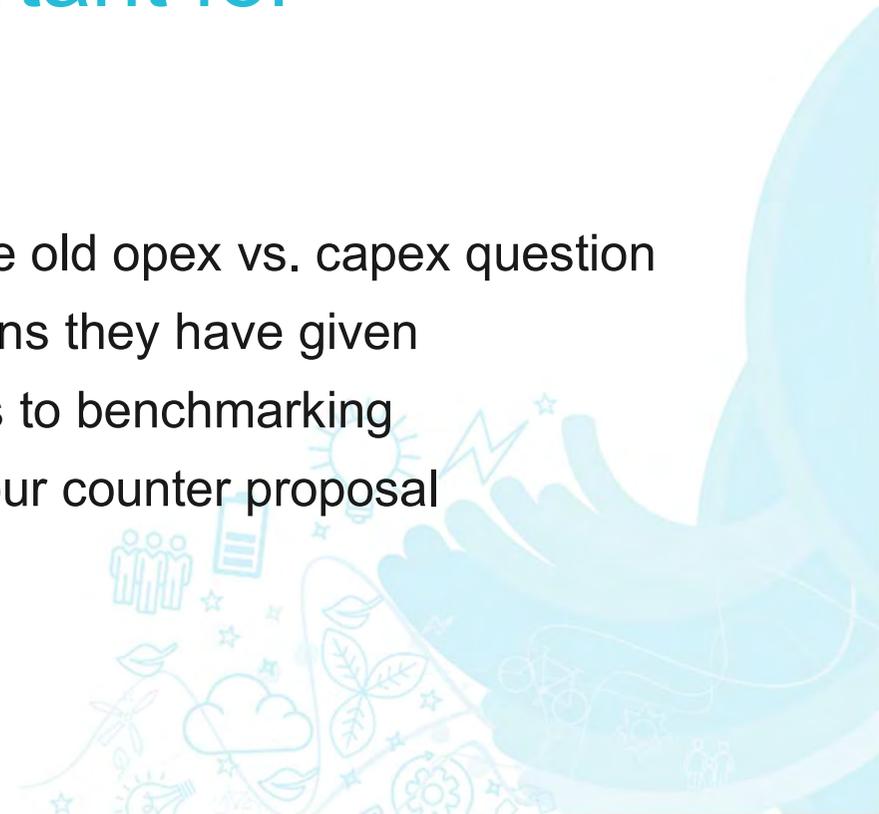
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Remember - You don't need to answer now, but these questions are in your homework

Next week

QU: What outcomes or principles do the People's Panel think are important for benchmarking?

- > How does Jemena treat different types of costs – the old opex vs. capex question
- > We'll unpack the AER's draft decision and the reasons they have given
- > We'll consider the limitations of different approaches to benchmarking
- > We'll explain Jemena's position and what's behind our counter proposal



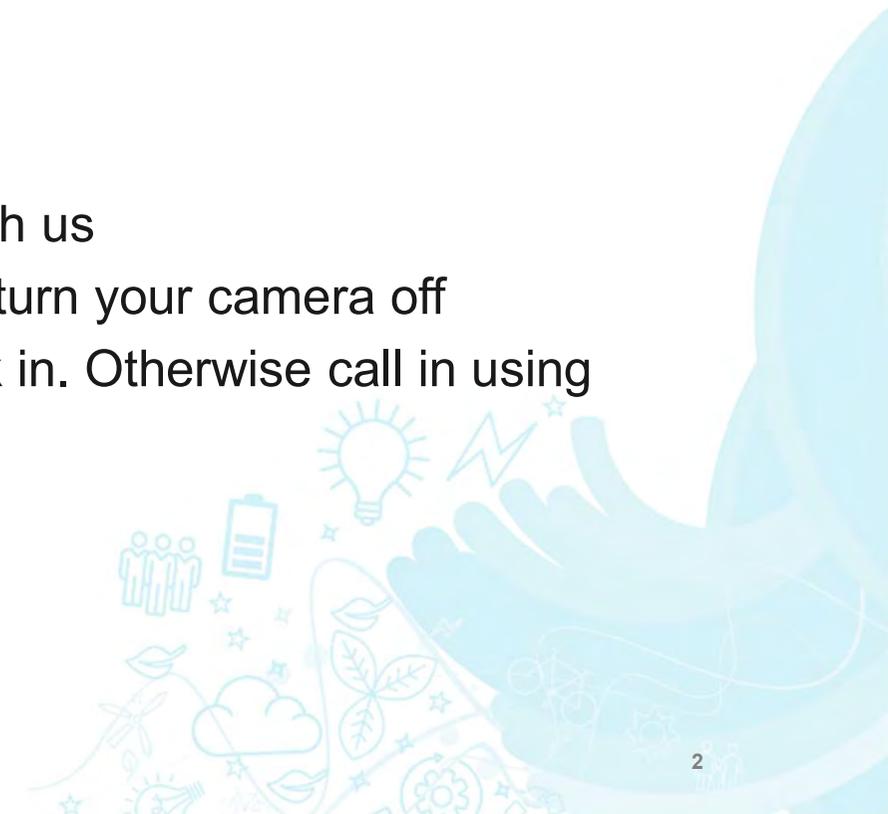
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> [REDACTED]

