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By email: evan.lutton@aer.gov.au

9 February 2018

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Dear Evan

Response to Sapere Research Group and Merz Consulting (Sapere Merz) report

Jemena Electricity Networks (Vic) Ltd (**JEN**) welcomes the AER's invitation to provide feedback on Sapere Merz draft report on review of operating environment factors (**OEFs**) used to normalise the results from economic benchmarking model.

We engaged WSP to provide independent advice on the report and assist in identifying areas of improvements and also assist JEN in identifying any additional OEF candidates applicable to JEN to assist the AER and Sapere Merz in their analysis. This report will also assist our customers and other stakeholders to engage on this matter.

WSP reviewed the Sapere Merz report to identify the extent to which JEN's preliminary proposed OEFs have been incorporated into Sapere Merz's OEF draft report.¹ WSP noted that only four out of ten OEFs have been included in the draft report and no reasons are provided for exclusion of the remaining six OEFs from the draft report.² We would like to understand why some of the OEFs as proposed in the preliminary submission are not included in the Sapere Merz report.

WSP also conducted two workshops with our asset management teams to understand the issues specific to our networks which are not normalised for in the current benchmarking techniques and those that have not been proposed as part of our preliminary list of OEFs. Based on these workshops with JEN, WSP suggested the additional OEF candidates that meet the OEF criteria for exogeneity and duplication:

- *Transmission Connection Point Planning* – under Sub transmission and licence conditions.
- *Imposed Inspection and Testing Obligations* – a new OEF that relates to auditing requirements imposed on Victorian DNSPs through regulations made under the Electricity Safety Act for annual average impact on opex on account of inspection and testing activities).

With respect to materiality, the impact on JEN's opex can be quantified and that the accumulative impact represents a material difference between JEN's opex compared

¹ Refer to letter submitted to AER on 2 June 2017 JEN-preliminary list of OEFs

² Attached WSP report, Review of Jemena's Operating Environment Factors, Feb 2018

to other DNSPs. The estimated percentage impact on JEN's opex is summarised in the table below -


OPERATING ENVIRONMENT FACTOR	%IMPACT ON JEN'S OPEX	%OEF ADJUSTMENT³
Transmission Connection Point Planning	0.21%	0.05%
Imposed Inspection and Testing Obligations (Collective impact on opex)	0.81%	Not Available

As per WSP's recommendation, we propose that an adjustment of 0.05% be added to Sapere Merz OEF adjustment for sub transmissions and licence condition. We recommend that OEF candidates listed in the table should be considered and understand a level of judgement may be required in this respect. Please find attached to this letter WSP's report which discusses the above points in more detail.

JEN appreciates the work that the AER has undertaken in reviewing and refining the economic benchmarking techniques including the review of OEFs which help in identifying the apparent differences in estimated productivity and operating efficiency between the DNSPs in the NEM. JEN also appreciates the transparent process followed by the AER in current consultation.

Please contact me on (03) 9173 8218 if you would like to discuss this submission further.

Yours sincerely



Sandeep Kumar
Manager Regulatory Analysis and Strategy

³ It is to be noted that OEF adjustment calculation is based on the weighted average of the OEF estimates of the reference groups. Any change in the reference group will impact the OEF adjustment.