Consumer
Challenge
Panel

JGN Gas Network

CCP31 Advice to the Australian Energy Regulator

Issues Paper: JGN Gas Networks NSW Access Arrangement Proposal, 23 August 2024

(Early Signal Pathway)

Consumer Challenge Panel (CCP) Sub-Panel CCP31

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Acknowledgement of Country

We acknowledge the Traditional Custodians of the various lands on which JGN owns and operates its networks and facilities. We honour the customs and traditions and special relationship of those Traditional Custodians with the land as well as those where this report is being prepared. We respect the elders of these nations, past and present.

Confidentiality

To the best of our knowledge this report does not present any confidential information.

Table of Contents

1 Summary

Context

This CCP31 advice to the AER responds to the questions raised in the AER's Issues paper on the early signal pathway expectations, Jemena Gas Networks (NSW) Access Arrangement, 1 July 2025 to 30 June 2030 (Issues Paper), published in August 2024.

Some key themes, which we expand on in Section 2, set the context for our response. These themes include:

1. No emerging clarity about the future of gas, or what even the near future looks like
2. Forecasting gas demand, particularly for households and smaller businesses, is fraught
3. Accelerated depreciation in various forms is a recurring theme, with the AER applying bespoke decisions in response to the different circumstances for different businesses
4. Affordability concerns remain at the forefront of customers' concerns, and a key regulatory consideration
5. Who pays for the transition from gas costs, including disconnections remains unanswered

Early signals pathway and CCP31's role

The AER accepted JGN onto the early signal pathway under the Better Resets Handbook, in December 2022. Against the above themes and the overarching uncertainty, JGN designed its engagement to correspond with the early signals pathway as outlined in the Better Resets Handbook (the Handbook).[1] [2], commencing engagement nearly two years before lodging their Access Arrangement Plan (proposal). JGN established an Expert Panel, Advisory Board, a Customer Forum and some forums for specific groups, including CALD, young people and small businesses and a subject matter Tariff Forum. In February 2024, JGN published a comprehensive Draft Plan.[3]

JGN's broad engagement largely concentrated on a series of eight half day to day-long meetings with the Customer Forum over 18 months to establish customers' priorities, and test different proposal options with customers and subsequently establish support for its Draft Plan.

The AER appointed CCP31 in September 2023 to provide the AER with advice on:

1. The effectiveness of JGN's engagement activities with their customers and how this is reflected in the development of JGN's proposals.
2. Establish whether JGN's proposals, or elements of them, are in the long-term interests of consumers.

Since that time CCP31 members have observed JGN's engagement with consumers focusing on JGN's engagement with the Advisory Board, the Customer Forum and the Tariff Forum. CCP31 has

1 AER, December 2021, *Better Resets Handbook: Towards Consumer Centric Network Proposals.*
2 CCP31 notes the AER published a revised Handbook in July 2024, however we have referenced the 2021 publication through as that edition guided JGN's engagement and CCP31's assessment. We also note the differences between the two editions are not significant.
3 Jemena Gas Networks, February 2024, Draft 2025 Plan.

provided the AER with three progress reports over that period and met with JGN to share our advice. Overall, whilst we respect JGN's efforts in engaging with customers to develop its Draft Plan, apart from establishing support for the Draft Plan, JGN has not further engaged with customers prior to lodging its Plan.[4] From a consumer perspective and with respect to the Better Resets Handbook we consider JGN should undertake further work to confirm consumer attitudes and provide transparency around the judgement it has made in developing its proposals. This is particularly important, given competing issues and on some issues variable customer perspectives.

Summary of CCP31's response to Issues Paper questions

Question	CCP31's headline response
Q1: Assessment of JGN's consumer engagement approach	CCP31 commends JGN on the dual focus of its engagement which considered issues associated with the longer-term future of gas, alongside the near-term Access Arrangement. However, this also challenges JGN to reconcile these somewhat competing issues. We also commend JGN on the genuineness of its engagement. However, we consider that some elements of JGN's Draft Plan could have been independently tested to ensure its Access Arrangement proposal is based on validated evidence of consumer preferences.
Q2: Reaction to JGN's accelerated depreciation proposal	CCP31 is not confident JGN's proposal for accelerated depreciation appropriately aligns with its demand forecasting and associated capex increases, including the capex proposal for biomethane connections.
Q3: JGN's engagement on accelerated depreciation	CCP31's concerns around JGN's engagement on accelerated depreciation remain, particularly as customer support for the proposal has not been independently tested (for example among a separate group of residential consumers other than the Customer Forum). We therefore encourage JGN to independently test residential customer support for its accelerated depreciation proposal. We also consider that JGN could have explored customers' views on a broader range of "who pays?" options.
Q4: Reasonableness of JGN's $300m accelerated depreciation	From a consumer perspective, CCP31 is not confident that JGN's proposal for $300m accelerated depreciation is reasonable for residential and small business customers (small use customers), due to lack of independent testing, uncertainty regarding the large-scale economic viability of biogas and limited consideration of customers' views on "who should pay?" questions.
Q5: Real price path constraint	CCP31 supports a real price path constraint, consistent with other recent Access Arrangement decisions.
Q6: Scope of capex review	Overall, CCP31 supports the AER's scope of review in relation to JGN's capex proposal, which we regard as being consistent with the Better Resets Handbook early signal pathway approach.

[4] Acknowledging JGN has scheduled a meeting with the Advisory Board on 13 September 2024, which we have not considered in this Advice.

Question	CCP31's headline response
Q7: Incorporation of consumer feedback on JGN's Draft Plan	JGN has actively sought to include consumer feedback in its Access Arrangement proposal. CCP31 is cognisant of the difficulties in reconciling disparate consumer views, particularly in the face of substantial uncertainty. Accordingly, we continue to encourage JGN to independently test some key aspects of consumer feedback.
Q8: Prudency and efficiency of capex forecasts	CCP31 does not have sufficient information to comment on the prudency and efficiency of JGNs' capex forecast. This is an aspect of the AER's role and expertise.
Q9: Scope of targeted opex review	CCP31 supports the AER's proposed scope for the targeted review of opex.
Q10: Incorporation of consumer feedback on JGN's Draft Plan	CCP31 largely shares the AER's concerns around the limited exploration of opex step changes with consumers, and limited evidence of consumer preferences being fully reflected in its Draft Plan and subsequent Access Arrangement proposal.
Q11: Prudency and efficiency of opex forecasts	CCP31 does not have sufficient information to comment on the prudency and efficiency of JGNs' opex forecast. This is an aspect of the AER's role and expertise.
Q12: CESS sharing factor	CCP31 supports the AER's preference to apply the updated CESS for JGN's 2025-30 Access Arrangement.
Q13: Exclusion of renewable gas connections from the CESS	CCP31 supports continued exclusion of new connections from the CESS.
Q14: Other views on application of incentive mechanisms	CCP31 has no other views on the proposed application of JGN's incentive mechanisms.
Q15: Views on proposed reference services	CCP31 supports the classification of reference services as proposed by JGN, noting that there was clear customer feedback on these reference services. We also recognise that a hybrid tariff combined with a simpler block tariff *may* be appropriate and both are supported by customers. However, CCP31 needs confidence that on-balance customers will not be worse off under a hybrid model. Although the Customer Forum supports retention of the abolishment tariff, the AER needs to be confident that any abolishment tariff is fair and is not a barrier to disconnect and is not a safety risk; IPART may have a view with regard to safety and reliability obligations.

2 Background and context

2.1 Background

Jemena Gas Networks (JGN) lodged its Access Arrangement proposal (proposal) for NSW for the period 2025-30 in June 2024. In September 2024, the AER published its *Issues Paper* focusing on a number of key areas in JGN's proposal. The AER is due to make its final decision on JGN's Access Arrangement in June 2025.

This advice to the AER is in response to the AER's *Issues Paper* and focuses on our responses to the specific questions posed by the AER. In responding to those questions, CCP31 has considered the context in which JGN has prepared its Access Arrangement for 2025-30.

In this advice, we repeat some of the context that we included our Conclusions Report to the AER in May 2024. That report was not published but formed part of our progress reporting in line with the early signal pathway process. The context remains relevant and is important background for readers to understand our responses to the questions raised in the AER's *Issues Paper*.

2.2 Regulatory process

The AER accepted JGN onto its early signal pathway process in December 2023, the first gas network to apply and be accepted for this pathway.

CCP31 has considered the uncertain future of gas and other issues impacting JGN and the resulting challenges for JGN in preparing its proposal. This context has helped inform our response to the AER's questions. In particular, we consider:

1. The application of the Better Resets Handbook expectations for a gas Access Arrangement and specifically the early signal pathway process
2. The AER's gas distribution network tariffs review 2023
3. Key issues associated with the future of gas questions
4. Implications of other recent AER gas Access Arrangement decisions

2.2.1 Better Resets Handbook expectations

Gas Access Arrangement early signal pathway

The AER published the Better Resets Handbook in November 2021 in part to streamline network regulatory processes and to build on an understanding of the role of consumer engagement in developing proposals. The Handbook states its aim as follows [emphasis added]:

> *"**encourage networks to develop high quality proposals through genuine engagement with consumers** and that meet our expectations. This will lead to a number of benefits, including regulatory outcomes that better reflect the long-term interests of consumers."*[5]

[5] AER, December 2021, *Better Resets Handbook*, p. 3

To further encourage networks to produce high quality regulatory proposals, the AER introduced an option for networks to apply for an early signal pathway, described in the Handbook as follows: [6]

> *"an alternative process for networks to engage with us [the AER], allowing them to get earlier formal feedback on aspects of their regulatory proposal – such as at the issues paper stage, in exchange for certain commitments."*[7]

The AER's expectation for networks to engage with the AER at the start of the pre-lodgement process is aimed at ensuring the AER is sufficiently familiar with the network's proposal before submitting it, and allows the AER to:

> *"incorporate an issues paper or reasonable equivalent within the shorter consultation and assessment timeframes available under the Gas Rules (8 to 10 months for gas compared with 15 months for electricity)."*[8]

The Handbook differentiates between an early signal pathway for gas and electricity networks. Unlike the Electricity Rules, the Gas Rules do not include a prescribed issues paper stage for a regulatory reset. However, the AER considers that the Gas Rules are sufficiently flexible to allow for an early signal at a similar time. In particular, the AER considers it is [emphasis added]:

> *"particularly important that gas network businesses seeking access to the early signal pathway engage with us* [the AER] *at **the start** of their pre-lodgement engagement processes."*[9]

Accordingly, the AER published an *Issues Paper* in August 2024. The AER further recognises the possible implications of the early signal pathway timeframe from the time a network submits its proposal and the AER publishing its draft decision, which could materially impact the AER's decision-making. As noted in the Handbook:

> *"These shorter timeframes … are more significant … for gas. It will be important to signal the potential for any such changes, and the implications they may have for the workability of the early signal pathway process. If there is the potential for material changes between an initial proposal and draft decision, or between draft decision and revised proposal, this should be made visible to stakeholders as early as possible and considered as part of the engagement process to maximise the time available for consultation."*[10]

JGN is the first gas distribution business to participate in the early signal pathway process. Accordingly, this Access Arrangement will provide important learnings about the application of an early signal pathway to a gas distribution business.[11]

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[6] We note the AER published a revised Better Resets Handbook in July 2024, however the AER's decision related to accepting JGN NSW for an early signal pathway for this Access Arrangement was guided by the AER's 2021 *Better Reset Handbook*.

[7] AER, December 2021, *Better Rests Handbook*, p. 5.

[8] Ibid, p. 10.

[9] Ibid.

[10] Ibid.

[11] As mentioned, the two initial early signal pathway businesses were Endeavour Energy and Essential Energy. SA Power Networks was more recently accepted into the process, with a similar timing to JGN's Gas Access Arrangement 2025-30.

CCP's role in an early signal pathway

The Handbook outlines the CCP's key role in the pre-lodgement phase as:

> *"assessing the quality and robustness of a network's consumer engagement processes and outcomes."*[12]

The practice developed through initial applications of the early signal pathway to Essential Energy and Endeavour Energy has been for the CCP to provide the AER with the following reports:

1. **Progress reports**: these are short reports to provide the AER with the CCP's initial observations about a network's engagement against Handbook expectations and advise on any potential concerns with the network's approach. In relation to this Access Arrangement, CCP31 provided the AER with a preliminary progress report in March 2023, followed by a second more detailed progress report in October 2023.
2. **Conclusions Report**: this progress report references to the network's draft proposal or plan and is provided to the AER before the network lodges its formal proposal. In this report the CCP typically provides early advice on areas that could be subject to a targeted review. If an independent engagement report accompanies the network proposal, the CCP would also include observations from this report in the Conclusions Report. CCP31 provided the AER with a Conclusions Report in May 2024.