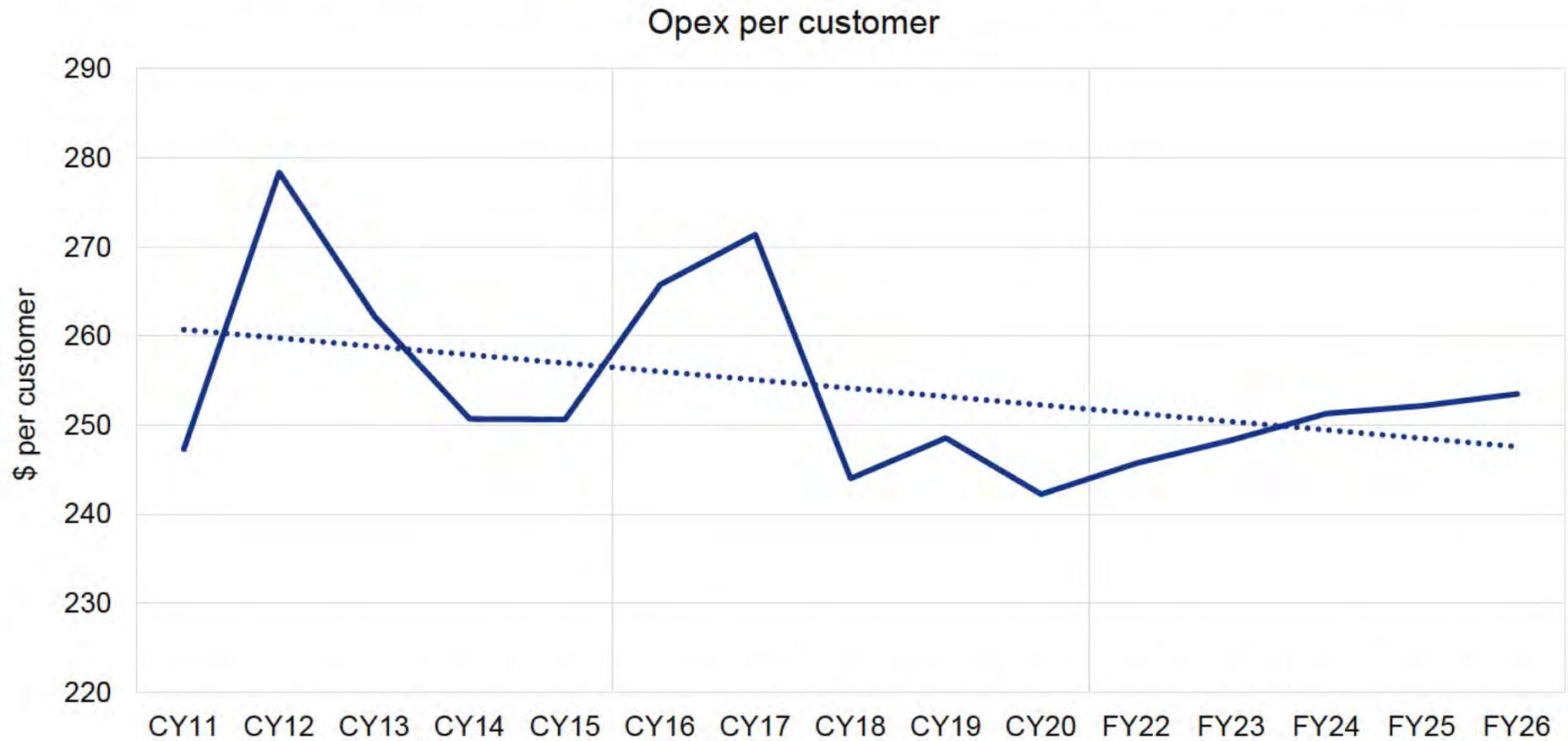
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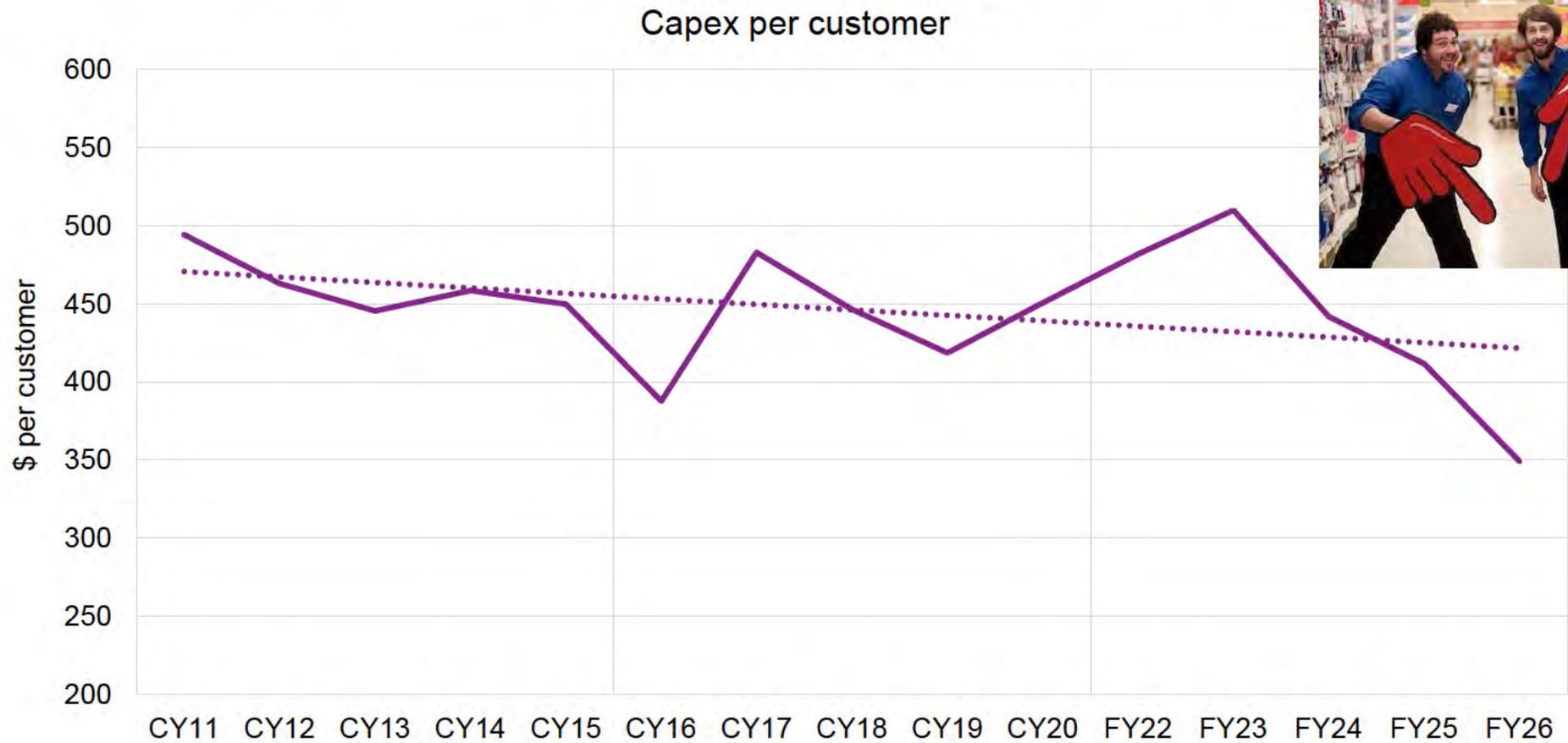
Questions from session 1



How has our opex changed over time?



How has our capex changed over time?



Recap of session 1



What benchmarking does not account for currently

It does not account for capex or totex efficiencies – or interactions between opex and capex

If family B buys a house, it no longer pays rent, it appears more cost efficient:



This is not accounted for in AER's opex benchmarking

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Which one benchmarks better?		✓
Purchase of property (capex)	-	\$1 million

Benchmarking does not account for...

AER's benchmarking focuses on opex only - Capex is not accounted for

Opex vs capex?

A business can choose:



Cloud based subscriptions

Purchase licences

Opex

Capex

Accounting treatment

Classification of back office costs:



Opex

Capex

AER's Benchmarking

Current benchmarking models only assess opex – do not account for capex

This means that benchmarking results can be biased

Rely on biased benchmarking results can result in an incorrect AER decision

Adjustments required to account for capex differences

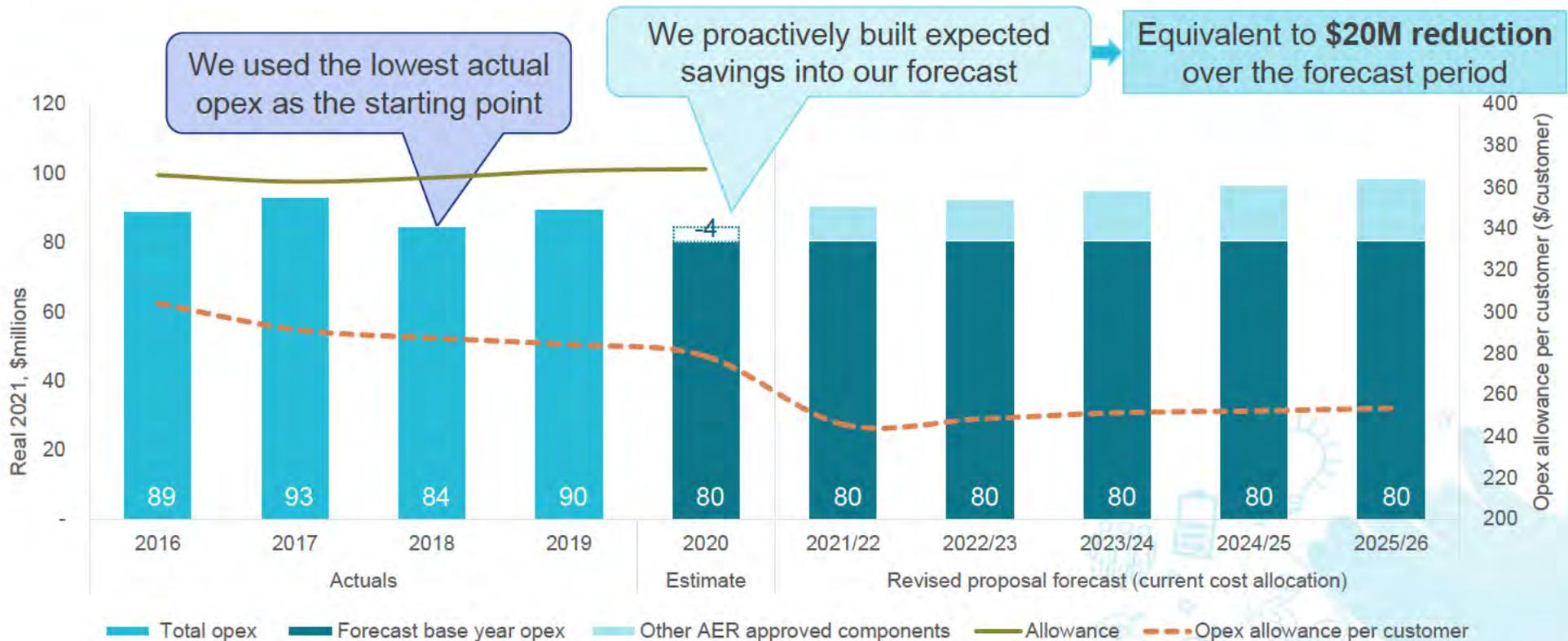
JEN cannot accept the AER's decision without such adjustments

