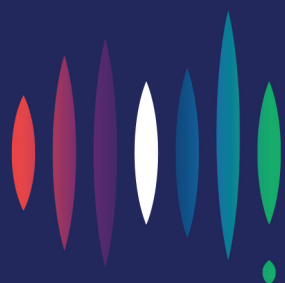


Jemena Electricity Networks

Draft 2021-25 Plan

Submission

April 2019



**ENERGY
CONSUMERS
AUSTRALIA**

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Introduction

The long-term interests of consumers are served when current and future consumers pay no more than they need for the quality of service they require.

Energy Consumers Australia is the national voice for residential and small business energy consumers. Established by the Council of Australian Governments Energy Council (the Energy Council) in 2015, our objective is to promote the long-term interests of energy consumers with respect to price, quality, reliability, safety and security of supply.

We appreciate the opportunity provided by Jemena Electricity Networks (JEN) to respond to its *Draft 2021-25 Plan* (the Draft Plan). JEN has undertaken a strong consumer engagement program, using feedback from its People's Panel to inform its strategy for the 2021-25 regulatory period. We would like to further understand how this is applied to a longer-term strategy for the transformation of the physical network over the longer-term.

What Victorian consumers are telling us

Residential Victorian consumers are telling us that they were more satisfied with their energy supply in 2018 than in 2017. Our December 2018 [Energy Consumer Sentiment Survey](#) tells us that 66 per cent of respondents are satisfied with their electricity and gas services, which is an increase of two per cent since last year's survey.

Respondents were also more satisfied with the value for money of electricity services since December 2017:

- 46 per cent of respondents were satisfied with the overall value for money of their electricity service (an increase of 12 per cent);
- 70 per cent of respondents were satisfied with their fault resolution (an increase of seven per cent); and
- 60 per cent are happy with their customer service (up five per cent).

There was however, a slight decrease in the satisfaction of reliability, which fell two per cent since December 2017 to 69 per cent.

Consumer confidence that the energy market will deliver better long-term outcomes has increased sharply off a low base:

- Value for money has increased to 32 per cent (from 14 per cent);
- Technological advances to manage energy supply and cost increased to 45 per cent (from 11 per cent); and
- Reliability of energy supply increased to 43 per cent (from 11 per cent).

A key input into JEN's future network strategy will be how consumers engage with new energy technology (such as solar panels and battery storage systems) and utilise existing energy tools. Victorian residential consumers are telling us that:

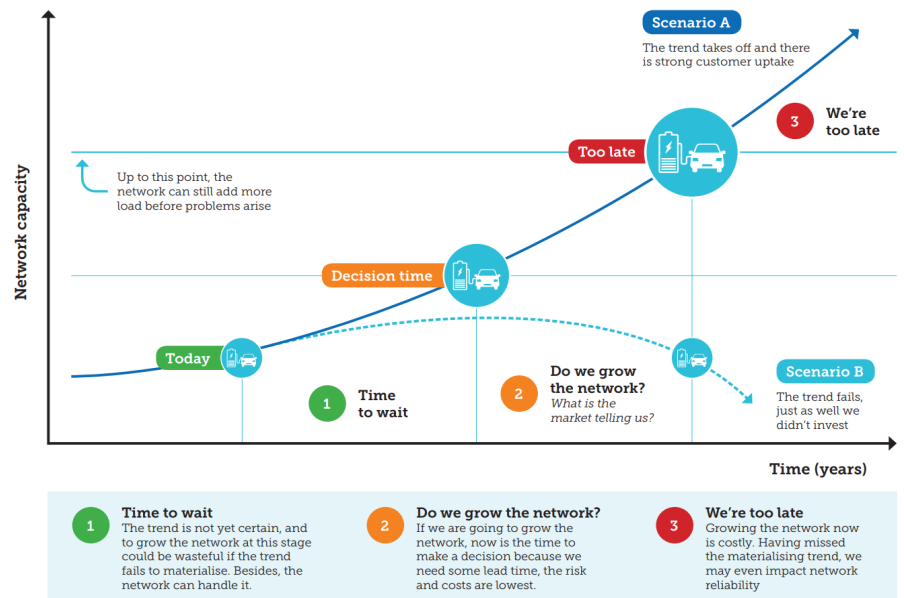
- 78 per cent have a smart meter and 23 per cent say they use it to manage their energy use and costs. This indicates that there may be further opportunities for JEN to help consumers optimise their existing energy infrastructure and get the best out of the technology they have.
- 21 per cent say they have rooftop solar PV installed. Of those who do not currently have solar panels, 30 per cent say they are considering installing them, including 5 per cent who say they intend to do so in the next 12 months.
- 26 per cent of respondents are considering a battery storage system and three per cent intend to purchase a system in the next 12 months.