The Better Resets Handbook also indicates the CCP's advice to the AER would likely be an Assurance Report shortly after a network lodges its proposal. Depending on the circumstances of the pre-lodgement engagement, the Assurance Report should advise the AER as to:

> *"how well consumer preferences and desired outcomes have been incorporated into specific elements of the proposal (for example, how consumer preferences have influenced or been incorporated into the capital or operating expenditure forecast)."*[13]

This Advice combines the informal Handbook requirement for the CCP to produce an Assurance Report, with our responses to the AER's Issues Paper relating to the JGN's Access Arrangement proposal. Our report aims to help guide the AER's targeted review component of the early signal pathway process.

2.2.2 AER gas distribution network tariffs review 2023

In October 2023, the AER published its final decision on its review of gas distribution network reference tariff variation mechanism and declining block tariffs[14].

This review reflects the *rapidly changing circumstances* for gas businesses and resulted in the AER reviewing its regulatory approach. There are several implications of AER's final decision for JGN's Access Arrangement proposal development:

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12 AER, December 2021, *Better Rests Handbook*, p. 9.
13 Ibid.
14 AER, *Review of gas distribution network reference tariff variation mechanism and declining block tariffs, Final decision*, October 2023.

1. The AER will make case by case decisions on gas distribution pipeline tariff variation mechanisms or tariff structures
2. The form of regulation, price cap or revenue cap, will be determined case-by-case, with a hybrid tariff variation mechanism worthy of consideration
3. The AER expects substantive stakeholder consultation regarding tariff variation mechanisms
4. The AER will retain declining block tariffs on the basis they are economically efficient.

2.2.3 Future of gas

Significance of this Access Arrangement

The second paragraph of the message from JGN Chairman (Jiang Longhua) on the opening page of JGN's proposal states:

> *"The energy system both here in Australia and globally is undergoing a once-in-a-generation transformation. As a result, our pricing and services for 2025 to 2030 (our 2025 Plan) reflected in our Access Arrangement and Access Arrangement Information (our 2025 AA proposal) is arguably the most important one we have produced to date."* [15]

CCP31 agrees that this Access Arrangement proposal is "the most important … to date" for Jemena and has significant implications for gas network businesses Australia wide.

The JGN Chairman also emphasises:

> *"… we have developed a robust 2025 Plan which reflects the needs of our customers today, as well as their aspirations for tomorrow."*[16]

From Day 1, JGN has been wrangling a number of tensions in developing its proposal, including:

1. Needs and aspirations of current consumers compared with those of future consumers, as Jemena's Managing Director, David Gillespie notes in his introductory message:

   > *"… we have sort to balance the needs of our customers today, while also preparing for their needs in the future."* [17]

2. The Finkel Review trilemma: ensuring affordability for consumers and reliability in supply while reducing carbon emissions.[18]
3. The uncertain future of gas: is there a future for the gas industry in Australia beyond about 2050 when net zero carbon emissions policies are likely to apply?
4. If there is a future for gas, what form will it take? Natural gas is a hydrocarbon and contributes to carbon emissions and is inconsistent with a net zero carbon emission future. Meanwhile gas businesses continue to actively explore hydrogen and biogas as longer-term renewable gas options for gas appliances and plant, and blends are also being considered. However, the likely future form of gas is not yet clear.

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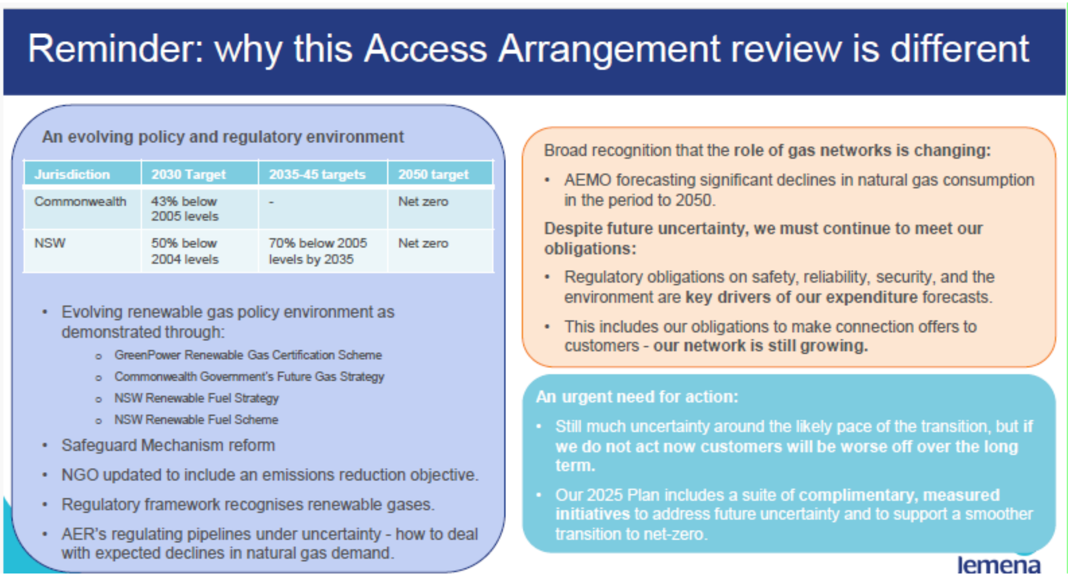
[15] Jemena Gas Networks (NSW) Ltd, June 2024, *2025 Plan,* p. iii.
[16] Ibid.
Ibid, p. iv.
[18] Department of the Environment and Energy, June 2017, *Independent Review into the Future Security of the National Electricity Market - Blueprint for the Future*

5. Gas business viability and shareholder return in a declining volume market.
6. The heterogeneity of consumers: broad engagement will produce different views and expectations from different consumer groups. This diversity of views and expectations needs to be channelled into a single Access Arrangement proposal.

Clearly, the future of gas is a significant matter for JGN in developing its 2025-30 Gas Access Arrangement. In particular, JGN has developed its proposal within a broader context, in which there is substantially greater uncertainty for gas than electricity networks' regulatory proposals. An energy network needing to contemplate a future where it does not exist creates a unique context against almost all other network regulatory processes.

JGN summarised the challenges in developing its 2026-31 Access Arrangement proposal in the following slide which it presented at the AER's public forum in early September 2024.

Figure 2-1: JGN's summary of challenges in developing its Access Arrangement proposal



Even in 2019, JGN noted in relation to the uncertain future of gas [**emphasis** added]:

> *"While natural gas has historically been promoted as the low-carbon energy option, these changes [i.e. Australia's commitment to a low carbon future] mean that* ***the long-term future of natural gas is no longer assured****—as it contains carbon. Although we have recently seen significant growth in customers connecting to our network, driven by the NSW housing boom, it is possible that government policy changes to meet this target could make the gas network too expensive to be competitive in the long term, or make continued operation of the network infeasible"* [19]

At that time one of the four main themes[20] that JGN identified from its consumer engagement was a consumer desire to access gas into the future [**emphasis** added]:

[19] Jemena Gas Networks, June 2019, *2020 Plan, page ix.*

[20] The other key themes identified in JGN's last Access Arrangement Proposal were affordability, safety and reliability, and fairness.

> *"Our customers told us that they expect us, and other parts of the energy industry, to innovate and plan for the future* ***so that they can continue to use gas in the longer term****, as we move to a zero-carbon future."*[21]

Despite what customers told the business, JGN decided not to innovate to find ways to ensure gas would remain a viable choice for customers [**emphasis** added]:

> *"Although our customers expect us to do what we can to ensure that gas remains a sustainable fuel choice into the future, other stakeholders indicated that they* ***did not support us proposing a separate innovation scheme at this time****. We have therefore not proposed an innovation scheme as part of our 2020 Plan."*[22]

Importantly, JGN's 2020-25 Access Arrangement proposal was one of the first gas Access Arrangement proposals in Australia to directly confront an uncertain future for gas with implications for network businesses, although there was active debate five years prior. In response to this challenge, JGN discussed in its 2020-25 Access Arrangement proposal how it would respond to a changing energy market, including consideration of a zero-carbon network by 2050, summarised in the following table in the proposal, and presented in Figure2-2 below:[23]

Figure 2-2: Screen shot from JGN's 2020-25 Access Arrangement proposal illustrating its consideration of the uncertain future of gas

Table 3.4 Strategic initiatives to work towards a low carbon future

Focus area	Strategic initiatives	Impact on customer bills	For further information see
Hydrogen	Invest in hydrogen (the Western Sydney Green Gas Trial) and only apply for cost-recovery if successful (speculative capital expenditure)	−	See below
Cost-effective innovation	Limit innovation investment to industry programs, otherwise self-fund additional innovation We will not propose additional funding for Jemena-specific innovation in response to stakeholder feedback	−	−

Current context

As the energy transition has gathered pace in Australia, debates about the role of gas for both household and commercial applications as well as electricity generation have intensified.

In March 2024, the Australian Energy Market Operator (AEMO) published its 2024 Gas Statement of Opportunities (GSOO) for Australia's East Coast Gas Market.[24] In considering residential and commercial annual gas needs, AEMO used the three scenarios from its 2024 Integrated System Plan,[25] and noted in relation to forecast residential and commercial consumption for all scenarios [**emphasis** added]:

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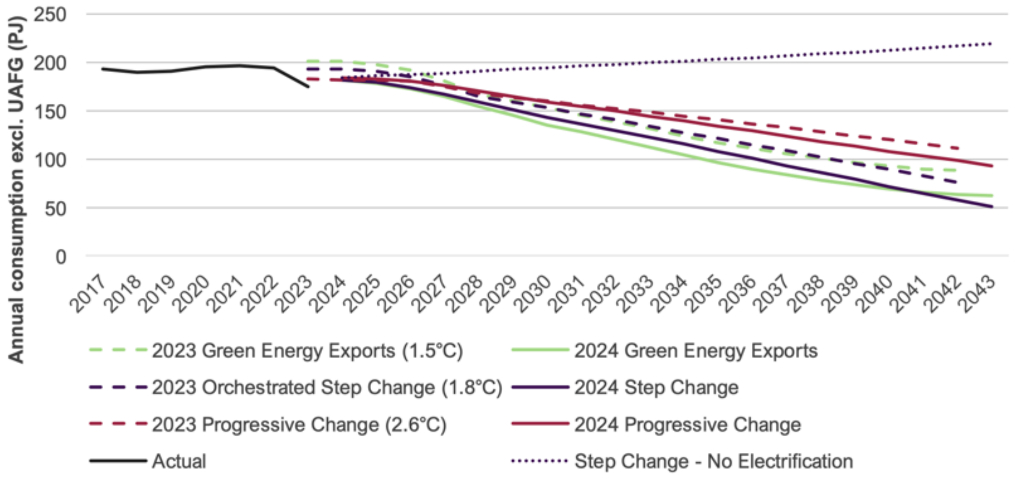
[21] Jemena Gas Networks, June 2019, *2020 Plan, page ix*
[22] Ibid.
[23] Jemena Gas Networks (NSW) Ltd, June 2024, *2025 Plan,* p. 34.
[24] AEMO, *Gas Statement of Opportunities*, March 2024.
[25] AEMO, June 2024, *2024 Integrated System Plan for the National Energy Market*.

> *"The starting point of the [gas] forecasts is* ***generally lower*** *compared to the 2023 GSOO, driven by a* ***noticeable decline in recent consumption****. This decline has coincided with* ***higher retail gas prices*** *compared to recent years, some of the warmest winter temperatures on record and emerging indications of fuel-switching to electricity."*[26]

These declining forecasts are illustrated in the following diagram from the GSOO:[27]

Figure 2-3: AEMO's declining gas consumption forecasts

Figure 15 Actual and forecast residential and commercial annual consumption, all scenarios and compared to 2023 GSOO, 2017-43 (PJ)



AEMO's analysis indicates that gas demand for residential and commercial use (but not for electricity generation) will steadily decline from current levels through to the mid 2040s. We note the forecast rate of decline is a little greater for 2024 than it was for 2023.

In considering gas demand over the 2025-30 Access Arrangement period, a 20% decline from current levels is plausible and is material, but it does not necessarily indicate a rapid departure from gas use. The implications are that JGN will need to **maintain** its gas distribution network beyond 2030, but there is minimal evidence of any prospect of expansion in the volume of gas that the network will need to deliver and therefore little evidence of a need for network expansion.

This current context is important because:

1. It requires JGN to undertake detailed engagement on both the long-term future of gas question and remain prudent and efficient with its Access Arrangement for the next regulatory period.

2. An awkward balance must be struck between increased capex required to invest for the future (assuming a future) and accelerating depreciation on existing and near future assets, if the future is short.

3. How costs associated with risk are shared between current customers, future customers, the network's shareholders and government has direct impact.

[26] Ibid, p. 28.