Session 2 –AER decision and our proposal



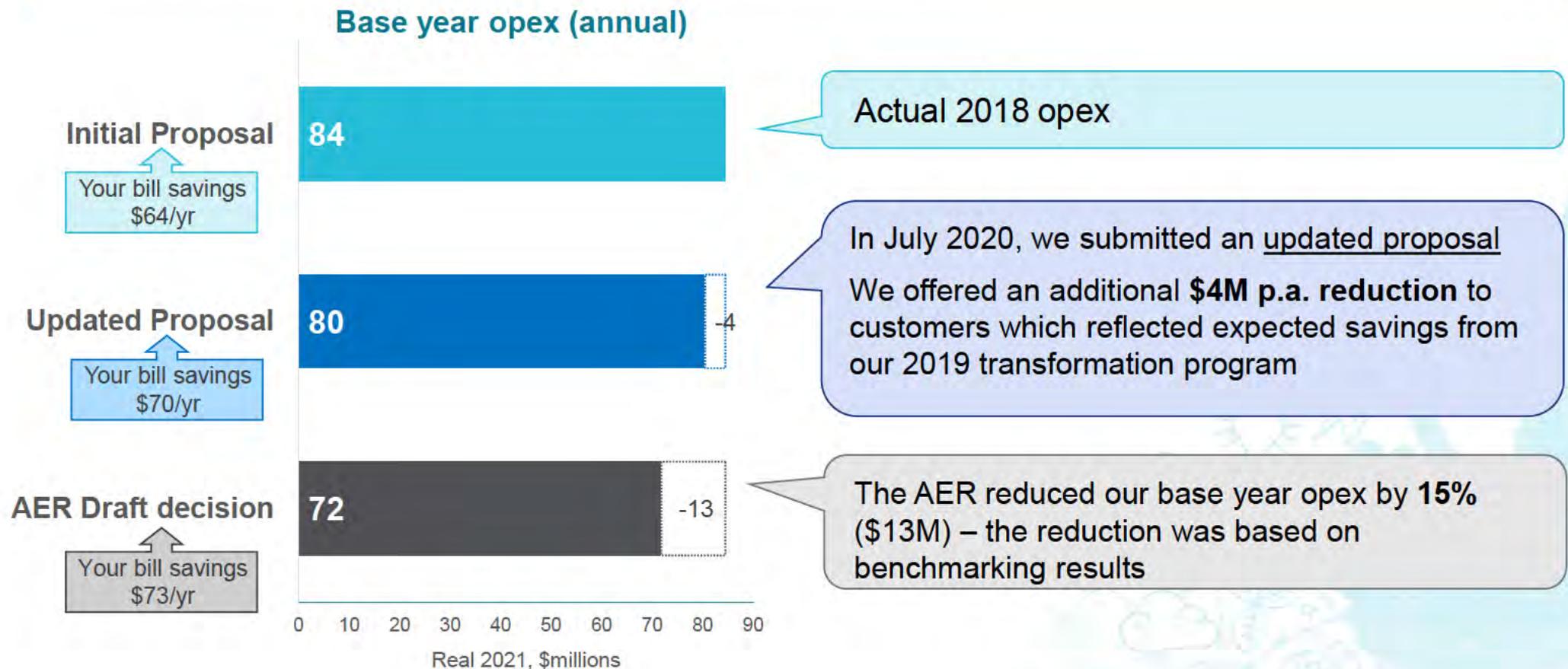
Our historical performance

We consistently spent below the AER's allowance with declining opex per customer



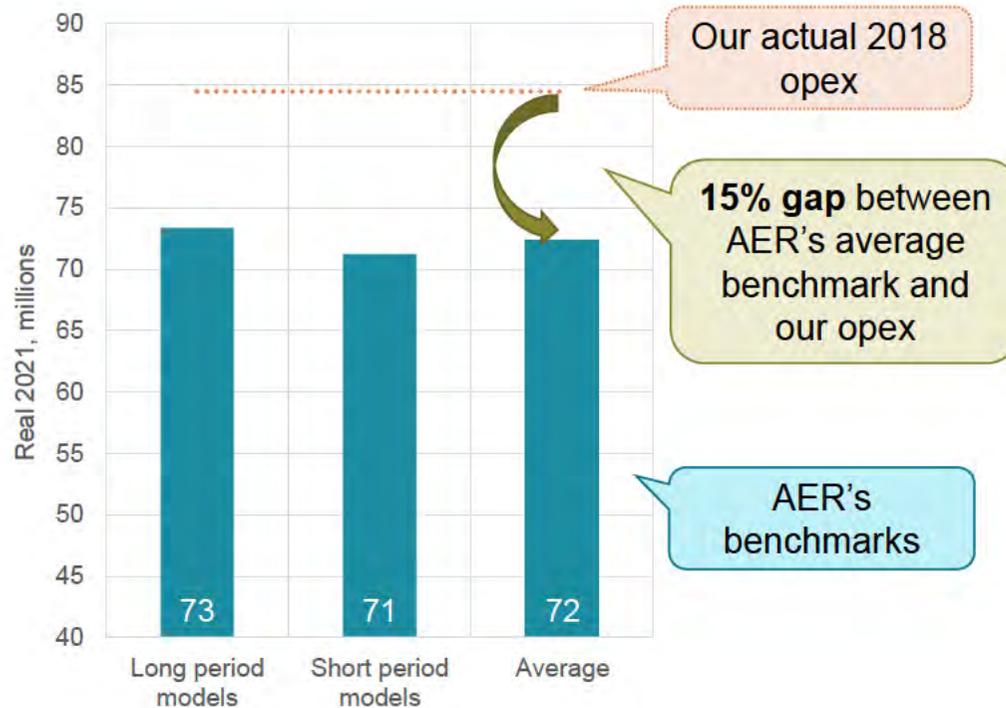
Our base year opex

Our proposals and the AER's draft decision on base year opex



AER's draft decision

The AER relied on benchmarking results from statistical models to set a lower base



AER's assessment

Is JEN's opex below the benchmarks?

Efficient

Yes

No

Is the gap between JEN's opex and AER's benchmark material?

Yes - material

No - within threshold

Use benchmark opex as starting point

Use JEN's actual opex as starting point

Our concerns

The benchmarking result does not account for opex capex choices

Opex vs capex?

A business can choose:



Cloud based subscriptions

Purchase licences

Opex

Capex

JEN chooses more opex solutions than its peers

JEN appears inefficient due to differences in choices

Benchmarking is based on cost allocation back in 2014

Not reflecting the current cost allocation for all businesses

Accounting treatment

Classification of back office costs:



Opex

Capex

AER's response to our concerns

The AER considers that our concerns do NOT have a material impact on our benchmarked performance based on its preliminary analysis using opex to totex ratios

What is totex?