We will continue to monitor movement in these trends as more consumers take-up the Victorian Government’s solar rebates. To date, more than 30,000 Victorian households have participated in the Solar Homes Program, with the second phase commencing on 1 July 2019, offering Victorians rebates for solar panels or solar hot water¹.

Vision for the market

The Draft Plan tells us that JEN proposes focusing on improving the monitoring of its network – either through greater utilisation of existing load on particular assets), or by installing real-time monitoring equipment on its transformers². This is based on scenarios developed by JEN in Figure 1.

Figure 1: Deciding when to grow the network based on consumer trends³



¹ Premier of Victoria media release, *Victoria’s Solar Revolution Hits 30,000 Homes*, 9 April 2019. Accessed from <https://www.premier.vic.gov.au/victorias-solar-revolution-hits-30000-homes/>

² JEN, *Draft 2021-25 Plan*, page 33. Accessed from <https://yourgrid.jemena.com.au/42531/documents/95770>

³ Ibid.

We would like to see JEN step outside the business-as-usual scenarios to more fully test its thinking and challenge any ‘bounded rationality’. That is, that future planning is limited by what we know now and is constrained by the five-year regulatory process rather than looking to the future and working backwards.

Looking at the scenarios in Figure 1, we would also like to see the timescale that is applied to the x axis to gain a better understanding of the amount of time between “time to wait” and “we’re too late”.

‘The Bottom Line’

We are pleased to see JEN proposing an approach that will reduce volatility in network prices and deliver savings to consumers. Based on the Draft Plan, consumers will see, on average, savings of \$90 over the regulatory period⁴. Figure 2 below suggests that Victorian consumers could see average annual network savings of \$39 (or \$195 over the regulatory period on average) from the network component of their bill.

Figure 2: Achievable average annual residential bill savings by 2020-21⁵

Region	Achievable savings (\$ per annum)						2020-21 Bill	% Reduction
	2017-18 Bill	Networks	Wholesale	Enviro	Retail	Reduction		
Victoria	1457	39	192	34	26	291	1166	20
NSW	1697	174	155	43	37	409	1288	24
South east Queensland	1703	147	192	18	62	419	1284	25
South Australia	1727	13	227	89	42	371	1356	21
Tasmania	1979	113	226	75	–	414	1490	21

To gain a better understanding of how JEN’s strategy is addressing the affordability concerns raised by the People’s Panel, we would like to see how the changes in the regulatory framework (that is, rate of return; productivity; and taxation) have influenced ‘The Bottom Line’ outlined in the Draft Plan. We would also like to see what the impact would be once the rate of inflation has been taken into account. This is important for consumers who do not have the ability to access network costs that do not include inflation.

Our framework and approach

Our approach to engaging in the Victorian distribution networks’ regulated revenue processes is set out in [our submission](#) to the Australian Energy Regulator’s preliminary framework and approach consultation.

⁴ Ibid, page ii

⁵ Australian Competition and Consumer Commission (ACCC), *Restoring electricity affordability and Australia’s competitive advantage*, 2018. Table A, page xv. Accessed from <https://www.accc.gov.au/publications/restoring-electricity-affordability-australias-competitive-advantage>

We have engaged experts, Spencer&Co, to provide an assessment of JEN's Draft Plan. This assessment is at **Attachment A** and has sought to understand JEN's investment strategy as informed by its People's Panel.

In line with our Constitution, we have made Spencer&Co's assessment publicly available to help build national and jurisdictional expertise and capacity through knowledge development⁶. We use the assessment provided by our experts to help inform our thinking and highlight areas for further exploration. However, the expert assessment does not reflect ECA's position. Instead, we ask that network businesses consider the questions posed and issues raised in the advice to help further public understanding of its strategy and reasoning for the revenue setting process.

One of the main observations made by Spencer&Co is that the Draft Plan has limited information on which to form strong views. We would agree with this however, JEN has engaged with us through several channels including a deep dive on its Draft Plan on 6 March 2019; responding to our written questions; and engaging with Energy Consumers Australia through its Customer Council meetings. We appreciate that JEN has continued to make itself available to us as needed.