[27] Ibid.

4. Maintaining equity with future uncertainty places greatest risk on customers least able to respond to changing circumstances, such as lower income households and renters. The risk of a death spiral grows as more customers leave the gas network, resulting in a smaller residual group of mostly vulnerable customers remaining on the gas network to bear the fixed costs of a less used network, driving up their costs.

5. Technologies and potential options for the future of gas are rapidly changing. For example, five years ago JGN was considering a lower carbon future for gas and had considerable focus on (green) hydrogen; now there is greater focus on biogas.

NSW Roadmap

In November 2020, the NSW Government released its NSW Energy Infrastructure Roadmap (the Roadmap) which it describes as:

> *"the State's 20 year plan to transform our electricity system into one that is cheap, clean and reliable. It will lay the foundations for future generations to enjoy more secure, reliable and affordable electricity."* [28]

The Roadmap includes a hydrogen strategy to develop a "thriving green hydrogen industry in NSW",[29] but how this will occur and the likely impacts for JGN over the 2025-30 regulatory period are unclear. The likelihood that households will have a future reticulated (green) hydrogen supply appears to have reduced since 2020, although some hydrogen blending with hydrocarbon (natural) gas in mains appears to be more likely.

Meanwhile, the price of both electricity and gas has risen significantly, which is a major concern to both energy consumers and energy businesses. Further affordability pressures add to questions about the nature and pace of transition to a zero-carbon future, which affordability notwithstanding, is strongly supported by most customers who have engaged with energy network businesses.

2.2.4 Recent gas Access Arrangement decisions

Since its decision on JGN's 2020-25 Access Arrangement, the AER has published final decisions for Evoenergy in the ACT, AGN in South Australia, and most recently for the Victorian gas distribution businesses including AGN, Multinet and AusNet.

Key themes for each of these networks in developing their Access Arrangement proposals have been:

1. Uncertainty about the future of gas
2. A clear intent among the networks to transition to renewable gas
3. Exploration of options to accelerate depreciation for the shortened life of gas assets
4. A desire to promote and even expand gas networks, evidenced through proposals that included increased augmentation capex and opex, and marketing and education budgets to promote a gas future.

[28] NSW Department of Planning, Industry and Environment, November 2020, *NSW Electricity Infrastructure Roadmap.*

[29] NSW Department of Planning, Industry and Environment, October 2021, *NSW Hydrogen Strategy.*

JGN 2020-25 Access Arrangement

In the AER's Final Decision for JGN's 2020-25 Access Arrangement, while recognising the uncertain future of gas, the AER did not accept JGN's proposal for accelerated depreciation on potential future investment uncertainty as JGN had not provided sufficient evidence to support its proposal [emphasis added]:

> *"We acknowledge that the **way in which NSW consumers engage with natural gas may change** in the years to come. Particularly where (aspirational or mandated) net-zero carbon emissions reduction policy targets are adopted by jurisdictional governments.*
>
> *…*
>
> *JGN's proposal for accelerated depreciation on certain new capital assets is one of its responses to this challenge, by seeking to recoup the cost of future investments from gas consumers over a shorter time horizon. Another is the research trial it (and many of its industry peers) is conducting to **ascertain the future potential of hydrogen** as an alternative fuel source to displace a portion of its natural gas load, for which this decision accepts the opening of a speculative capex account allowing JGN to recover this capex in future years if it conforms to the Rules at such time. However, **on the basis of insufficient evidence** at this point in time that JGN's gas distribution network will not be viable post-2050, **our final decision maintains our draft decision to not accept JGN's proposal for accelerated depreciation** on certain new capital assets."*[30]

However, at that time the AER indicated it was open to considering proposals for accelerated depreciation case-by-case [**emphasis** added]:

> *"While we do not support JGN's proposal for accelerated depreciation on this occasion, **we remain open to approving proposals for accelerated depreciation** in our network decisions where such proposals are based on clear and sufficient evidence."*[31]

Evoenergy, 2021-26

The ACT Government policy is to move away from gas in favour of renewable electricity. This has resulted in lower gas use forecasts than those assumed in Evoenergy's Access Arrangement proposal. Given the clarity around the future of gas for the ACT is for significantly reduced gas use, driven by jurisdictional government policy, the AER allowed some accelerated depreciation of network assets stating:

> *"Our final decision also accepts Evoenergy's proposal for shorter standard lives for new investments in long-lived NSW pipeline assets, in addition to ACT pipeline assets which we accepted in our draft decision."*[32]

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[30] AER, *Final Decision JGN Gas Networks (NSW) Ltd Access Arrangement 2020 to 2025 Overview*, June 2020, pp. 6-7.

[31] Ibid, p. 7

[32] AER, *Final Decision Evoenergy Access Arrangement 2021 to 2026 Overview*, April 2021, p.7.

Australian Gas Networks (SA), 2021-26 Access Arrangement

In South Australia, AGN's engagement to inform the AGN (SA) Access Arrangement proposal for 2021-26 had a strong focus on (green) hydrogen as a future renewable gas and AGN presented a view that the gas network had a continuing and likely expanding future; clearly a different scenario to Evoenergy at the same time. Accordingly, AGN did not seek an allowance for accelerated depreciation and the AER made this observation in their final decision [**emphasis** added]:

> *"AGN's proposal recognised the need to innovate and consider alternatives to natural gas to sustain investments over time. AGN is responding to uncertainties regarding the future of natural gas by conducting research into renewable gases. However, given the uncertainty surrounding natural gas and the future viability of alternative fuels,* ***AGN is not making fundamental changes, such as a move to accelerated depreciation in the next period****.* ***AGN's customers are interested in the future of gas, future energy mixes and the potential for renewable gas and have shown support for AGN's approach****. This is in contrast to other gas networks, for example the ACT's Evoenergy gas network, where there is a stronger mandate to reduce reliance on natural gas and hence a more pressing need to consider changes in the next period."*[33]

Based on solid consumer support for further development of renewable gas options, with AGN having a demonstration site in operation supplying 10% hydrogen into a local network in the SA suburb of Tonsley, the AER accepted AGN's proposal to actively continue exploration of hydrogen in particular as a future gas and to accept AGN's view that accelerated depreciation was largely irrelevant to them at that time.

Importantly, the CCPs working on those gas Access Arrangement proposals noted the AER had increased its focus on gas Access Arrangement matters when considering AGN (SA) and Evoenergy, compared to JGN's earlier Access Arrangement proposal, as future of gas issues and regulatory responses to them were current – the future of gas had arrived!

Victorian gas Access Arrangements 2023-28

The AER's most recent Gas Access Arrangement decisions were for the Victorian gas networks. The AER's final decisions for the three Victorian gas networks were in the context of continued consideration of the vexed questions of the future of gas and the role of gas network businesses in supporting customers through the energy transition, in whatever way it would occur.

The AER in its final decision for the AusNet Services gas Access Arrangement (and similarly for AGN and MultiNet), commended the networks on the quality of engagement but noted the challenges around its decision making, with significant issues remaining after the AER's draft decision, contributed to by uncertainty about the Victorian Government's view on the future of gas until it published its Gas Substitution Road Map in August 2022. The AER noted:

> *"We commend AusNet and its Victorian gas distribution colleagues from Australian Gas Networks and Multinet Gas Networks on the genuine and high-quality consumer engagement they have undertaken on their 2023–28 Access Arrangement reviews. The* ***residual issues post draft decision****, including the allocation of* ***gas connection abolishment costs and the***

[33] AER, *Final Decision AGN (SA) Access Arrangement 2021 to 2026 Overview*, April 2021, pp. 9-10.

> ***appropriate level of accelerated depreciation*** *as detailed below,* ***are not trivial issues that can be easily resolved with unanimous stakeholder support****."*[34]

Notably, for each of the three Victorian networks the AER ultimately allowed a modest amount of accelerated depreciation.

On the broader future of gas questions, the AER said [emphasis added]:

> *"Transformation in the energy system and the explicit policy goal of reaching net zero emissions by 2050 create* ***considerable uncertainties in future gas demand expectations****. The decline of gas demand is expected to accelerate, but there is uncertainty as to how quickly that will happen, what the path to small customer 'electrification' will look like, and whether gas networks will have any ongoing role in transporting hydrogen or biogas."* [35]

Key issues from engagement and the Access Arrangement process included allocation of costs of disconnection from the network and demand forecasts for gas.

CCP31 reflections

These recent Access Arrangement decisions reflect the uncertainty and changing focus that gas businesses, their customers and the regulator are confronting. Major themes are:

1. There is no emerging clarity about what the future, even the near future, of gas looks like. Gas business Access Arrangement proposals considered over the past five years have focused on hydrogen as the future, similar to the current focus on biogas as a renewable gas, while a heavily diminished future for (hydrocarbon) gas is also an option.
2. Forecasting gas demand, particularly for households and smaller businesses, is fraught.
3. Accelerated depreciation in various forms is a recurring theme, with the AER applying bespoke decisions in response to the different circumstances of businesses and their varying jurisdictional policy settings.
4. Affordability concerns remain, including the risk of a descent into death spiral settings where lower income households, including renters, are stuck with paying higher network fixed costs as those more able to afford a transition to electricity do so.
5. Who pays for the transition from gas costs, including permanent disconnections?

Each of these themes represent live dilemmas for JGN as it prepares its 2025-30 Access Arrangement proposal. JGN is not alone in considering the implications of an uncertain future, but it needs to respond to current thinking and policy evolution as its Access Arrangement is affected by these difficult issues.

[34] AER, *Final decision AusNet Gas Services, Gas distribution Access Arrangement 1 July 2023 to 30 June 2028, Overview*, June 2023, p. 5

[35] Ibid

3 CCP31's responses to Issues Paper questions

3.1 Consumer engagement

3.1.1 Issues Paper Q1: Assessment of JGN's consumer engagement approach

Issues Paper Q1: What do you think of the consumer engagement approach undertaken by JGN against the expectations set out in the Handbook in delivering a consumer-centric proposal? Please give examples.

An important consideration for CCP31 in assessing JGN's consumer engagement is the uncertainty around the future of gas, including the pace of transition and the viability or otherwise of connecting residential and small business customers to renewable gas (biogas).

Unlike most network regulatory proposals, JGN has engaged on two separate but related matters:

1. The longer-term future of gas: from a stark perspective, this is about whether Jemena's gas business has a long-term future. This question is not unique to Jemena, it is a consideration for just about every gas business and gas customers around the world. Every gas business will have different responses to these existential questions.
2. JGN's 2025-30 Access Arrangement proposal, with its shorter term 5-year time frame.

CCP31 commends JGN for:

1. **Openly dealing with the future of gas** in planning its engagement and in identifying that longer term goals and requirements are a crucial aspect of developing a 5-year Access Arrangement proposal.
2. **Early and detailed planning** of its consumer engagement program that resulted in publication of its Draft Plan in February 2024 and its subsequent Access Arrangement proposal which it lodged with the AER in June 2024. Importantly, JGN commenced its engagement early, 18 months in advance of publishing its Draft Plan, particularly apt given the energy transition and uncertainty of the future of gas.
3. **Establishing** a variety of **broad and deep engagement** forums to consider and develop scenarios around the longer-term future of gas in NSW and potential impacts for consumers and then test consumer preferences. These included:
    a. Engaging an **Expert Panel** of industry and energy experts to develop long term scenarios for the future of gas.
    b. Appointing an **Advisory Board** of customer advocates and industry specialists as a critical friend to collaborate with JGN, challenge the business and strengthen and shape JGN's broader consumer engagement. This included collaborating on the range of initiatives that JGN should consider for the 2025-20 regulatory period and determining which of those would be appropriate to test with consumers more broadly.
    c. Establishing an independently facilitated **Customer Forum** of around 40 "randomly" selected customers, a **Youth Steering Group**, a **CALD Steering Group**, and a Tariff Structures Customer Forum (**Tariff Forum**) to deliberate on specific aspects of its proposal as identified by the Advisory Board.

4. Specifically in relation to customer input into the Draft Plan, CCP31 commends JGN for its **sincerity of engagement**, demonstrated through:
    a. Senior management attendance at all events that CCP31 has observed[36] including attendance at selected events by board members and the CEO.
    b. Meeting regularly with the Customer Forum and other groups, which were well attended, enthusiastic and demonstrated growing confidence to question and challenge JGN.
    c. Ensuring participants were equipped with appropriate written and verbal information, so they could effectively deliberate on elements of JGN's proposal
    d. Listening to customers and adapting the content and format of sessions in response to participants' feedback.
    e. Providing customers with an opportunity hear from independent experts with different perspectives on renewable gas (although we note the experts were not sourced by the wider customer groups).