Totex = **opex** (ongoing expenditure) + **capex** (one-off expenditure)

Opex to totex ratio

Represents the proportion of our opex over our total expenditure

AER considers it a comparison to reflect the differences in BOTH:

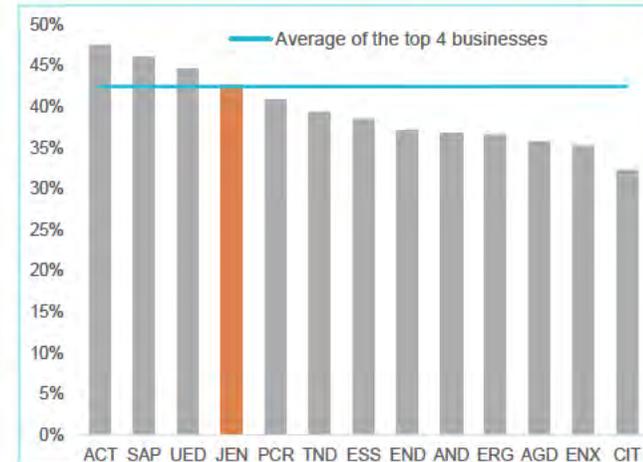
1. Opex / capex choices
2. Cost allocation (including allocation of back office costs)

AER draft decision

JEN's ratio is similar to the average of the top 4 performing businesses

→ No material difference amongst businesses in both *the opex/capex choices* and *cost allocation*

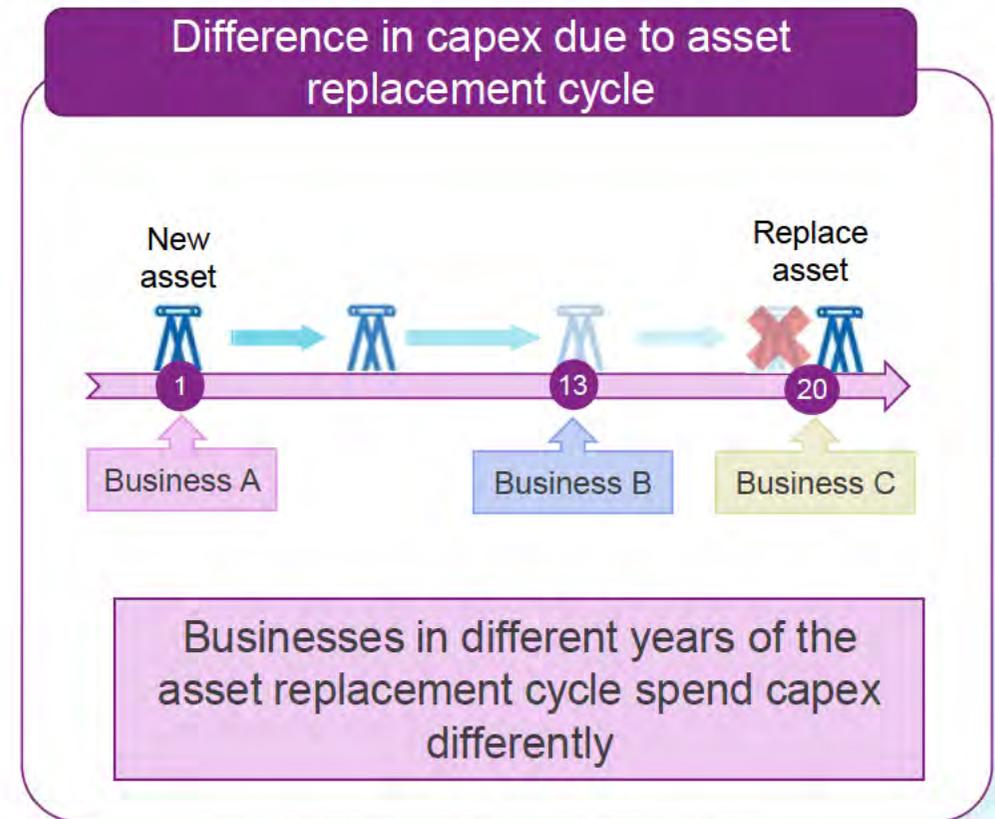
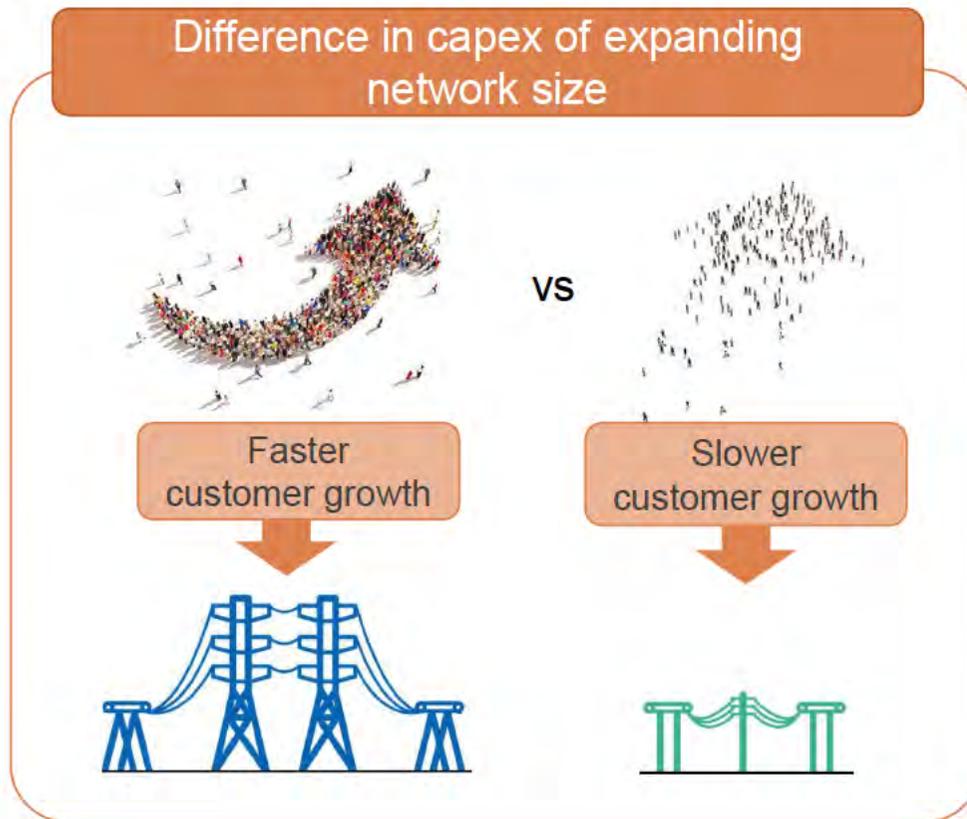
Opex to totex ratio



Our concerns with AER's analysis

The opex to totex ratio captures more than just *opex / capex choices* and *cost allocation*

For example, the ratio can be impacted by other irrelevant factors such as:



Our proposed solution

The two opex / capex issues need to be assessed separately

Opex / capex choices

If the AER wants to rely on opex to totex ratio to assess this difference, it needs to:

1. **investigate** the drivers of capex differences amongst businesses
2. **exclude** capex differences that are irrelevant in the assessment of opex benchmarking



Accounting treatment / cost allocation

To better reflect current circumstances, the AER needs to:

1. consider the benchmarking results based on the **current (2019) cost allocation**
2. make **appropriate adjustments** to our benchmarking results to reflect more updated information



Further benchmarking analysis

We conducted further benchmarking analysis to account for the 2 opex / capex issues



