Jemena Gas Networks (NSW) Ltd

2025-30 Access Arrangement Proposal

Attachment 7.1

Revenue and price path

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1. Introduction

This document provides a summary of the following:

- The total revenue for each year of the access arrangement, as prescribed by Rule 76 of the National Gas Rules (NGR), using the building block approach for our Transportation Reference Service.
- The calculation of the rate of return, as specified in Rule 87 of the NGR, for our Transportation Reference Service.
- The total revenue for each year of the access arrangement, as prescribed by Rule 76 of the NGR, using the building block approach for our Ancillary Reference Services.
- JGN's total forecast revenue for its Transportation Reference Service and Ancillary Reference Services.

Supporting attachments

Table 1.1: List of attachments referred to

Attachment	Name	Author
5.1	Capital expenditure	JGN
6.1	Operating expenditure	JGN
7.2	Ancillary services cost build up approach	JGN
7.2M	Ancillary services model	JGN
7.3	Depreciation approach	JGN
7.3M	Depreciation model	JGN
7.4	Future of gas analysis	JGN
7.6.1M	PTRM - Step 1	JGN
7.6.2M	PTRM - Step 2	JGN
7.7M	Roll Forward Model	JGN
7.9M	ECM model	JGN
7.10	Averaging Period Proposal	JGN
7.11	Incentive schemes	JGN
7.12M	CESS model	JGN
7.13M	Rate of return model	JGN

2. Total revenue required to deliver the Transportation Reference Service

Our forecast costs for the 2025-30 period include operating costs, funding costs, depreciation, taxes, and incentive scheme adjustments. These building block costs, as specified in the NGR, form the basis of our forecast revenue, which is approved by the AER and recovered from customers through network tariffs.

Table 2.1: Revenue and price build-up from building block elements for the Transportation Reference Services ($2025 millions)

	2025-26	2026-27	2027-28	2028-29	2029-30	Total
Return on capital	203	197	192	187	180	959
Depreciation (return of capital)	119	125	132	138	145	658
Operating expenditure	238	231	229	227	230	1,155
Incentive schemes	36	4	(16)	5	6	34
Net tax allowance	14	14	14	15	16	74
Annual revenue requirement	609	571	551	572	577	2,881
Price path (in real terms)	1.93%	1.89%	1.89%	1.89%	1.89%	
Price path excluding incentives (in real terms)	1.50%	1.50%	1.50%	1.50%	1.50%	

The revenue we require to deliver our 2025 Plan for the Transportation Reference Services is $501M higher than the revenue allowance for the current 2020-25 period. Key drivers for this difference include:

- A downward adjustment of $204M in 2020-25 to return over-recovered revenue from the 2015-20 period.
- Accelerated depreciation of $300M in 2025-30, which was not included in the 2020-25 period.
- An increase in the return on capital of $106M in 2025-30 due to changes in market conditions, increasing financing costs.
- A reduction in operating expenditure by $24M due to efficiency savings achieved in the 2020-25 period.
- An increase in incentives scheme revenue by $48M due to the introduction of CESS in the 2025-30 period and our underspends against both opex and capex allowances, delivering long-term savings to customers

This leads to an average $60 increase per customer per annum.

Further detail on our forecast revenue and the associated building block components are set out in *JGN - Att 7.6.1M - PTRM - Step 1* and *JGN - Att 7.6.2M - PTRM - Step 2,* and in the supporting attachments listed below.

We have used two PTRMs as part of our 2025 AA proposal because we propose to change the tariff structure for our Volume market customers for the 2025-30 period, which requires two sets of quantity forecast (existing and new tariffs) to calculate X-factors:

1. *JGN - Att 7.6.1M - PTRM - Step 1* – the first PTRM – calculates the unsmoothed revenue for the 2025-30 period, as well as the smoothed revenue based on the current tariff structure continuing. In Step 1 PTRM, the starting point of the smoothed revenue is approved 2024-25 tariffs and estimated 2024-25 revenue (year 5 of the current 2020-25 period). It solves for year 1 to 5 X-factors based on the current tariff structure.

2. *In JGN - Att 7.6.2M - PTRM - Step 2* – the second PTRM – we use the 2025-26 smoothed revenue from the Step 1 PTRM as the target revenue, with quantity forecast in the new tariff structure, to calculate rebalanced tariffs under the new proposed tariff structure in year 1 (2025-26. We then re-solve the X-factors for year 2 to 5 under the new tariff structure.

2.1 Return on capital for our Transportation Reference Service

The funding costs for the 2025 Plan period are based on the estimated return on equity and debt, which together inform the return on capital allowance. The National Gas Rules (NGR) outline the framework for calculating the return on capital, and the AER's 2022 Rate of Return Instrument (2022 RORI) version 1.2 (published in March 2024) details the approach we must follow when calculating each return on capital parameter. This includes the AER's methodology for calculating the value of imputation credits to equity holders, which is used to calculate the tax allowance consistent with Rule 87A of the NGR.

In line with the AER's Rate of Return Instrument (2022 RORI), our calculation of the rate of return proposes a 5.2% rate of return on the RAB for the 2025 Plan. Table 2.2 below outlines the key rate of return parameters that we used to calculate the 5.2% rate of return.

Table 2.2: Rate of return parameters

Parameter	Value
Return on equity	6.90%
Return on debt	4.08%
Inflation	2.79%
Leverage	60.00%
Gamma	57.00%
Corporate tax rate	30.00%
Nominal vanilla WACC	**5.21%**

3. Total revenue required to deliver the Ancillary Reference Services

Table 3.1 below shows the total revenue for each year of the access arrangement, as prescribed by Rule 76 of the NGR, using the building block approach for our Ancillary Reference Services. Our forecast costs for the 2025-30 period for our Ancillary Reference Services only include operating costs which are recovered from customers through our ancillary charges.

Table 3.1: Forecast revenue for the Ancillary Reference Services ($2025 millions)

	2025-26	2026-27	2027-28	2028-29	2029-30	Total
Annual revenue requirement	22.4	25.8	26.9	29.8	35.3	140.2
X-factor	n/a	-0.489%	-0.456%	-0.533%	-0.573%	n/a

We are proposing that a price cap form of control apply to our Ancillary Reference Services and that our tariffs are adjusted from one year to the next for inflation and as assumed real price change (see section 8.4 of *JGN-Att 10.1-Pricing*). The growth in Ancillary Reference Revenue over the 2025-30 period is driven by the forecast increased level of disconnections and abolishment over the period (see *JGN-Core Energy-Att 8.4M - NSW Demand Forecast Model*),

Further detail on the costs of providing our Ancillary Reference Services are set out in *JGN-Att 7.2- Ancillary reference services cost build up approach* and *JGN-Att 7.2- Ancillary reference services model*. Our forecast Ancillary Reference Services revenue is set out in table F3.2 of the reset RIN and the associated matched expenses in table E21.3.

4. Total Reference Service revenue

Table 4.1 shows the total revenue for each year of the access arrangement for our Transportation Reference Service and Ancillary Reference Services.

Table 4.1: Total forecast annual revenue requirement for Reference Services ($2025 millions)

	2025-26	2026-27	2027-28	2028-29	2029-30	Total
Transportation Reference Service	609	571	551	572	577	2,881
Ancillary Reference Service	22	26	27	30	35	140
Total revenue requirement	631	597	578	602	612	3,021