    Jemena's sincerity of engagement is also reflected by the Jemena Chairman in his opening message to JGN's Access Arrangement proposal, where he notes:

    > *"we were humbled by the willingness of our customers and stakeholders to contribute to the development of our 2025 Plan."*[37]

5. **Transparency** evidenced in publication of engagement materials on JGN's YourNetwork website.
6. The high level of engagement from participants observed though a relatively high retention rate among Customer Forum participants over 18 months, their growing interest and confidence and questioning and their effusive appreciation of Jemena's efforts in engaging with them.

However, CCP31 also identified some concerns with JGN's engagement approach. In particular:

1. Given the complexity of this Access Arrangement associated with the uncertain future of gas, **JGN could have made better use of the Advisory Board's expertise**:
    a. We understand that Advisory Board members had a limited role in the design of the workshops
    b. The Advisory Board had little opportunity to comment on the Customer Forum workshop outcomes nor capacity to influence JGN's Draft Plan. We see this as a limitation of JGN's process, as the Advisory Board could have been utilised to engage more deeply on complex topics and more generally validate and challenge JGN's proposals before they were published in the Draft Plan.
2. **Some of JGN's engagement with the Customer Forum and other groups focused only on *informing* customers of its Draft Plan** and seeking their support. In the lead up to the 2 March

[36] A summary of JGN's consumer engagement is given in Appendix A, while a list of JGN consumer engagement events the CCP observed is provided in Appendix B.
[37] Jemena Gas Networks (NSW) Ltd, June 2024, *2025-30 Access Arrangement Proposal,* p. iii.

2024 Customer Forum workshop JGN had received feedback from the AER and other stakeholders encouraging it to engage on the following:

a. an option for a zero-dollar amount for accelerated depreciation.

b. emissions reduction, on the basis that some of JGN's proposed emissions reduction actions have significant implications for its capex and opex proposals.

Whilst JGN attempted to address the above questions with the Customer Forum on 2 March 2024, the engagement focused on *informing* customers of JGN's Draft Plan and seeking their support, with limited opportunity for Customer Forum members to discuss the additional questions, including considering *whether* customers should be asked to fund an accelerated depreciation proposal or checking in that customers genuinely understood the proposals that they were being asked to support.

In the March 2024 workshop, it was also apparent to CCP31 that some **customers continued to struggle with their understanding of some topics**, particularly the role of accelerated depreciation. We were also concerned, based on our observations on 2 March 2024, and comments from participants that they were being asked to indicate their support for JGN's proposals without objective third party testing to ensure customers genuinely understood what was being asked of them. Further, in discussions about their overall reaction to JGN's Draft Plan, we heard comments from customers, such as "I'm confused, we don't have all the information", "I'm confused about the outcomes", "It's almost as if vulnerable customers were an afterthought".

3. JGN's consideration of consumer input was evident in its Draft Plan. For example, Section 2 of the Draft Plan describes how JGN considers customers have shaped its plans, outlining the objectives and breadth and depth of engagement, as well as detailing the outcomes associated with each topic (Section 2.4), customer preferences and JGN's response. However, **CCP31 questions some of JGN's interpretation of customers' level of support for JGN's proposals**. Based on our observations of JGN's Customer Forum on 2 March 2024, our concerns focused on:

   a. Limited discussion around the zero-dollar amount for accelerated depreciation option, and then simply asking customers whether they supported JGN's proposal to accelerate $300m of its assets.

   b. A lack of clear testing of customers' understanding of what they were voting on, such as asking customers to play back their understanding of accelerated depreciation.

   c. The sole reliance of measuring customer support for JGN's proposals being participants lining up under banners marked "Love", "Like", "Live with", "Loathe", "Lament". Supporters of JGN's proposals were considered to be anyone who voted "Live with", "Like" or "Love, with no independent verification and limited sense checking of customer support, for example by the Advisory Board, or a survey of an independent sample of a comparable segment of customers.

   d. The narrow options presented to the Customer Forum in some instances. For example, on accelerated depreciation all options were predicated on the expectation that consumers would pay for the stranded asset risk through accelerated depreciation, Options of consumers sharing the costs with the business or seeking government assistance as part of energy transition strategies were not actively explored.

4. Throughout its engagement JGN has been cognisant of customers' key values that it heard from the Customer Forum in its initial meetings: affordability, fairness, the environment, choice (gas being a fuel of choice), safety and reliability and has aimed to reflect these values in the development of its Draft Plan. However, the complexities and uncertainty around the future of gas, and JGN's need to balance customer values with shareholder expectations have resulted in some significant challenges. For example, there is an **obvious tension between the need for JGN to continue to maintain the network, and even replace ageing infrastructure while customers are still connected to gas and at the same time seek customer support to accelerate the depreciation of its assets**.

5. In developing its Draft Plan, CCP31 commended JGN and bd Infrastructure for adapting the content and structure of Customer Forum sessions in response to customer feedback by simplifying information and reframing questions in language customers could understand. This led to improved participant engagement with the material presented to them and we observed a growth in participant confidence to question and challenge what they were hearing. However, the same flexibility was not apparent in the 2 March 2024 workshop.

We note the newDemocracy Foundation (newDemocracy) conducted an independent evaluation of the Customer Forum and based on our observations we largely agree with their finding that:

> *"the Customer Forum was well run and allowed participants the opportunity to influence JGN Gas Networks' Business Plan 2025-2030."*[38]

However **new Democracy also noted a lack of wider customer engagement**, and suggested the process would have benefitted from "the involvement of the wider customer base through other forms of engagement",[39] to ensure broader participation and as a way of reinforcing the work of the various forums. newDemocracy also suggested the Customer Forum could have contributed to refining the issues they wanted to engage on. CCP31 agrees with these recommendations.

Importantly, we raised our concerns about JGN's engagement in our May 2024 advice to the AER (not published) and shared them with JGN. JGN responded by appointing Sagacity Research (Sagacity) and Jackie Duke Insights (JD Insights) to independently survey and interview Customer Forum participants to test our conclusions as listed above. JGN in its report stated:

> *"The research by Sagacity and JD Insights has confirmed that the vast majority of customers trusted the process, felt valued and adequately educated to make informed recommendations, which gives confidence that our proposals and initiatives align with customers' values and expectations."*[40]

We have reviewed the Sagacity and JGN Insights Report and note the following:

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38 The newDemocracy Foundation, n.d., *JGN Gas Networks Future Gas 2050 Customer Forum Evaluation*, p. 5.
39 Ibid, p. 6.
40 Jemena Gas Networks (NSW) Ltd, June 2024, *2025-30 Access Arrangement Proposal, Attachment 2.1, Consumer Challenge Panel - feedback and response*, p.3.

- While around 40 customers participated in the Customer Forum, only 22[41] participated in the participant feedback research; from a statistical perspective, any conclusions formed based on a sample of 22 out of a population of around 40 individuals has a large margin of error[42] and contains a high chance of sample bias.

- The report states "17 of the 22 surveyed stated they had an excellent or good understanding of accelerated depreciation, with just 1 rating their understanding as poor", and "All 22 stated they had enough knowledge to provide informed feedback."[43] However just because customers "felt" they had "good" to "excellent" knowledge of the topic does not mean they understood the details of the concept or alternatives. We would have more faith in the review if Sacacity and JD Insights Research asked panel members to describe in their own words their understanding of concepts such as "accelerated depreciation". Further, we are unsure how Sacacity/JD Insights Research could accurately assess our observations given they did not attend the Customer Forums.

Accordingly, CCP31's concerns remain and in JGN preparing its response to the *Issues Paper* and preparing its revised Access Arrangement proposal we encourage JGN to:

- Continue to engage with customers

- Select an independent sample against which the Customer Forum findings can be validated. This recommendation is in line with Handbook expectations that in testing customer perspectives the AER "expects networks to engage with consumers beyond those they engaged with in preparing their draft proposal".[44] Aside from the Handbook's requirements, given the challenges and uncertainty it would be sensible for JGN to at least draw on other evidence such as any business-as-usual research, or Energy Consumers' Australia or other consumer-oriented studies to support its proposal.

- Ensure customers are appropriately equipped to respond, for example by using techniques such as playing back customers' understanding of concepts before asking their opinions or level of support.

CCP31 commends JGN on its approach to consumer engagement that led to its Draft Plan. Recognising the uncertainty associated with future of gas considerations, we consider that a number of elements of JGN's Draft Plan could have been separately tested with an independent customer group to ensure the Access Arrangement proposal is based on validated evidence of consumer preferences.

41 Sagacity Research and Jackie Duke Insights, Customer Forum Participant Research, Research Report, p7 (noting elsewhere the sample size is stated as 23).
42 The margin of error for a sample of 22, assuming a population of 40, is +/-14.2% at the 95% confidence level for a survey estimate of 50%; or +/-11.4% for a survey estimate of 20%/80%.
43 Sagacity Research and Jackie Duke Insights, *Customer Forum Participant Research, Research Report*, p7.
44 AER, December 2021, Better Resets Handbook, p. 16.

3.2 Depreciation

3.2.1 Issues Paper Q2: Reaction to JGN's accelerated depreciation proposal

Issues Paper Q2: What do you think of JGN's proposal for accelerated depreciation and whether it appropriately aligns with its proposal on forecast demand and capex (discussed in section 3.2.2.3)? Specifically, why do you consider JGN's proposed forecast declining demand and capex proposal for biomethane connections align or contradict its proposal for accelerated depreciation?

CCP31 accepts that JGN is preparing its proposal in the face of an uncertain future and there is obvious tension between the need for JGN to continue to maintain the gas network, and even replace ageing infrastructure while customers are still connected to gas and at the same time seek customer support to accelerate the depreciation of its assets. We also acknowledge that accelerated depreciation allows the sharing of the risk of stranded assets; but consumers need to have confidence that the risk is fairly shared and does not cause bill shock now or into the future.

However, we agree with the AER that:

> *"demand and expenditure forecasts will need to be consistent with its [JGN's] proposal for accelerated depreciation where possible."*[45]

In its proposal, and consistent with AEMO forecasts, JGN has assumed the long-term demand for gas will decline, largely influenced by government policy which focuses on electrification. JGN engaged Core Energy & Resources (Core) to forecast demand for gas. Core forecast residential demand to decline by 1.7% per annum and commercial demand to decline by 3.63% per annum over the 2025-30 period, while the total number of customers is expected to grow slightly until 2027-28 before declining towards the end of the period.[46]

At the same time JGN is proposing considerable investment to support renewable biomethane gas connections, which it also claims will help lower the risk of asset stranding. However, the extent that JGN's capex proposal for biomethane connections will benefit consumers is not clear in its Access Arrangement proposal. Whilst the Customer Forum supported JGN investing in renewable gas and even considered it as a priority, engagement on this topic was general and did not provide any specific indication around the economic viability of biogas as a viable alternative for residential customers. The costs and potential production capabilities for biomethane need to be more carefully explained and explored in context with customers. Therefore, this topic warrants consideration for targeted review.

At this point given declining gas demand forecasts and the uncertainty around the potential for biogas we are not confident whether JGN's proposed forecast declining demand and capex proposal for biomethane connections aligns with its proposal for accelerated depreciation.

Since gas demand forecasts and particularly forecasts for gas distribution customers are so uncertain, gas demand forecasts for the JGN network will need to be revised as close to the final decision as possible, noting that AEMO will likely publish the 2025 Gas Statement of Opportunities in March 2025.

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45 AER, August 2024, *Issues paper on the early signal pathway expectations Jemena Gas Networks (NSW) Access Arrangement, 1 July 2025 to 30 June 2030*, p.16.

46 Jemena Gas Networks (NSW) Ltd, June 2024, *2025 Plan*, p 116.

We also consider JGN needs to provide consumers with more certainty around the viability, availability and indicative costs of biogas to establish whether the balance between capital investment and accelerated depreciation appears reasonable.

Specifically, CCP31 remains concerned that customers may have been led to believe that they would be able keep using gas whereas the NSW Roadmap, offers no certainty that renewable gas will be available to residential customers. We also question the rationale behind customers supporting investment in renewable gas at the same time as supporting Jemena's proposal for 9% accelerated depreciation.