Our response

The AER is responsible for setting the maximum revenues that networks can recover from consumers through network tariffs over the five-year regulatory period. We understand that the AER must base its assessment on efficient costs and an informed view of expected electricity demand.

The Draft Plan is the first, informal step in the revenue determination process, reflecting and gathering stakeholder feedback to inform JEN's revenue proposal to the AER.

Through five-yearly determination processes, the AER authorises the transfer of dollars from the consumer's pocket to the distribution network. This is money that the consumer would otherwise have been able to spend at their own discretion. Instead, it is turned into a guaranteed income for the distribution network in exchange for the safe and reliable delivery of electricity.

This means that consumers need to be absolutely confident that the decisions driving network investment are in their long-term interests.

Energy Consumers Australia is participating in this process with a view to finding alignment between JEN's strategy and the long-term interests of energy consumers with respect to price, quality, safety, reliability and security. We bring insights from participating in network determination processes across the National Electricity Market (NEM), as well as

⁶ Energy Consumers Australia, *Constitution of Energy Consumers Australia Limited*, clause 4.2 (c). Accessed from <https://energyconsumersaustralia.com.au/wp-content/uploads/Constitution-Energy-Consumers-Australia-Limited.pdf>

information about Victorian consumer gleaned from our Energy Consumer Sentiment Survey.

What is evident is that JEN is making a strong effort to embed the principles of The Energy Charter into its business culture, engagement with consumers and the development of its Draft Plan.

Engaging with consumers

A new informal step – the Draft Plan

Looking across the Victorian distribution networks' Draft Plans, we note differing levels of detail. Approaches range from high level slide packs aimed at reaching a broader audience to JEN's Draft Plan which contains more detail.

Across the NEM, the range is broader still with some network businesses not preparing a Draft Plan, while other Draft Plans have more detail in some areas (such as historical spend).

We appreciate being engaged early in the revenue setting process, and being provided with a snapshot of a regulatory proposal yet to come. The value of early consultation is that advocates will have the opportunity to influence and shape the actual regulatory proposal. Without the potential to influence the shape of the regulatory proposal, the value of this step is lost.

Approach

As an operator of both electricity and gas assets, we have seen Jemena trial different approaches to consumer engagement. In its NSW gas network, this was through geographically-dispersed deliberative forums culminating in a 'single voice' forum consisting of representative from the different geographic regions.

For its electricity network, JEN used a 'People's Panel' approach, taking the same representatives along a journey of information and deliberation. As part of this, JEN ensured that the People's Panel was inclusive (for example, providing an interpreter to facilitate the participation of a consumer who is from a culturally and linguistically diverse background); and JEN allowed itself to hear challenging points of view.

The People's Panel identified issues of importance to them, which broadly falls under the well-known trilemma: affordability, sustainability and reliability⁷.

Our view is that great care needs to be taken to ensure that policies to shore-up the reliability of the system do not lead to overinvestment in the network and further price rises for consumers who, according to the Energy Consumer Sentiment Survey are more satisfied with reliability (69 per cent⁸) than value for money (46 per cent⁹). Our thinking about striking the right

⁷ JEN, *Draft 2021-25 Plan*, page iv. Accessed from <https://yourgrid.jemena.com.au/42531/documents/95770>

⁸ Energy Consumers Australia, December 2018, Energy Consumer Sentiment Survey, page 70

⁹ Ibid

balance is informed by our strategic framework for the transformation of the energy system and market:

- *Affordability* must be a constraint on investment and decisions about energy – an explicit criterion in decision making up and down the supply chain.
- Energy Services must be built around *individuals* to reflect their own use and costs – whether that is consumers who are innovating and engaged; or the majority of consumers who are focused on affordability and costs; or consumers with vulnerabilities.
- Investment in the power system – networks, generation and retail – must be *optimised* based on consumers' demands that not a dollar more is spent than is necessary and not one day earlier than needed.

The People's Panel approach resulted in the Panel making a raft of recommendations to JEN about what it values and expects from the network business. JEN has done a good job demonstrating the value of this consultation by clearly identifying how each recommendation has influenced JEN's investment strategy in the Draft Plan. JEN has grouped these recommendations into the following broad categories:

- Recommendations to implement (based on topics presented by JEN); and
- Recommendations for JEN to advocate through its networks for (based on recommendations suggested by the People's Panel)¹⁰.

In terms of the recommendations for JEN to advocate for, some of these are around new technology and information. One potential opportunity could be for JEN to explore how it can link its consumers with the information that will be published through the (currently in-development) *New Energy Technology Consumer Code* and the information resources being developed as collateral support. We would be happy to connect JEN to this process and materials.