Scenario 1 – use current (2019) cost allocation

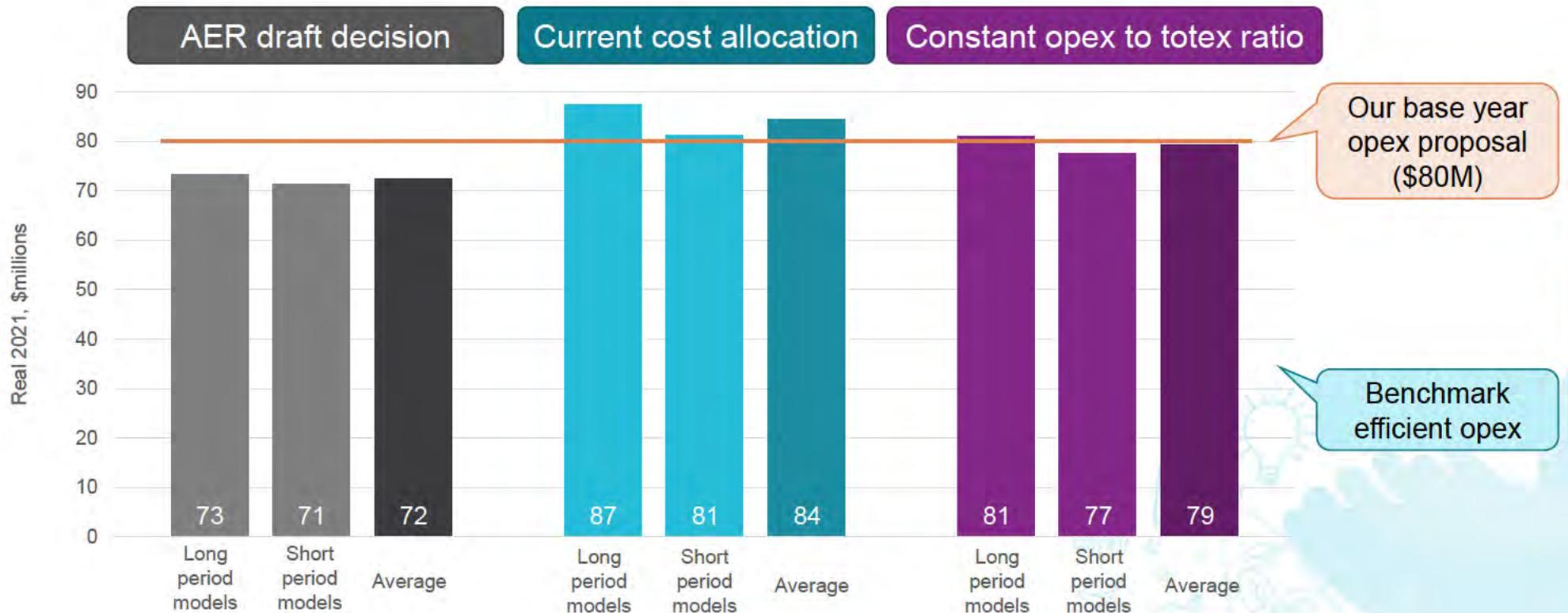
- For the 3 businesses that changed their cost allocation since 2014, we applied their current (2019) cost allocations to the benchmarking dataset

Scenario 2 – apply a constant opex to totex ratio

To normalise for the capex differences and bring all businesses on a more comparable basis, we applied the average opex to totex ratio of the top 4 performing businesses to all 13 network businesses

Updated benchmarking results

Our opex is efficient when capex differences are properly accounted for



Our proposal

Retain our updated proposal base year opex of **\$80M** (2018 opex with \$4M reduction)



- > We use the **lowest actual opex** in the current period (2016-2020) as the starting point
- > Our 2018 opex is **12%** below the AER's 2018 opex allowance

- > We proactively build in achievable **cost reductions** of \$4M per year into our proposal
- > We pass on the immediate cost savings to customers but bear the transformation costs ourselves



- > Benchmarking analysis, after accounting for capex differences, demonstrates that our **base opex** is a **reasonable starting point for setting allowances**



**KEEP
CALM
AND
WRAP IT
UP**



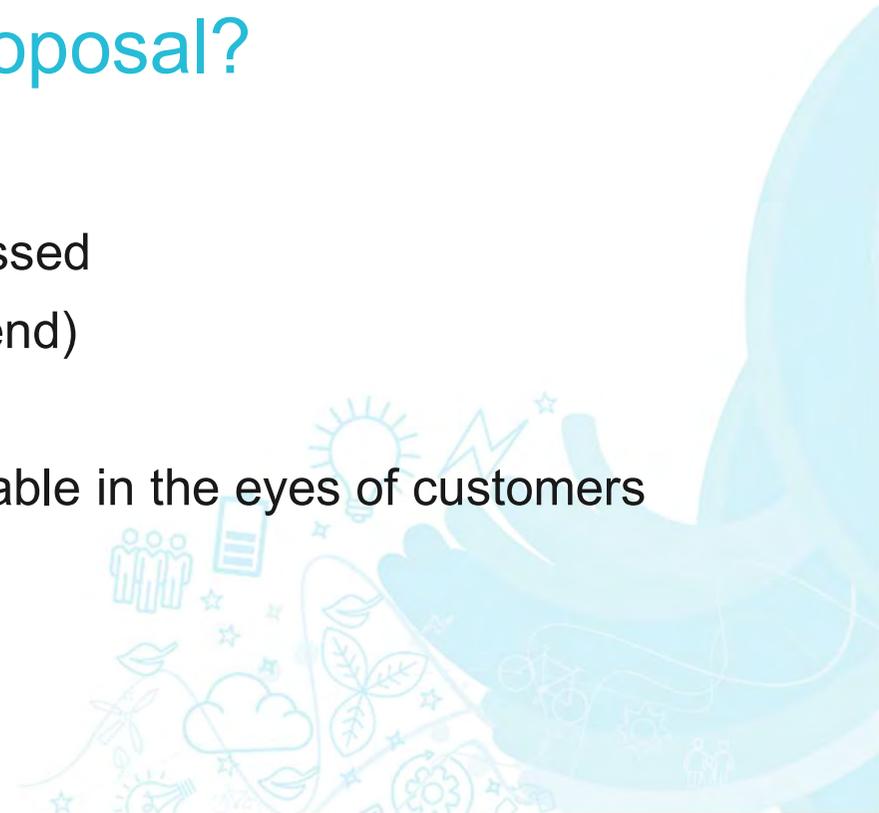
Jemena

Next week

QU: Has the approach taken to benchmarking been in the interests of Jemena's customers

QU: How reasonable is Jemena's proposal?

- > What are the bill impacts of the options we've discussed
- > Understanding timing implications (base + step + trend)
- > Share perspectives on the homework questions
- > Put Jemena's proposal to the pub test – is it reasonable in the eyes of customers



Key homework question

- > How reasonable is the statement “The approach taken to benchmarking Jemena’s operational costs is not in the long term interests of customers”?

Remember - You don't need to answer now, but these questions are in your homework

Do you want to continue?



Peoples Panel: 7- 21 Dec 2020

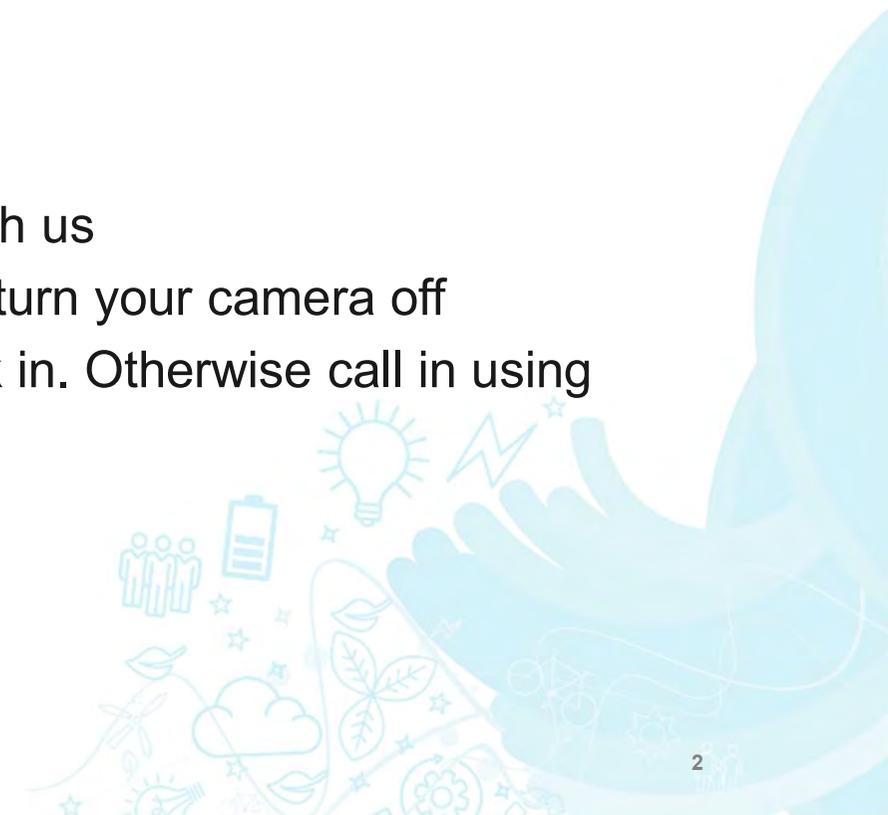
Pub test – how reasonable is Jemena's approach?



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> [REDACTED]

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What will we cover tonight?