Therefore, **CCP31 is not convinced that JGN's proposal for accelerated depreciation appropriately aligns with (or contradicts) its proposal on forecast demand and capex; in particular its capex proposal for biomethane connections.**

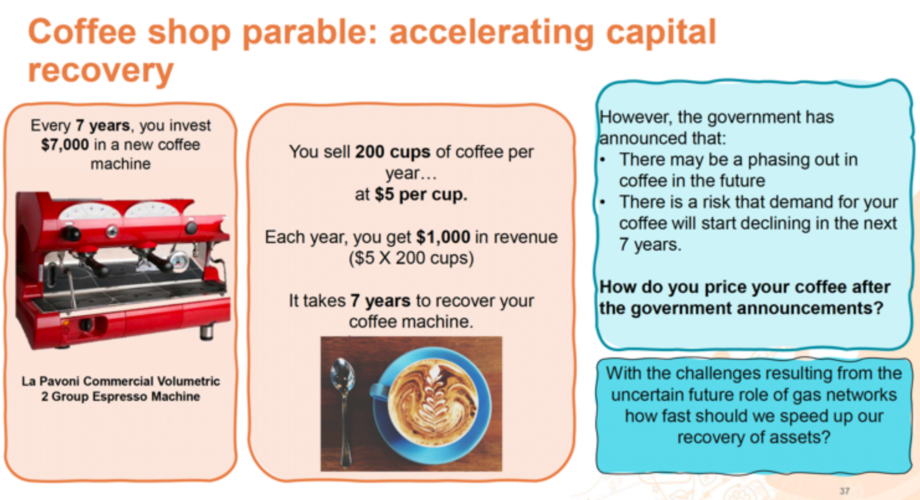
3.2.2 Issues Paper Q3: JGN's engagement on accelerated depreciation

Issues Paper Q3: What do you think of JGN's engagement with its stakeholders on the topic of accelerated depreciation (discussed in section 3.2.2.4)? What aspects of accelerated depreciation do you consider JGN engaged well with its stakeholders; or would benefit from further discussion and clarification from JGN?

CCP31 acknowledges the challenges associated with consumers on accelerated depreciation and JGN's concerns about stranded assets. We also note that accelerated depreciation in various forms is a recurring theme in recent gas Access Arrangement proposals, with the AER applying bespoke decisions in response to the different circumstances of businesses and their varying jurisdictional policy settings, while recognising that stranded asset risk is a gas sector wide concern, with accelerated depreciation being one of the options to reducing impacts of stranded asset risk.

CCP31 recognises JGN's efforts to explain key concepts of accelerated depreciation to the Customer Forum in the fourth meeting on 23 July 2023, with a "coffee shop" parable presentation,[47] as shown below:

Figure 3-1: Accelerated depreciation - "Coffee shop parable"

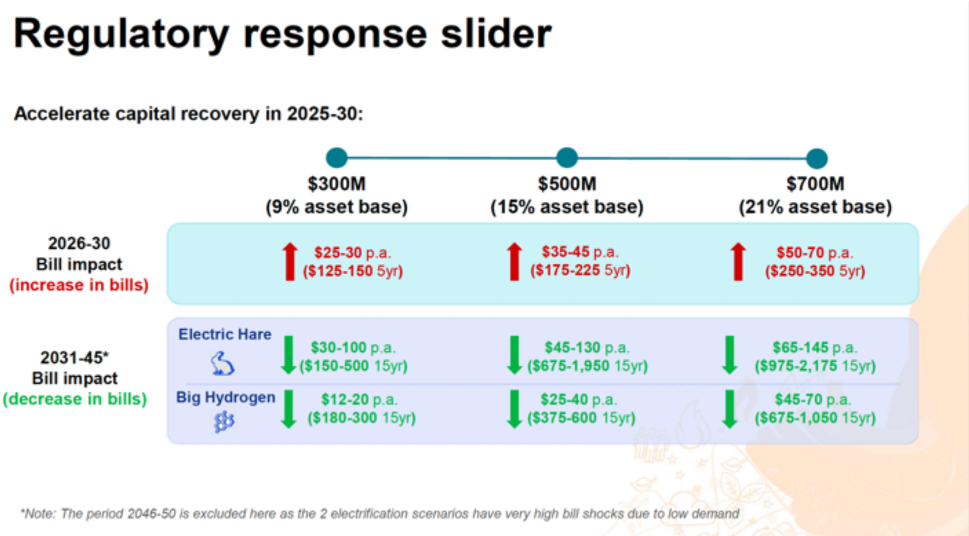


47 JGN, *Gas Networks 2025 Access Arrangement, Customer Forum 4*, Saturday 22 July 2023, p. 37.

This explanation was followed by small group discussions in which customers rotated through a range of topics, including accelerated depreciation, in which participants could ask JGN staff questions to help clarify their understanding of the topic. Our meeting notes indicated that participants could relate to the parable, they asked few questions or provided little indication that they did or did not understand the concept of accelerated depreciation.

The following day the topic was revisited. JGN presented participants with three accelerated depreciation scenarios linked to the pace of electrification with different long term bill impacts (Customer Forum 5), as shown below:[48]

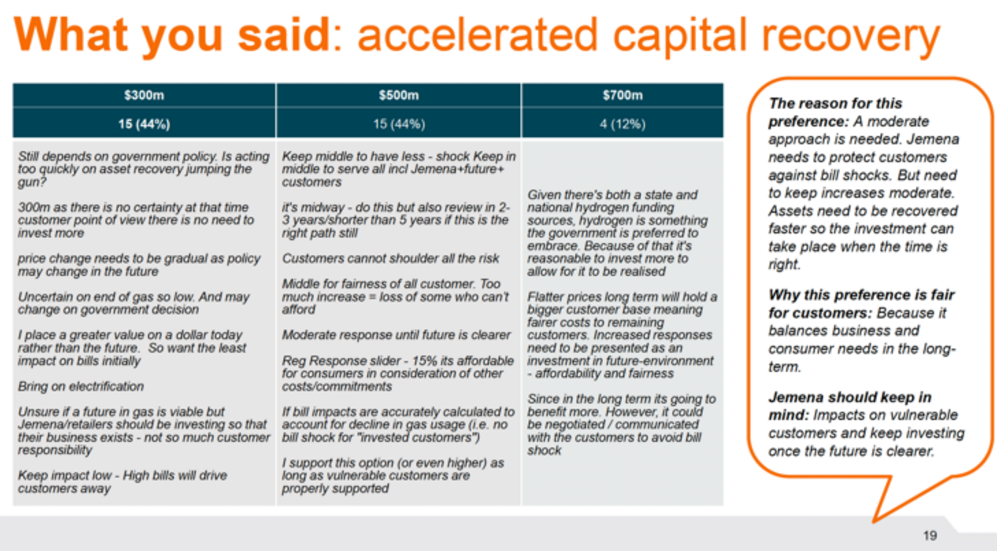
Figure 3-2: Accelerated depreciation scenarios presented to the Customer Forum



Participants were asked to indicate their preferred option (noting they were not presented with a zero-dollar option) and provide reasons for their preference. Thirty -four participants voted with 15 supporting the $300M option, 15 supporting the $5m option and 4 supporting the $700m option, with variable reasoning which was presented back in Customer Forum 6 in August 2023:

[48] Ibid, p. 28.

Figure 3-3: Initial support for accelerated depreciation



In Customer Forum 7, participants were again asked to vote on the amount of accelerated depreciation they would support with a slight majority (66%) indicating they could "live with" $300m (<$40 per annum). Subsequently JGN proposed this amount in the Draft Plan and retested it in Customer Forum 8 in March 2024, when it sought support for its Draft Plan as discussed earlier. CCP31 made the following comments in relation to that session in its Conclusions Report to the AER in May 2024:

- When JGN presented customers with a zero-dollar accelerated depreciation option, we observed that the group continued to struggle with the concept. Participants had little opportunity to discuss the zero-dollar amount for accelerated depreciation option.
- Some Jemena people towards the end of the session appeared surprised that some members of the Customer Forum continued to struggle to understand accelerated depreciation, even after three sessions (unlike the business, the concept of accelerated depreciation is not a day to day-to-day subject of discussion).
- We remain uncertain that the considered view of the full group of participants, particularly on difficult topics has not been heard, particularly as Jemena did not fully engage on the zero-dollar accelerated depreciation option, nor has it adequately tested customers' understanding of the role of accelerated depreciation.
- Despite the presence of an independent human library to offer views on the subject and answer customers' questions, Customer Forum members were not given any significant opportunity to replay their understanding of the topic and share their views with each other. Instead, they were simply asked *"Are you still comfortable about $300m?"*.
- JGN subsequently claimed in its Draft Plan that "68% of participants supported the accelerated capital recovery of $300m".[49] Yet what we observed in the March 2024 workshop was among the 39 participants, 14 would live with the proposed amount, 5 loathed it and one lamented it. Interestingly the participant who lamented the proposal had earlier liked or lived with it, but

[49] Jemena Gas Networks, February 2024, *2025 Draft Plan*, p. 25.

once they articulated their understanding of accelerated depreciation and had it confirmed they no longer supported the proposal. CCP31 therefore suggests Jemena needs to revisit its engagement with customers on this subject.

- As stated above JGN has attempted to validate its approach to engaging on accelerated depreciation by hiring an independent evaluator, but we remain unconvinced that accelerated depreciation was sufficiently understood for customers to have an appropriately informed and objective view and the zero-acceleration option has not been adequately tested with customers.

To our knowledge JGN has not undertaken any further engagement with customers, or independently tested customer support for its $300m accelerated depreciation proposal with residential customers. JGN says that it has engaged on this question with some commercial and business customers as well as retailer, and those groups were generally supportive of the $300m accelerated depreciation proposal. We accept JGN's comments, however we did not observe this engagement and regardless these are different customer segments. Therefore, CCP31 continues to consider that this topic requires further engagement, particularly with residential and small business customers to inform JGN's Revised Access Arrangement proposal. Such engagement should validate customers' understanding of what they are being asked, for example by asking them to play back their understanding or explain to each other their understanding, before seeking customer preferences.

CCP31's concerns around JGN's engagement on accelerated depreciation remain, particularly as residential customer support for the proposal has not been independently tested, nor was there active consideration of alternatives beyond consumers paying more over a shorter time frame. We therefore encourage JGN to independently test customer support for its accelerated depreciation proposal.

3.2.3 Issues Paper Q4: Reasonableness of JGN's $300m accelerated depreciation

Issues Paper Q4: Is JGN's proposed accelerated depreciation of $300 million for the 2025–30 period reasonable in the context of the uncertainty of future demand for gas in NSW, why or why not? Specifically, to what extent has JGN's proposed accelerated depreciation appropriately balanced its asset stranding risk with other considerations, such as short-term price increases, long-term price stability and intergenerational equity?

JGN's proposed accelerated depreciation of $3m will amount to $198 ($2024-25) per customer for the 2025-20 regulatory period, a nominal residential bill impact of $16 per annum or $24 adjusted.[50] The amount per customer is within the range allowed for AusNet and AGN in their 2023-28 Access Arrangements and is marginally lower than the $333m approved by the AER for the three Victorian gas distribution networks. From that perspective alone the amount may be considered "reasonable".

However, from a consumer perspective, while the Customer Forum has indicated support for JGN's proposed accelerated depreciation of $300 million, and notwithstanding our earlier comments, whether the amount is reasonable has not been validated among an independent group of comparable customers, and to rely the views of a single group of customers who participated in

[50] AER, August 2024, *Issues paper on the early signal pathway expectations Jemena Gas Networks (NSW) Access Arrangement, 1 July 2025 to 30 June 2030,* pp. 20-21.

largely qualitative research provides no assurance that a statistically valid representative sample of customers would form the same conclusion.

Further we agree with the AER that government policy and roadmaps to net zero are an important consideration in establishing the pace and ongoing role of gas. The NSW Government is yet to form a policy on new gas connections although we note that some local councils within JGN's service area have banned new gas connections. Firm policy should theoretically improve confidence in demand forecasts. At this stage the bill impact is based on 1,1513,170 customers (2022-23).[51] Given the forecast numbers are expected to decline towards the end of the next regulatory period, this could increase the bill impact, subject to the price path.

Ultimately, since gas demand forecasts and particularly forecasts for gas distribution customers are so uncertain, gas demand forecasts for the JGN network will need to be revised as close to the final decision as possible. Additionally, JGN needs to provide consumers with more certainty around the viability of biogas to establish whether the balance between capital investment and accelerated depreciation appears reasonable.

From a consumer perspective, CCP31 is not confident that JGN's proposal for $300m accelerated depreciation is reasonable, particularly for small use customers, both due to lack of independent testing of consumer support and against other considerations, such as the uncertainty around the large-scale economic viability of biogas as a viable alternative for consumers. Consumers are being asked to carry the cost of too much of the uncertainty, at this point of time.

3.2.4 Issues Paper Q5: Real price path constraint

Issues Paper Q5: What do you think of the real price path constraint approach we applied for the 2023–28 Victorian gas distribution decisions (discussed in section 3.2.2.6)? If you do not consider this to be a reasonable approach to determine the amount of accelerated depreciation, what alternative approach do you consider should be used to determine the amount of accelerated depreciation?

In its final decision for the AGN, AusNet and Multinet 2023-28 Access Arrangement, the AER used a constrained price path approach to determine a reasonable amount of accelerated depreciation to balance accelerated depreciation price impacts on consumers and uncertainty around demand forecasts and policy developments.[52] Given the AER's precedents in approving accelerated depreciation and considering JGN's uncertain future it seems reasonable for the AER to adopt a comparable approach it applied in the 2023–28 Victorian gas distribution decisions.