The outcomes of JEN's engagement approach provides an additional source of evidence of consumer expectations. When combined with other established evidence bases, JEN has provided valuable information into the discussion about how to meet the long-term interests of consumers with respect to price, service quality and service safety.

Broadly speaking, we believe that the long-term interests of consumers are served when current and future consumers pay no more than they need to for the quality of service they require, not one dollar more than necessary; not one day earlier than needed. We are of the view that the following factors should be considered when assessing the long-term interests of consumers:

- what JEN has heard directly from consumers through its own engagement;
- what consumer organisations have heard from consumers directly (for example, through our Energy Consumer Sentiment Surveys and our advocate colleagues in Victoria such as the St Vincent de Paul Society);

¹⁰ JEN, *Draft 2021-25 Plan*, page 20. Accessed from <https://yourgrid.jemena.com.au/42531/documents/95770>

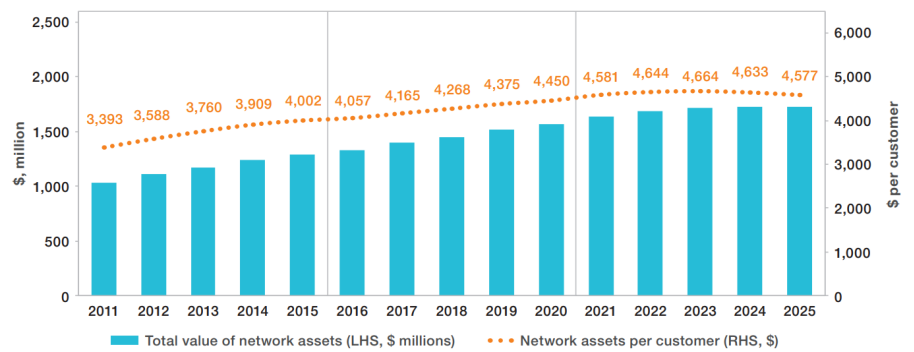
- what experts engaged by consumer organisations (such as Spencer&Co at Attachment A to this submission) have said about the Draft Plan and the proposal that JEN will submit to the AER; and
- detailed analysis undertaken by the AER of the formal proposal that JEN will submit. This acknowledges the skills and resources possessed by the AER in undertaking detailed analysis and its statutory responsibility to ensure that it assesses what is in the long-term interests of consumers. What we have observed is that the AER continues to give weight to consumer needs and how these needs have been taken into account in the regulated revenue processes.

Regulated Asset Base (RAB)

A network business’s RAB is a significant factor in the affordability of the network, as (in simple terms) the higher the RAB per customer, the greater the overheads the network will recover and the greater the pressure on bills.

Figure 3 illustrates JEN’s draft position, where it is proposing to increase its RAB from \$1.6 billion at the beginning of the 2021-25 period, to \$1.7 billion at the end of the period¹¹.

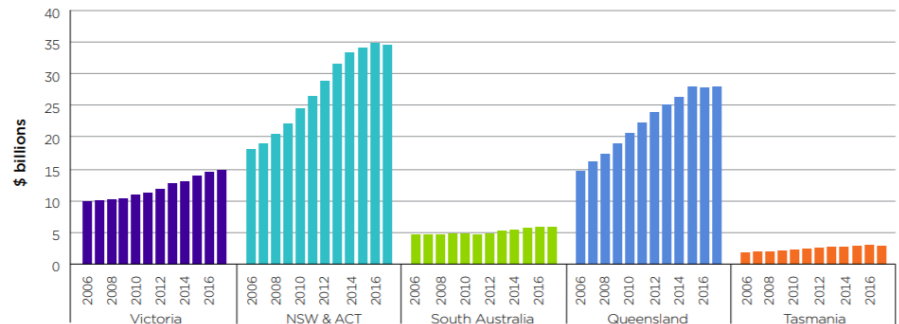
Figure 3: JEN network RAB trend



In Figure 3, we accept the principle that RAB per customer will decrease when more consumers connect to the network. However, this predicted reduction is dependent on the forecast connections being actualised.

The rising RAB trend was also identified by the ACCC (see Figure 4) as a major problem and contributor to increases in consumer bills from 2008.

¹¹ Ibid, page 64.