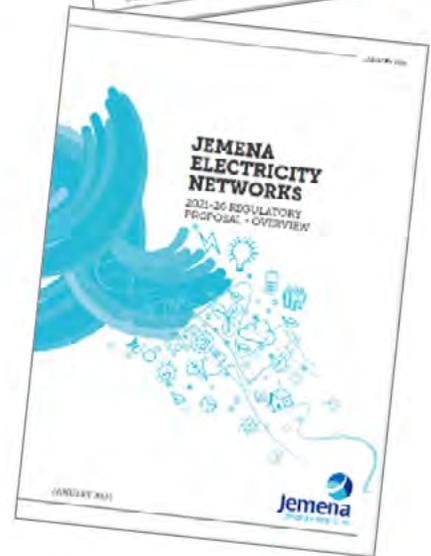
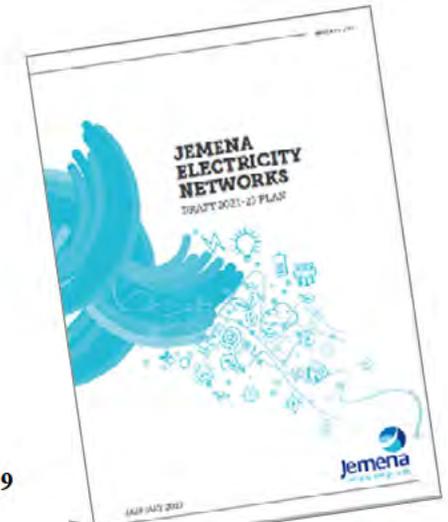
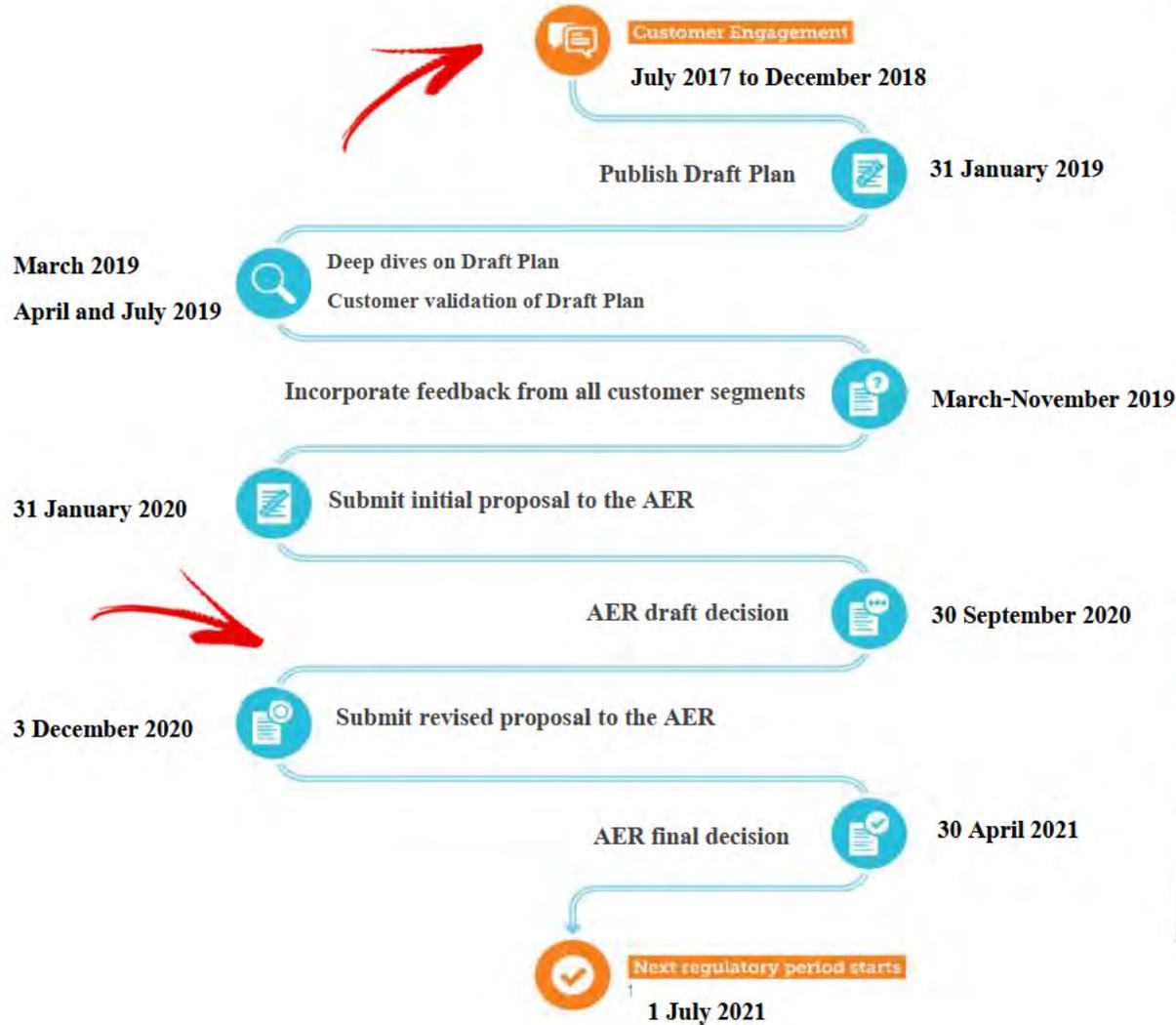
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Overview - reminder of what we have discussed



Recap on the process



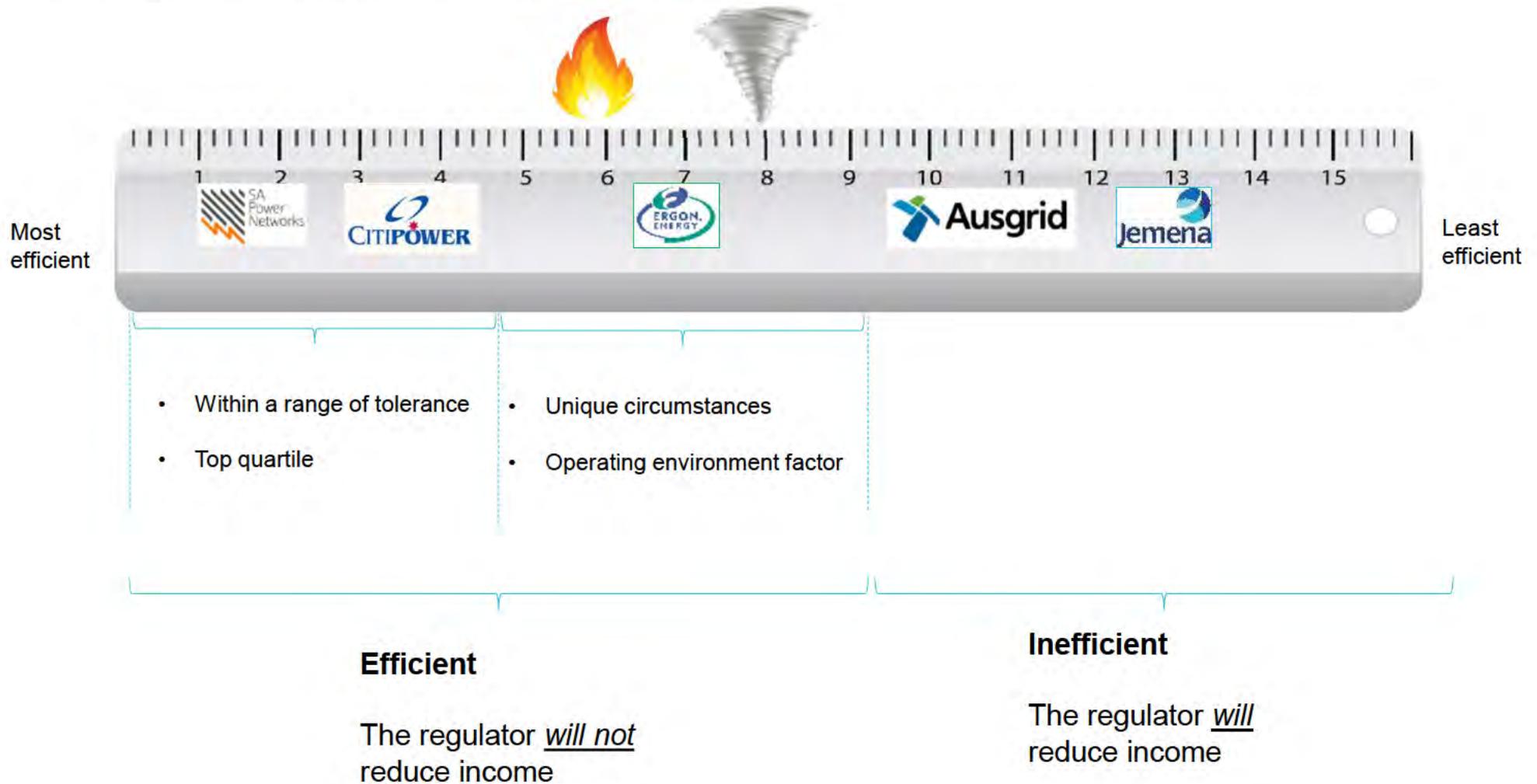
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Stakeholders have and will continue to provide views on Jemena's proposal