CCP31 supports a real price path constraint consistent with other recent Access Arrangement decisions.

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[51] Jemena Gas Networks (NSW) Ltd, June 2024, *2025 Plan.*

[52] AER, June 2023, *Final decision Australian Gas Networks (Victoria & Albury) Gas distribution Access Arrangement 1 July 2023 to 30 June 2028, Overview*, p. 22.

3.3 Capital expenditure

3.3.1 Issues Paper Q6: Scope of capex review

Issues Paper Q6: What do you think about the proposed scope of our review?

CCP31 notes the AER is not satisfied JGN has met all the Handbook expectations in relation to JGN's capex proposal.[53] Accordingly the AER has proposed a review of JGN's capex proposal focusing on "renewable connections, repex, augex, ICT and other capex."[54]

In forecasting new connections, JGN has relied on Core forecasts which make certain assumptions about customer numbers and consumption. We note that the AER is not proposing a targeted review of JGN's capex proposal for non-renewable connections. However, if NSW policy settings or other factors materially change, we expect the non-renewable connections proposal to be updated accordingly.

Renewable connections

JGN has proposed $80m ($2024-25) for renewable connections. This proposal relates to its proposed eight projects to supply biomethane and renewable gas blends. Aside from the fact this is a new item of proposed expenditure, CCP31 questions the certainty that JGN would complete these projects within the next regulatory period, we also question the economic benefit of these projects for consumers generally as discussed in our response to Issues Paper Q5, and particularly in the context of JGN's accelerated depreciation proposal. Accordingly, we support a targeted review of this proposal. We note JGN's capex proposal for non-renewable connections is almost 40% lower than for the current regulatory period, and with no firm policy in NSW it is still obliged to connect customers to the gas network.

Repex and augex

JGN is proposing a mains replacement program of $62.5m ($2024-25), 76% higher than for the current regulatory period and $15.1m ($2024-25) which is 30% higher than for the current period. In contrast, JGN claims it is adopting a more targeted technologically based approach to asset management,[55] which prima facie one would expect to see. While the Customer Forum supported a more targeted approach to mains replacement it is not clear whether customers are aware that JGN's proposal results in a 76% increase from the current regulatory period. Accordingly, CCP31 supports a targeted review of JGN's repex and augex proposals.

ICT capex

JGN has proposed $45m ($2024-25) capex for ICT. While this is a 49% decrease on the current regulatory period, JGN has reclassified much of its ICT expenditure as opex; and the total amount is greater than for the current period. Importantly from a Better Resets Handbook perspective it is not evident to us that JGN has genuinely engaged with customers on its ICT proposals and therefore we support an AER targeted review of JGN's combined opex and capex ICT proposal.

[53] AER, August 2024, *Issues paper on the early signal pathway expectations Jemena Gas Networks (NSW) Access Arrangement, 1 July 2025 to 30 June 2030*, p. 21.

[54] AER, August 2024, *Issues paper on the early signal pathway expectations Jemena Gas Networks (NSW) Access Arrangement, 1 July 2025 to 30 June 2030*, p. 27

[55] Jemena Gas Networks (NSW) Ltd, June 2024, *2025 Plan*, p. v.

CCP31 does not have sufficient information to comment on the $171.7m ($2024-25) for other capex items.

Overall, CCP31 supports the AER's scope of review in relation to JGN's capex proposal.

3.3.2 Issues Paper Q7: Incorporation of consumer feedback on JGN's Draft Plan

Issues Paper Q7: What do you think of JGN's incorporation of consumer feedback on its draft plan into its Access Arrangement proposal?

As previously discussed, JGN's engagement between preparing its Draft Plan and lodging its proposal was limited to the March 2024 workshop to obtain customer support for the Draft Plan, its evaluation of the Customer Forum in response to concerns raised in our May 2024 Conclusions Report to the AER and a closing the loop session with the Advisory Board.

CCP31 commends JGN for enriching the customer narrative (comparing Chapter 2 in JGN's Draft Plan with Chapter 3 in its proposal) in response to the Advisory Board's suggestion.

CCP31 remains concerned that the issues we raised in our Conclusions Report, particularly around JGN's increased capex proposals in the face of declining demand and getting the balance right for consumers have not been adequately validated.

3.3.3 Issues Paper Q8: Prudency and efficiency of capex forecasts

Issues Paper Q8: What do you think of the prudency and efficiency of JGNs' capex forecast for the 2025–30 Access Arrangement period?

Given the issues we have raised in responding to questions related to JGN's capex forecast, CCP31 agrees with the AER that at this stage it is unclear if JGN's capex forecasts are prudent and efficient. We expect the AER will make this determination in its targeted assessment of JGN's capex proposals and form an appropriate view when it publishes its draft determination early in 2025.

CCP31 does not have sufficient information to comment on the prudency and efficiency of JGNs' capex forecast. Regardless this is an aspect of AER's role and expertise.

3.4 Operating expenditure

3.4.1 Issues Paper Q9: Scope of targeted opex review

Issues Paper Q9: What do you think about the proposed scope of targeted review?

CCP31 notes the AER is not satisfied JGN has met all the Handbook expectations in relation to JGN's opex proposal.[56] Accordingly the AER has proposed a review of JGN's opex proposal focusing on JGN's approach to ICT base adjustments, rate of change, and various step changes.[57]

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[56] AER, August 2024, *Issues paper on the early signal pathway expectations Jemena Gas Networks (NSW) Access Arrangement, 1 July 2025 to 30 June 2030*, p. 21.

[57] AER, August 2024, *Issues paper on the early signal pathway expectations Jemena Gas Networks (NSW) Access Arrangement, 1 July 2025 to 30 June 2030*, p. 32.

ICT opex

In relation to ICT adjustments as noted above JGN has reclassified much of its ICT capital expenditure as opex. Specifically, this has led to JGN applying adjustments to its base year opex to include an additional $12.5m ($2024-25) for previously capitalised software implementation costs and $12m ($2024-25) to establish and implement cloud-based services. We also note JGN is seeking an additional $15m ($2024-25) step change for ICT services. Importantly from a Better Resets Handbook perspective it not evident to us that JGN has genuinely engaged with customers on its ICT proposals beyond informing Customer Forum 8 how IT services could improve customer experience. Therefore, we support an AER targeted review of JGN's combined opex and capex ICT proposal.

Rate of change

CCP notes the AER considers JGN has provided insufficient information on the rate of change and on that basis alone we support a targeted review of this aspect of JGN's opex proposal.

Step changes (other than ICT)

In addition to the ICT step change covered above, we note the AER is also proposing a targeted review of the following proposed step changes:

- Investment in Picarro technology to enable more effective gas leak detections (and thereby also helping to reduce network emissions) - $20.8m ($2024-25)
- New vulnerable customer support initiatives - $2.7m ($2024-25)
- Emissions reduction – Climate reporting - $3.6m ($2024-25)
- Improved pipeline integrity management - $28.1m ($2024-25)

CCP31 acknowledges JGN engaged with the Customer Forum on its Picarro technology proposal and vulnerable customer support initiatives which customers broadly supported.

Customer Forum 8 participants supported JGN's proposal on the basis of an indicative average bill impact of $2.40 per annum from 2025-30, with 77% indicating they "liked" or "loved" a proposed targeted approach to mains rehabilitation.[58] In the Draft Plan JGN proposed $18m ($2024-25)[59] opex; however JGN increased this amount to $21m ($2024-25)[60] in its Access Arrangement proposal; which has not been tested with customers.

Customer Forum 8 participants strongly supported JGN's proposal of $2.7m to enhance support to customers experiencing vulnerability (with 81% indicating they liked or loved with the proposal), such as collaboratively designing programs to help customers understand their bills and JGN increasing its involvement in community support programs, such as the Uniting Energy Assist Program.

CCP31 acknowledges the Customer Forum's support for JGN's proposal to assist customers experiencing vulnerability. Beyond the customer-funded component, customers could further benefit and JGN could benefit reputationally by making an additional contribution to the program

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[58] Jemena Gas Networks (NSW) Ltd, June 2024, *2025 Plan,* p. 94.
[59] Jemena Gas Networks, February 2024, *2025 Draft Plan*, p. 73.
[60] Ibid, p. 92.

from its bottom line. JGN could also work with retailers and concessions programs to ensure that vulnerable customers are receiving the full levels of assistance to which they are entitled.

JGN has not specifically engaged with customers on its pipeline integrity management program nor in its emissions reduction / climate reporting. CCP31 considers this is appropriate, given these activities are driven by regulatory and compliance requirements and expectations.

Given the above**, CCP31 supports the AER's proposed scope of a targeted opex review.**

3.4.2 Issues Paper Q10: Incorporation of consumer feedback on JGN's Draft Plan

Issues Paper Q10: What do you think about JGN's incorporation of consumer feedback on its draft plan into its Access Arrangement proposal?

As with our comments on Q7 (Section 3.3.2), JGN's engagement between preparing its Draft Plan and lodging its proposal was limited to the March 2024 workshop to obtain customer support for the Draft Plan, its evaluation of the Customer Forum in response to concerns raised in our May 2024 Conclusions report to the AER and a closing the loop session with the Advisory Board.

We commend JGN for enriching the customer narrative (comparing Chapter 2 in the Draft Plan with Chapter 3 in the proposal) in response to the Advisory Board's suggestion.

CCP31 largely shares the AER's concerns around the limited exploration of opex step changes with consumers, and limited evidence of consumer preferences in its Draft Plan and subsequent Access Arrangement proposal.

3.4.3 Issues Paper Q11: Prudency and efficiency of opex forecasts

Issues Paper Q11: What do you think of the prudency and efficiency of JGNs' opex forecast for the 2025–30 Access Arrangement period, including the proposed step changes and base adjustments?

Given the issues we have raised in responding to questions related to JGN's opex forecast, CCP31 agrees with the AER that at this stage it is unclear if JGN's opex forecasts are prudent and efficient. We expect the AER will make this determination in its targeted assessment of JGN's opex proposals and form an appropriate view when it publishes its draft determination early in 2025.

CCP31 does not have sufficient information to comment on the prudency and efficiency of JGN's opex forecast. Regardless, this is an aspect of AER's role and expertise.

3.5 Other areas for consideration

3.5.1 Issues Paper Q12: CESS sharing factor

Issues Paper Q12: What do you think about the proposed approach to the sharing factor for JGN's CESS in the 2025–30 period?

JGN is proposing to continue to apply the same CESS scheme it applied for the current period.

In April 2023, following stakeholder consultation the AER updated the Capital Expenditure Sharing Scheme, which rewards or penalises networks for improvements or declines to their capex efficiency. The AER's modifications to the scheme broadly reflect stakeholder views and represent a slight improved or fairer outcome for consumers. On that basis, **CCP31 supports the AER's preference to apply the updated CESS for JGN's 2025-30 Access Arrangement.**

3.5.2 Issues Paper Q13: Exclusion of renewable gas connections from the CESS

Issues Paper Q13: What do you think about the proposed approach to renewable gas connections being excluded from the CESS in the 2025–30 period?

JGN has excluded new connections capex (including renewable gas connections) from its Access Arrangement 2025-30, given new connections are outside its control. This is consistent with the AER's decision for JGN's 2020-25 Access Arrangement.

CCP31 supports continued exclusion of new connections from the CESS.

3.5.3 Issues Paper Q14: Other views on application of incentive mechanisms

Issues Paper Q14: Do you have any other views on the proposed application of JGN's incentive mechanisms?

CCP31 has no other views on the proposed application of JGN's incentive mechanisms.

3.5.4 Issues Paper Q15: Views on proposed reference services

Issues Paper Q15: Do you have any views on the proposed reference services? Including consideration on JGN's proposed approaches to the hybrid tariff variation mechanism, declining block tariff structure, and to abolishment tariffs.

Proposed reference services

Reference services are subject to AER price regulation via reference tariffs, and a price cap.[61] Consistent with the AER's expectations JGN differentiates transportation reference services from ancillary reference services, with the latter including meter reads, connections and disconnections, abolishments, non-standard requirement hourly charges and expedited services.[62] In its Final Decision for JGN's 2020-25 Access Arrangement the AER approved JGN's classification which is largely unchanged.[63] As JGN's draft reference service proposal at the time was informed and supported by relevant stakeholder consultation and is considered compliant, CCP31 has no further comment on the proposed reference services.

Hybrid tariff variation mechanism

In October 2023, the AER published its final decision on its review of gas distribution network reference tariff variation mechanism and declining block tariffs for gas transportation services[64]. We acknowledge the AER's decision in forming our response to this question and the implications for Jemena's Access Arrangement proposal development are as follows:

1. The AER will make case by case decisions on gas distribution pipeline tariff variation mechanisms or tariff structures.