Figure 4: RAB from 2016 to 2017, by NEM region, real \$2016-17¹²

Capital expenditure (capex)

JEN's proposed capex is \$43 million lower than the previous period, reducing from \$814 million to \$771 million¹³. This is a positive step, as it puts downward pressure on the RAB and pressure on consumer bills.

To help inform our understanding of the direction of the Draft Plan, pages 8-10 of **Attachment A** outlines some questions for further consideration. These questions are around:

- replacement capex (repex) and how JEN has considered the AER's repex model and *Industry practice application note for asset replacement planning*. We would also like to see how the needs of the future network have been considered in the replacement strategy. While we recognise the tensions that arise when considering investment in a period of uncertainty, we encourage JEN to think about whether its investment strategy shifts more risk to consumers in the short term, and if so, what strategies can it put in place to mitigate consumers bearing the cost of this risk. For example:
 - taking a modular approach to longer-term investment that is agile and responsive to uncertainty;
 - using scenario planning and other methodologies to better engage with uncertainty, risk and change, to apply new thinking to how it approaches the future network;
 - whether the contingent projects framework can be utilised to only incur costs when the view becomes clearer; or
 - a new approach such as cost recovery when partnered with a post implementation review.
- Bringing more clarity to the customer connections program and the underlying drivers and assumptions;

¹² ACCC, *Restoring electricity affordability and Australia's competitive advantage*, 2018. Figure 7.1, page 159. Accessed from <https://www.accc.gov.au/publications/restoring-electricity-affordability-australias-competitive-advantage>

¹³ JEN, *Draft 2021-25 Plan*, page 38. Accessed from <https://yourgrid.jemena.com.au/42531/documents/95770>

- How activities are being classified now and in the past. For example, are there activities that would have previously been considered augmentation capex but are now captured by connections capex.
- Non-system capex relating to information technology and communications (ICT) spend. We would like to better understand:
 - the drivers of the costs associated with the 5-Minute Settlement Rule Change;
 - if there are other options for sharing the risks between consumers and JEN for the future grid program; and
 - how JEN will ensure that consumers do not pay twice if there is a customer experience program and a Customer Service Incentive Scheme.

Operational expenditure (opex)

As mentioned earlier in this submission, sometimes an absence of detail in the Draft Plans prompts thinking and subsequent questions for the business. Spencer&Co's analysis at **Attachment A** provides a commentary on JEN's proposed opex strategy and raises questions about:

- Whether JEN's base year is efficient, commenting that JEN's efficiency performance as measured by the AER is declining as the efficient frontier changes.
- Whether the proposed step changes are justified, raising questions about whether there is any additional work planned and how this interacts with the Efficiency Benefit Sharing Scheme (EBSS).
- Whether the trend in forecast cost escalation is reasonable, noting it is expected the AER will update its forecasts closer to the time of the determination, which should include updates such as softening in inflation expectations and labour costs.

We are looking to understand the strategy and reasoning behind the opex content in the Draft Plan. The main issue is around whether the base year is efficient and what are the pros and cons of the proposed strategy to set the base year on the forecast savings that have not yet been realised? We would like to better understand how this strategy interacts with JEN's approach to opex in the current period (including approach to step changes); the EBSS and JEN's efficiency performance over regulatory periods.

Productivity

The Draft Plan includes a placeholder productivity escalator of one per cent, in line with the AER's draft finding in its productivity review. However, JEN flagged that it would apply the AER's final decision¹⁴, which is a productivity escalator of 0.5 per cent.

¹⁴ [Prod] Ibid, page 57.

Examples of the most recent approaches to productivity across the NEM are:

- Energy Queensland has proposed a productivity factor of 2.58 per cent per annum for Ergon Energy¹⁵, and 1.72 per cent per annum for Energex¹⁶.
- After not including the AER's draft productivity adjustment in its regulatory proposal, SA Power Networks announced at the AER's Public Forum on 4 April 2019 that its revised proposal will include the AER's opex productivity adjustment¹⁷.

We seek to further understand why, if JEN could include a one per cent productivity escalator in its Draft Plan, it would not follow through and include it in its regulatory proposal instead of the lesser 0.5 per cent in the AER's decision.

Incentives

Spencer&Co's assessment of the incentive schemes in the NEM (**Attachment A**) has highlighted important facts about the costs and benefits of the incentive schemes for consumers:

- By the end of 2020, the incentive schemes in total will have generated business entitlements for more than \$2 billion of additional revenue for distributors in the NEM.
- Over \$500 million of revenue has been awarded to date. This revenue is over and above the regulated return on assets awarded by the AER and the weighted average cost of capital.