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- Independent customer lobby group
 - Energy Consumers Australia
 - Welfare group (eg, St Vincent De Paul)
- Consumer Challenge Panel
- Australian Energy Regulator
- Government
- Jemena

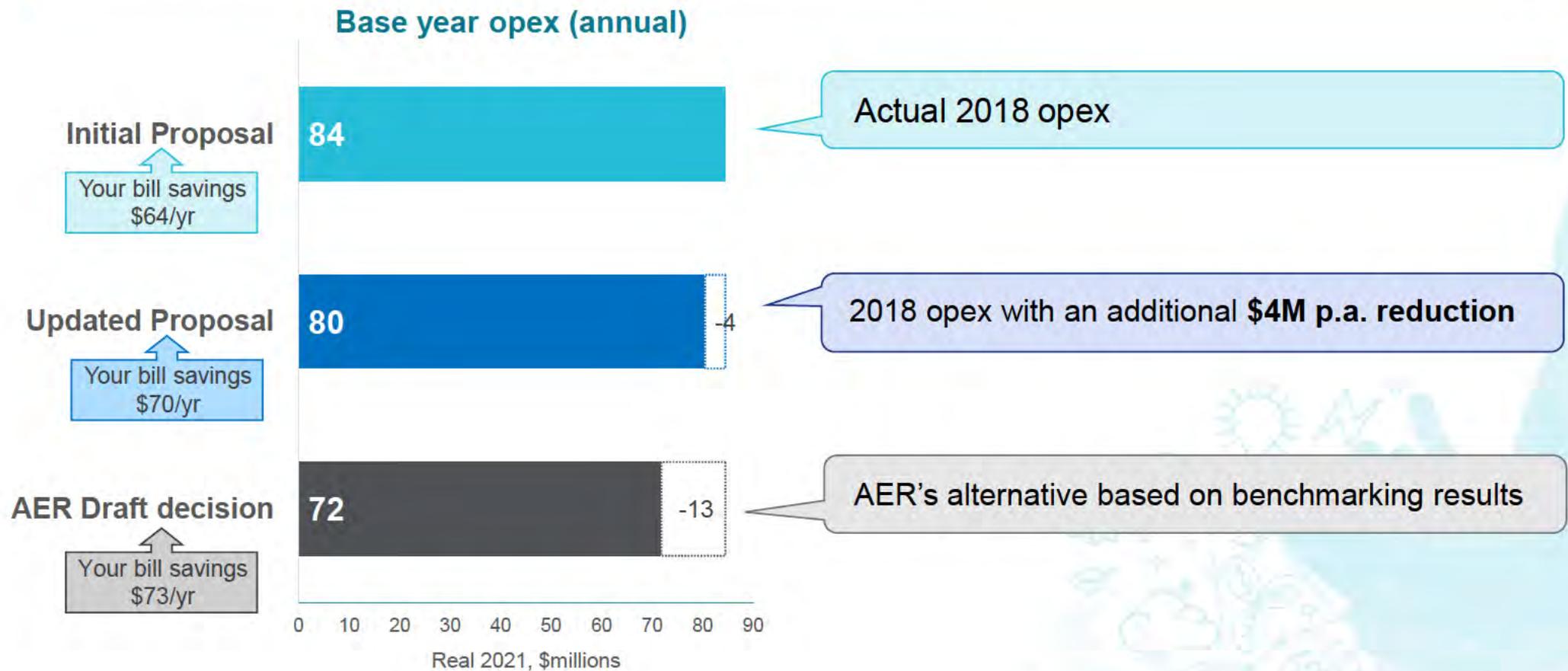


Benchmarking Test



Our base year opex

Our proposals and the AER's draft decision on base year opex



Our proposed solution

The two opex / capex issues need to be assessed separately

Opex / capex choices

If the AER wants to rely on opex to totex ratio to assess this difference, it needs to:

1. **investigate** the drivers of capex differences amongst businesses
2. **exclude** capex differences that are irrelevant in the assessment of opex benchmarking



Accounting treatment / cost allocation

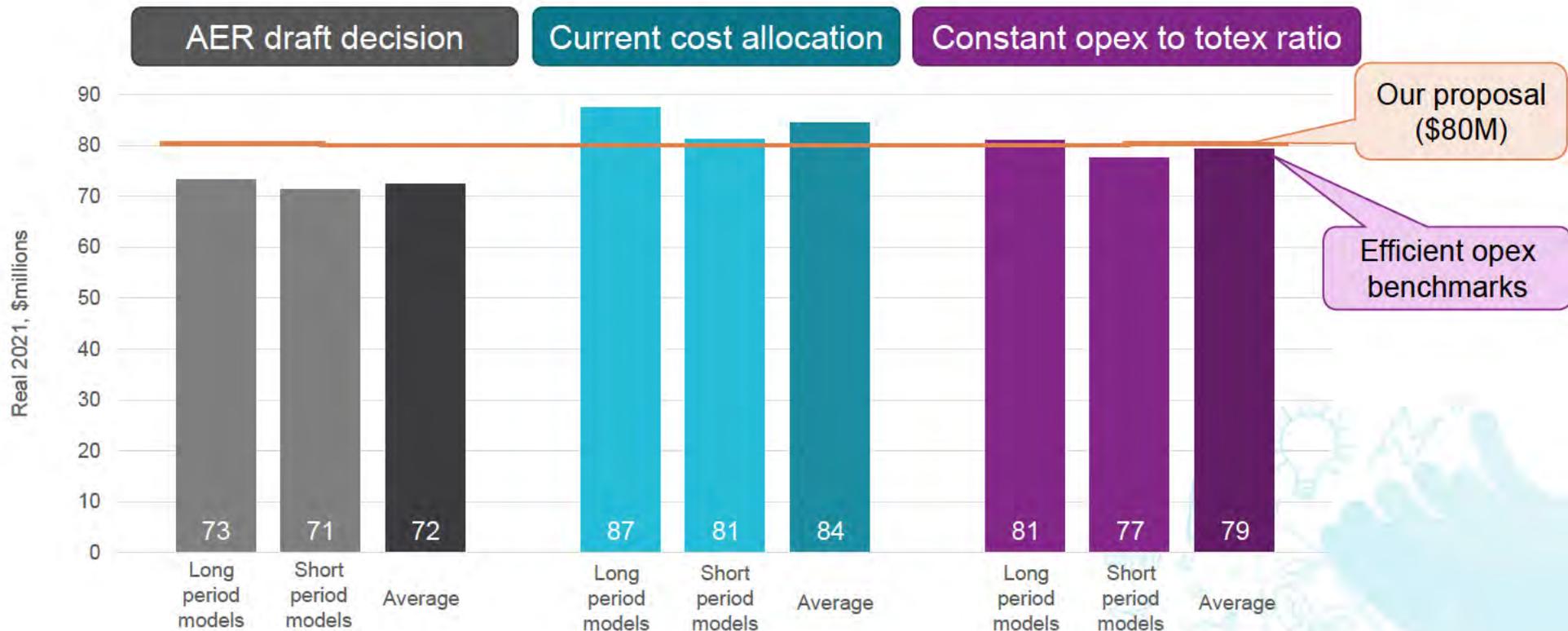
To better reflect current circumstances, the AER needs to:

1. consider the benchmarking results based on the **current (2019) cost allocation**
2. make **appropriate adjustments** to our benchmarking results to reflect more updated information



Updated benchmarking results

Our opex is efficient when capex differences are properly accounted for



Our proposal

Retain our updated proposal base year opex of **\$80M** (2018 opex with \$4M reduction)



- > We use the **lowest actual opex** in the current period (2016-2020) as the starting point
- > Our 2018 opex is **12%** below the AER's 2018 opex allowance

- > We proactively build in achievable **cost reductions** of \$4M per year into our proposal
- > We pass on the immediate cost savings to customers but bear the transformation costs ourselves



- > Benchmarking analysis, after accounting for capex differences, demonstrates that our **base opex is a reasonable starting point for setting allowances**

Bringing this all together

The potential bill savings for residential customers

Initial Proposal

\$64/yr
4.7%

Draft Decision

~~\$64/yr~~
\$73/yr
5.3%
~~4.7%~~

Compromise

~~\$73/yr~~
\$70/yr
5.1%
~~5.3%~~

Session 3 – Seeking the People’s Panel thoughts



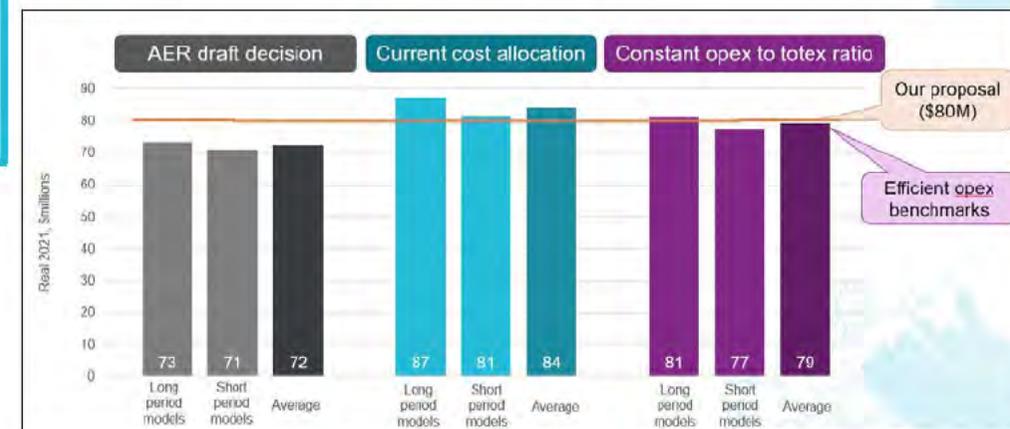
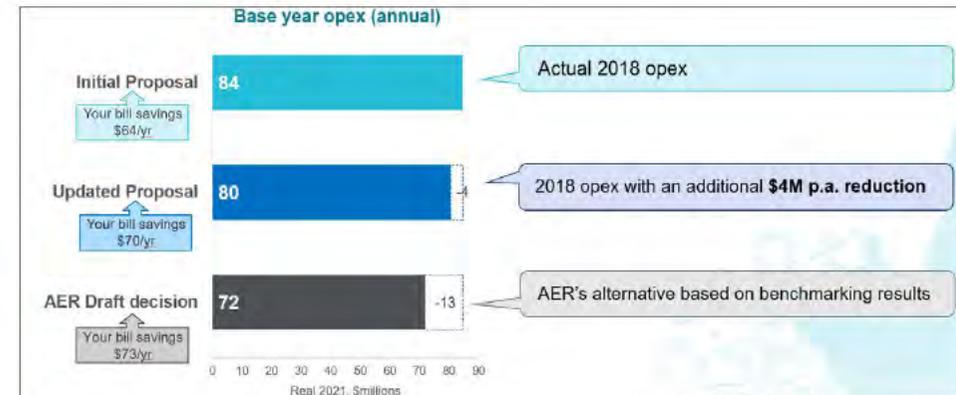
Key homework question

- Having discussed the role of different stakeholders involved in evaluating benchmarking, which parties do you think are best placed to also represent the views of the People's Panel?
- Which views / perspectives did you hear that you think align well to the opinions of the People's Panel

- Economic consultants
- Independent customer lobby group
 - Energy Consumers Australia
 - Welfare group (eg, St Vincent De Paul)
- Consumer Challenge Panel
- Australian Energy Regulator
- Government
- Jemena

Key homework question

- Were you able to form a view on which methodology was in the long-term interests of customer?
- Why?



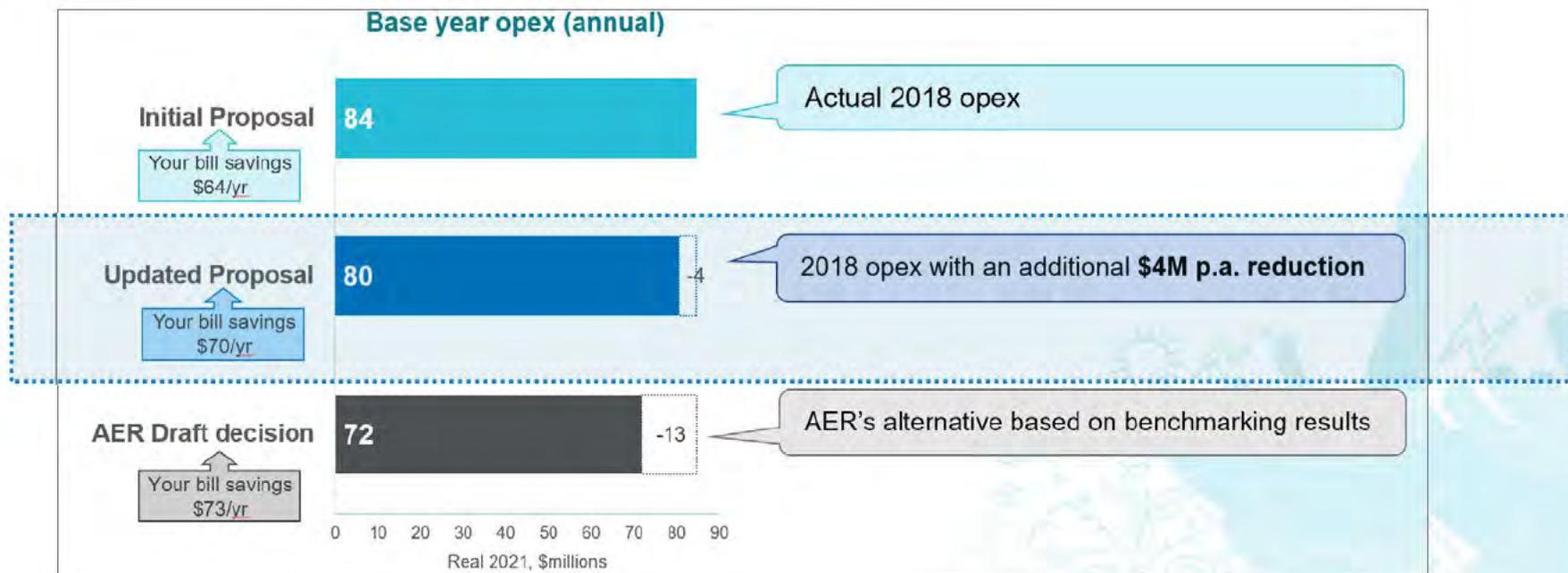
Key homework question

- How reasonable is the statement “The approach taken by the regulator to benchmarking Jemena’s operational costs is not in the long term interests of Jemena’s customers”?



Key homework question

- How reasonable is Jemena's counter proposal?



Homework

- > Each participant completes their homework sheet
- > Send it to Rob McMillan

> [REDACTED]

- > What will we do with it:
 - > Jemena has asked Rob McMillan to write a summary of the PP's views
 - > We'll send it to the AER



Thankyou!