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61 AER, August 2024, *Issues paper on the early signal pathway expectations Jemena Gas Networks (NSW) Access Arrangement, 1 July 2025 to 30 June 2030*, p. 34.

62 Ibid, p. 35.

63 AER, November 2023, *Final Decision Jemena Gas Networks (NSW) Ltd Gas Distribution Determination 2025 to 2030 Reference Services*

64 AER, October 2023, *Review of gas distribution network reference tariff variation mechanism and declining block tariffs, Final decision*.

2. The form of regulation, price cap or revenue cap, will be determined on a case-by-case basis with a hybrid tariff variation mechanism worthy of consideration.

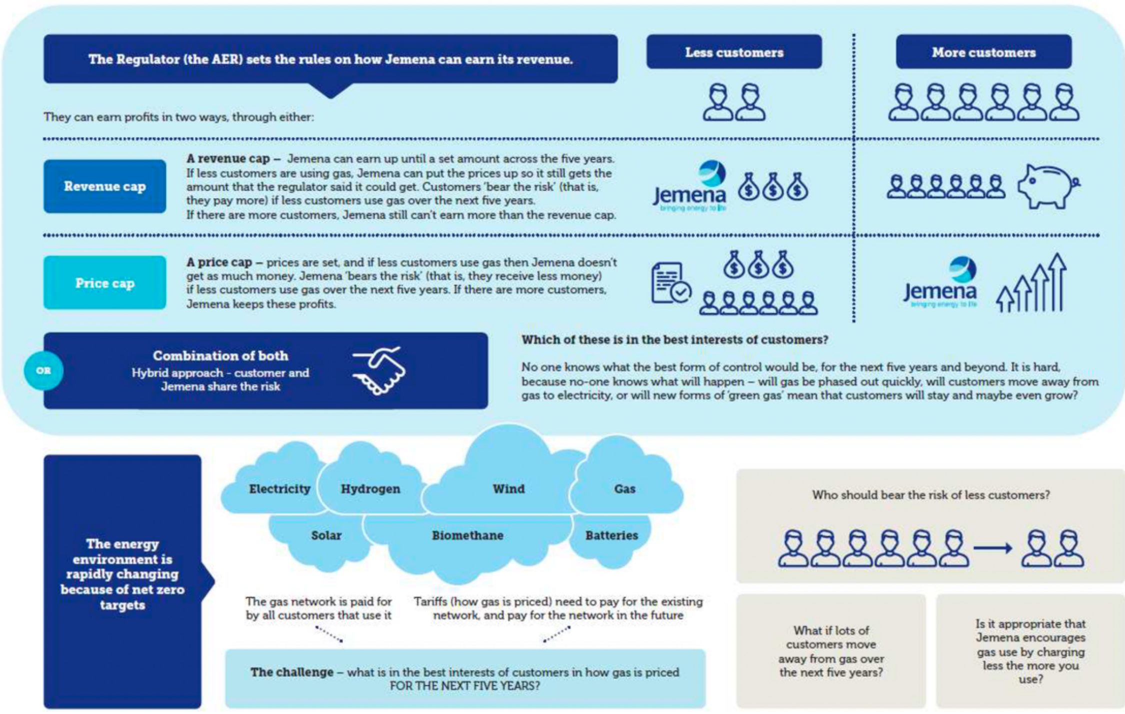
3. The AER expects substantive stakeholder consultation regarding tariff variation mechanisms.

4. The AER will retain declining block tariffs on the basis they are economically efficient.

Importantly, the AER expects distributors to "undertake substantive stakeholder consultation". JGN engaged with customers by establishing a Tariff Forum (a subset of interested Customer Forum members) which met on online on three occasions and also engaged with its Advisory Board to help inform its tariff structure and tariff variation mechanism review. CCP31 observed these sessions. Over the three sessions participants discussed who should bear the financial risk of Jemena not having sufficient revenue, what constitutes fair sharing of the risk, as well as creating greater certainty around the future of gas. Given the complexity of the subject matter, JGN engaged several independent industry experts to help inform the Tariff Forum and assist in the deliberations.

In our view this engagement was both sincere and effective: bd Infrastructure facilitated the sessions, customers were provided with a clear and simple explanation of tariffs, their knowledge and understanding developed over multiple sessions and they questioned and challenged JGN on the different tariff options (revenue cap vs price cap vs a hybrid approach), illustrated below:[65]

Figure 3-4: Tariff options presented to JGN's Tariff Forum



While participants ultimately considered Jemena was best placed to manage the risk, they did also consider it was reasonable for consumers to share some of the risk, especially if it helped ensure the

[65] Customer Forum 3, 2 August 2023, *Jemena Tariffs Consultation*, p. 6.

viability of JGN and their future access to gas. Ultimately the Tariff Forum supported JGN's proposed hybrid approach which shares the revenue risk between customers and JGN.

Initially, CCP31 had some concerns about the appropriateness of JGN's proposed hybrid tariff model, mainly because of the risk of setting precedence that would not be in customers' best interests. We do not want future Access Arrangement and reset processes to be continually adjusting the form of regulation, as occurred in the past with the weighted average cost of capital (WACC). However, we now appreciate the AER's 2023 gas distribution reference tariff review[66] means the hybrid model is an appropriate option for Jemena to propose for gas transportation services. Regardless, we note JGN's proposed tariff relies on accurate volume forecasts and that the AER will consider it on a case-by-case basis discussed in the review.

Declining block tariff structure

The Tariff Forum also discussed the declining block tariff structure, which effectively encourages more use of gas, but helps keep bills lower for customers. Tariff Forum participants were not unanimous in their view as some considered it encouraged greater use of gas and did not help with emissions reduction. However, participants were supportive of a flatter block structure, as it could help reduce gas use.

Abolishment tariff

While an abolishment tariff helps socialise the costs of disconnecting from the gas network, we also note that if the tariff it is too high it may create a safety issue if it disincentivises customers from disconnecting their gas supply. After engaging on this issue with the Customer Forum, JGN is proposing to retain the abolishment tariff of $1,472. The Customer Forum supported the retention of this tariff on the basis of fairness.

However, Patrick Dale, Managing Director of Aeris Capital, presented an alternative view at the AER's September 2024 Public Forum on its Issues Paper. He described himself as representing consumers who have aging JGN supplied centralised hot water systems who could be significantly impacted by the cost. He described the proposed abolishment tariff as "enormously high" and questioned the fairness and affordability of the proposed tariff. Specifically, he suggested the abolishment fee entrapped consumers leaving them unable to exercise choice or afford to participate in the energy system, especially given the typically old age of the assets.

We note in the AER's most recent gas Access Arrangement decisions, the AER reduced the abolishment tariff from ~$950 to $200 to help address safety concerns if the cost to disconnect was too high. JGN's abolishment tariff is considerably higher than the cost of disconnecting in Victoria and would likely be a key barrier for some customers to disconnect, thereby putting their safety at risk and acting as a barrier for them to participate in the energy transition. We further note that the NSW Independent Pricing and Regulatory Tribunal (IPART) may have a view on this with respect to their compliance with safety and reliability obligations.

CCP31 supports the classification of reference services as proposed by JGN; we also recognise that a hybrid tariff combined with a simpler block tariff may be appropriate and both are supported by customers. However, although the Customer Forum strongly supported retention of the

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[66] AER, October 2023, *Review of gas distribution network reference tariff variation mechanism and declining block tariffs, Final decision*.

abolishment tariff, the AER needs to be confident that any abolishment tariff is fair and is not a barrier to disconnect for safety reasons, including consideration of any IPART views.

4 JGN's overall proposal

Beyond our responses to the AER's *Issues Paper* questions we consider it appropriate to comment on the overarching impact of the Access Arrangement and in particular price consequences for customers.

In its Access Arrangement summary, Jemena says:

> *"Our 2025 Plan will result in a real network bill increase of 1.44% per year over the 2025-30 period, or $4.39 per year for the average residential customer. … A typical commercial customer consuming 500GJ annually will experience a real network bill increase of 2.78% or $88 per year over the 2025-30 period."*[67]

Given the current cost of living settings across Australia, an increase of 2.78% per annum over the regulatory period seems reasonable, at first glance.

Consumers pay their bills in nominal dollars so applying the CPI at the top of the RBA target range of 3% means that JGN's 1.44% increase per year would be 4.33% nominal, year on year for 5 years.

However, it is worth considering whether this increase is reasonable against other network charges. Accordingly, we have compared JGN proposed price increases with NSW electricity price charges for the same customer groups.

The AER's Default Market Offer for 2024-25 is summarised for NSW customers, across three electricity network distribution businesses as follows: [68]

Figure 4-1: DMO 2024-25 final determination prices including changes from DMO 5 in nominal and real terms

Distribution region	Description	Residential w/out controlled load		Residential with controlled load		Small business w/out controlled load	
Ausgrid	DMO price		$1,810		$2,495		$4,597
	For annual usage of		3,900 kWh		Flat rate 4,800 kWh + CL 2,000 kWh		10,000 kWh
	Change y-o-y	-$17	(-0.9%)	-$67	(-2.6%)	-$402	(-8.0%)
	Change y-o-y (real)	-$86	(-4.7%)	-$164	(-6.4%)	-$592	(-11.8%)
Endeavour Energy	DMO price		$2,209		$2,787		$4,407
	For annual usage of		4,900 kWh		Flat rate 5,200 kWh + CL 2,200 kWh		10,000 kWh
	Change y-o-y	-$19	(-0.9%)	-$190	(-6.4%)	-$191	(-4.2%)
	Change y-o-y (real)	-$104	(-4.7%)	-$303	(-10.2%)	-$366	(-8.0%)
Essential Energy	DMO price		$2,499		$2,918		$5,718
	For annual usage of		4,600 kWh		Flat rate 4,600 kWh + CL 2,000 kWh		10,000 kWh
	Change y-o-y	-$28	(-1.1%)	-$59	(-2.0%)	-$43	(-0.7%)
	Change y-o-y (real)	-$124	(-4.9%)	-$172	(-5.8%)	-$262	(-4.5%)

67 Jemena Gas Networks (NSW) Ltd, June 2024, *2025 Plan,* p. vi.
68 AER, May 20924, Final determination - Default market offer prices 2024–25, p. 5.

Comparing a JGN increase of 4.44% for 2025-26 (Year 1 of the Access Arrangement) with nominal NSW electricity network charge reductions of between 0.9% and 1.1% for 2024-25 suggests that JGN customers could be paying more than necessary, using electricity prices for comparison.

A real increase of 1.44% pa, as proposed by JGN translates to 7.4% by the end of the Access Arrangement period in real terms or 21.3% increase in nominal terms, assuming an average CPI of 2.5%, being the midpoint of the RBA inflation target range. This assumes CPI will fall over the Access Arrangement period, which is why we suggest a 3% top of the RBA target range, for Year 1 of the Access Arrangement period. On this basis, JGN's proposed increase is significant and does not closely align with NSW electricity price charges for the same customer groups, albeit with only a 12-month comparison.

We recognise that this sense test of JGN price impacts is indicative, still CCP31 suggests JGN could find some further savings for their customers as it prepares its Revised Access Arrangement proposal.

5 Beyond the Access Arrangement

In considering JGN's processes in preparing its 2025-30 Access Arrangement, the regulatory settings and broader debates about the role and future of gas in Australia, CCP31 observes the following matters that are pertinent to the JGN Access Arrangement which although outside our direct scope are relevant to consumers

We make these brief observations as a contribution to current debates.

1. Better Resets Handbook, early signal pathway and uncertainty

The Better Resets Handbook aims to encourage better network engagement with consumers and ensure consumer preferences drive regulatory proposals. The Handbook also details the AER's expectations in relation to expenditure forecasts. In relation to capital expenditure, the AER:

> *"expect[s] businesses to demonstrate that forecast total capital expenditure is not materially above current period actual spend proposed price increases with electricity price charges for the same customer groups"*[69]

Similarly, for opex, where the base-step-trend methodology is applied, the AER expects that opex changes from one regulatory period to the next are similar, for example, for step changes:

> *"The number of forecast step changes is limited to a few well justified ones, or none at all."*[70]

In short, the Handbook was (correctly in our opinion) predicated on an expectation that consumer interests are best served when total network revenue for the next regulatory period is similar to the current period and when appropriate, informed consumer engagement (conditional on AER prudency scrutiny) has indicated that the network business proposal is capable of support / acceptance.

Consequently, the early signal pathway allows for a targeted review of outstanding issues that the AER identifies when a business lodges its revenue proposal / Access Arrangement. A targeted review reduces regulatory costs by applying a top-down assessment to a revenue proposal / Access Arrangement that is similar to the current period, with only a small number of targeted expenditure elements subjected to greater scrutiny. This approach has merit. However, significant structural change, such as the transition to net zero and uncertainty around the future of gas create difficulties, particularly when a business has been approved to participate in an early signal pathway process.