The Victorian distributors intend to claim around \$605 million of incentive benefits from the current period through prices in the forthcoming 2021-25 period.

For the 2021-25 period, JEN is proposing to introduce another incentive scheme aimed at meeting consumer expectations, which JEN suggests are changing in response to changes in the energy market¹⁸. This is called the Customer Service Incentive Scheme (CSIS) and JEN and AusNet Services are the only Victorian distributors proposing to apply the incentive so far. We note that the proposed CSIS was discussed at the JEN deep dive.

The proposed CSIS was also raised as a topic at JEN's last People's Panel on 23 March 2019, which Energy Consumers Australia was invited to

¹⁵ Energy Queensland, *Ergon Energy Regulatory Proposal 2020-25*, page 51. Accessed from <https://www.aer.gov.au/networks-pipelines/determinations-access-arrangements/ergon-energy-determination-2020-25/proposal>

¹⁶ Energy Queensland, *Energex Regulatory Proposal 2020-25*, page 53. Accessed from <https://www.aer.gov.au/networks-pipelines/determinations-access-arrangements/energex-determination-2020-25/proposal>

¹⁷ SA Power Networks, *2020-25 Regulatory Proposal, AER Public Forum, 4 April 2019*, slide 21. Accessed from <https://www.aer.gov.au/networks-pipelines/determinations-access-arrangements/sa-power-networks-determination-2020-25/proposal>

¹⁸ JEN, *Draft 2021-25 Plan*, page 66. Accessed from <https://yourgrid.jemena.com.au/42531/documents/95770>

observe. As part of this, JEN explained how incentive schemes provide businesses with rewards for good practice, but also penalise businesses for not meeting the incentive criteria. We commend JEN for engaging in a robust discussion with its consumers about the concept of a CSIS, and potential design options if there was a CSIS.

We observed that consumers expected JEN to provide a certain level of good customer service as a business as usual activity. If there was to be CSIS incentive, this should only be allowed if JEN met a stretch target – that is, provide service above and beyond general expectations.

Our current thinking is being informed by Spencer&Co's assessment at **Attachment A**. One of the issues that we are thinking about is the risk that consumers could pay more than once for good customer service. This risk could potentially occur in two ways:

1. Through both ICT expenditure and again when outcomes improve above target levels (see discussion in **Attachment A**).
2. Through guaranteed service level (GSL) payments, which networks incur for consumer service-related issues such as late appointments with consumers and delays in connecting supply. The risk in this instance is that consumers would pay for both the poor consumer service (if JEN passes through the costs of the GSL scheme to consumers) as well as the improvement action. If there is any interaction between the proposed CSIS and the existing GSL scheme, we would appreciate JEN clarifying that interaction. For context, Figure 4 outlines the total Victorian GSL payments (for all five distributors) between 2013 and 2017.

Figure 4: Electricity GSL payments, by type¹⁹

Reasons for payment	2013	2014	2015	2016	2017
Late appointments with customers	1,207	1,138	49	101	45
Delay in connecting supply	590	407	317	1,479	4,982
Repeated or lengthy power outages (low reliability of supply)	67,149	92,052	79,991	135,110	46,913
Faulty streetlights not repaired in time	118	302	211	648	182
Total number of payments made	69,064	93,898	80,568	137,338	52,122
Total payments (\$)	\$6,193,930	\$9,272,677	\$8,192,650	\$22,281,980	\$6,455,490

Distribution results are reported on a calendar year with 2017 data being the most recent audited data available.²

¹⁹ Essential Services Commission, *Victorian Energy Market Report 2017-18*, Table 3.3, page 35. Accessed from <https://www.esc.vic.gov.au/electricity-and-gas/market-performance-and-reporting/victorian-energy-market-report>

Conclusion

We appreciate JEN's willingness to openly discuss its Draft Plan with us in the lead up to finalising its revenue proposal. It is clear the JEN team is committed to embedding the principles of The Energy Charter in its business culture and business-as-usual functions.

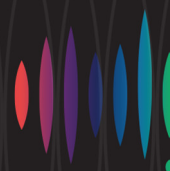
We look forward to continuing to engage with JEN on the development of its revenue proposal; and with JEN and the other Victorian network businesses on their tariff design.

If you have any questions about this submission, please contact Shelley Ashe, Associate Director (Networks), Advocacy and Communications on 02 9220 5514 or by email at shelley.ashe@energyconsumersaustralia.com.au.

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