Accordingly, we consider that the Better Resets Handbook requires an additional option to cater for networks that are developing their proposals in periods of substantial uncertainty. This needs to include criteria for determining what constitutes substantial uncertainty, such as a "Substantial Uncertainty Guideline." An important component of this guideline would be consideration of risks posed by uncertainty and how risk costs should be allocated, e.g. between network businesses, customers, taxpayers.

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69 AER, December 2021, Better Resets Handbook, p. 19.
70 Ibid, p. 26.

2. Consumer Voice in gas planning

While a number of gas policies and related documents have been published, including the Commonwealth Government's *Future Gas Strategy*,[71] the NSW *Future of Gas Strategy*,[72] Victoria's *Gas Substitution Roadmap*[73] and various others, a limited amount of engagement has been undertaken with residential and small business consumers.

The residential and small business consumers who Jemena engaged with were clearly interested in the future of gas issues. However, for nearly all participants, that engagement was their first exposure to any informed or detailed discussion on the future of gas and possible or potential implications for gas consumers.

Governments and market bodies (to a lesser extent) need to increase their community and consumer engagement on future of gas considerations and transition to that future to maximise the chance of success of their strategies.

3. Who pays and for what?

An important consumer consideration for future of gas strategies is the "Who pays?" question, particularly in relation to key aspects of the transition to net zero, including:

a) Abolishments
This topic was explored in some detail with JGN customers who clearly consider that customers leaving the network should pay for the abolishment of their gas service. However, this approach incentivises customers who are no longer using gas to avoid paying for abolishment with safety risks being a consideration as potentially growing numbers of connections are unused and so less closely monitored. There are public safety advantages of abolishment costs being shared by taxpayers (through governments), businesses and consumers. A policy and strategy to deal with abolishment costs and safety risk would be useful, including how costs of abolishments should be met.

b) Stranded assets and accelerated depreciation
There is extensive economics literature on efficient approaches to managing stranded assets. Gas network businesses confronting the risk of stranded network assets are keen to reap the benefits of accelerated depreciation with consumers fully bearing the risk. There are many options that are not actively considered in current regulatory processes.

An example of the economics literature pertaining to stranded assets is Harold Hotelling's work, particularly the work he undertook in the 1930s and 1940s. In considering the question of railway lines as stranded assets, Hotelling says in "The General Welfare in Relation to Problems of Taxation and of Railway and Utility Rates: in *Econometrica* 6, 242-269:

> *"… the fact is that we now have the railroads, and in the main are likely to have them with us for a considerable time in the future. It will be better to operate the railroads for the benefit*

[71] Department of Industry Science and Resources, *Future Gas Strategy*, available from https://www.industry.gov.au/publications/future-gas-strategy/1-getting-net-zero-emissions-2050
[72] NSW Government, 2019, *Future of Gas Statement, 2021-27*, DRG Future of Minerals in NSW Report
[73] Victoria State Government, 2022, *Victoria's Gas Substitution Roadmap*

of living human beings, while letting dead men and dead investments rest quietly in their graves".

Hotelling's approach would not see (living) customers bearing the full stranded asset risk for a potentially stranded asset.

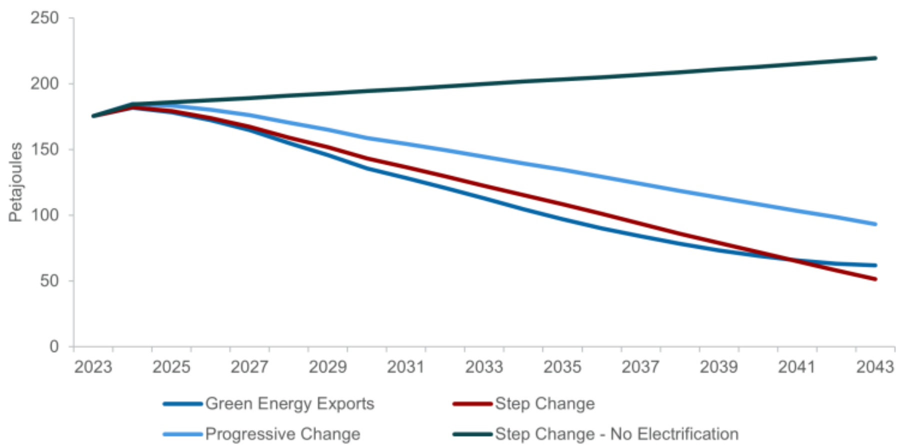
Again, a national strategy is needed to deal with how stranded asset risk management and cost sharing is undertaken.

c) Should gas networks be regulated? And if so, what should be regulated?

A regulatory question about whether gas networks should be regulated has been ongoing as some networks are regulated (covered) others are not (uncovered networks).

The Commonwealth Government's *Future of Gas Strategy* includes the following graph from AEMO and uses Integrated System Plan scenarios.

Figure 5-1 Building demand for gas by scenario, 2023-43



Note: Building demand covers gas used for residential and commercial heating on the east coast

Source: Analytical Report, Figure 3.7; AEMO (2024b)

The graph suggests that domestic and commercial gas demand in two decades will likely be about a quarter of current demand. We suggest that this means within two decades gas, will be predominantly used by large businesses with no other viable options to gas. Some smaller businesses and households will continue to use gas by choice while more vulnerable households who are renters may have no choice but to continue to use gas.

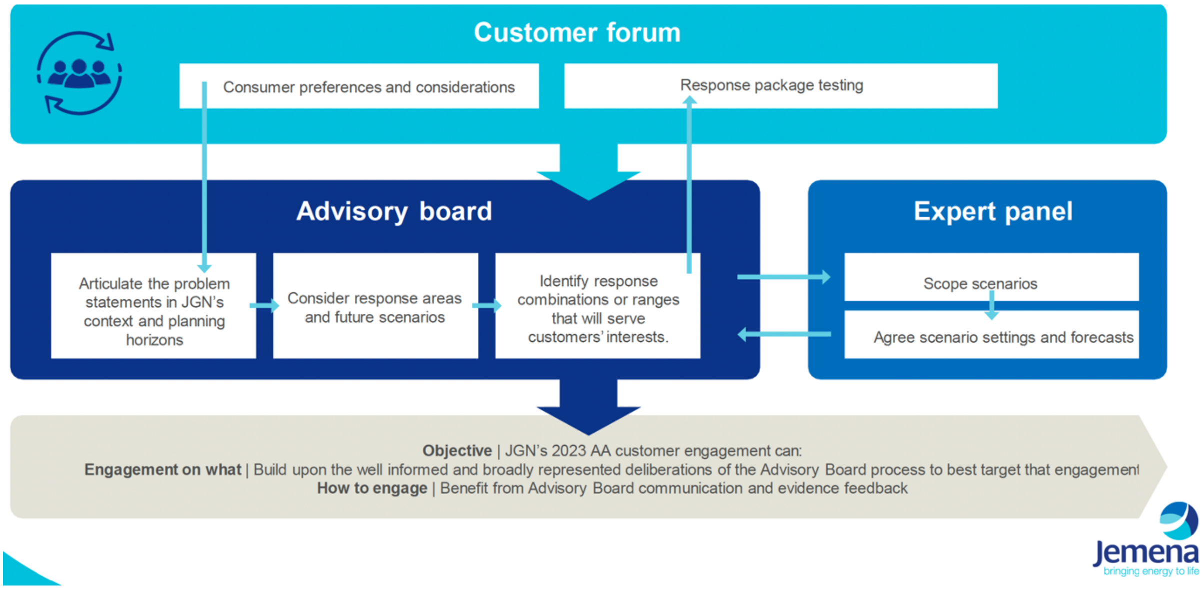
This means that regulating access to gas networks will be less relevant and the current gas regulatory arrangements will have a diminishing role. From a consumer perspective, the most important regulatory function will be affording protection to vulnerable customers who are trapped by a continued reliance on gas. This is a different function to economic regulation.

Consequently, the question about the appropriateness of regulating gas networks in a period of declining access needs to be actively considered in the near future.

Appendix A: Overview of JGN's pre-lodgement engagement

JGN planned a two-stage engagement program, initially exploring the longer-term future of gas, specifically for gas networks in NSW with its Advisory Board established for that purpose. Our preliminary progress report focused on our assessment of JGN's engagement with that Advisory Board. This approach is summarised by the following diagram presented to the Advisory Board:

Figure 0-1: Overview of JGN's engagement program



In November 2022 JGN established a Customer Forum to engage with consumers more broadly on specific aspects of its proposal. The Customer Forum met twice before March 2023[74], and reconvened in June 2023 adding some new members to compensate for panel attrition. To date the Customer Forum has met on eight occasions. JGN engaged bd Infrastructure to design, independently facilitate and report on the outcomes of the Customer Forum. The Advisory Board contributed to the Customer Forum's design and focus topics for the Customer Forum.

Additionally, JGN established a Youth Steering Group, a CALD Steering Group, and a Tariff Structures Customer Forum, each of which have met on multiple occasions since March 2023. bd Infrastructure also facilitated these sessions.

Members of the Advisory Board were also invited to observe the Customer Forum and participate as 'Brains Trusts' for the Customer and Tariff Forums in March 2024.

JGN's engagement is detailed in its Draft 2025 Plan, Section 2. Key features of JGN's engagement included:

- Commencing its engagement early, 18 months in advance of publishing its Draft Plan, particularly given the energy transition and uncertainty of the future of gas
- Establishing an independent Expert Panel to develop scenarios around the energy transition and JGN's role in the future

[74] CCP31 did not observe the Customer Forum's first two meetings.

- Establishing an Advisory Board of consumer advocates and industry specialists to develop initiatives to respond to the different scenarios and provide advice around the initiatives to test more with the Customer Forum
- Establishing a Customer Forum made up of a diversity of residential gas customers, to understand their needs and expectations given the scenarios; develop service options to meet their needs; testing those options and the cost trade off, and finally seeking support for its Draft Plan.

JGN engaged an independent consultant, bd Infrastructure, to facilitate focussed discussions (or deep dives) with JGN's Customer Forum, based on its co-design work with the Advisory Board.

CCP31 members first met with JGN and the AER in October 2022 and observed much of the early engagement with the Advisory Board engagement described above, which it documented in a preliminary report to the AER in March 2023.

JGN's next phase of engagement involved collectively *testing* customer support for its draft proposal with its Customer Forum, and its Youth and CALD Steering Group at an in-person customer workshop on 2 March 2024. CCP31 members attended that workshop as observers. CCP31 also observed the Advisory Board meeting on 2 February 2022 in which members were largely informed of JGN's Draft Plan, although time was allowed for them to discuss and previewed the key findings.

In February 2024 JGN published a comprehensive Draft Plan which included explicit questions to trigger feedback on the Draft Plan. In its Draft Plan JGN proposed:

> *"Our Draft 2025 Plan will result in a real bill increase of 1.69% per year over the 2025-30 period, or $5.20 per year for an average residential customer."*

The increase is in real $2025, so with a CPI in the middle of the Reserve Bank's target band of 2% - 3% annual CPI, this is an increase of about 3.2% nominal per year, which is how customers experience their bills. Cost increases of 2.22% pa real are proposed for commercial customers and 2.89% for industrial customers.

JGN's Draft Plan details what JGN heard from customers and how it applied customer input to the Draft Plan. Notable headlines in JGN's Draft Plan were:

1. Investing in renewable gas (biogas)
2. Replacing assets in a targeted manner [to] reduce the capital expenditure
3. Proposed changes to JGN's [new] connections policy will mean more customers are required to make an up-front contribution
4. Speeding up the capital recovery of assets to avoid the potential for any inequitable recovery of investments.

In March and early April 2024, JGN reconvened a round 12 members of its Customer Forum who were interested in engaging with JGN on its tariff proposals. Participants met online, with bd Infrastructure facilitating the forums. The primary purpose of these workshops was to present participants with tariff options related to risk sharing between customers and JGN. These options were presented as a trade-off between price cap and revenue cap regulation, with JGN asking participants what they thought about a third option, being a hybrid model.

Additionally, JGN sought participants' agreement on the number of 'blocks in JGN's tariffs approach being reduced from six to four.

The following hybrid options were presented to panel members at the first workshop in March 2024 (Workshop 1, JGN Tariff Stage 3):

Figure 0-2: Hybrid tariff options presented to forum participants

Hybrid Option 3: Bounded sharing – Higher gas volumes

Examples of proposed hybrid option (from Draft 2025 Plan)

Example 1 – the amount of gas used is 5% higher than the forecast approved by the AER

Case 1: Threshold of 5%

		50/50 sharing ratio	60/40 sharing ratio	40/60 sharing ratio	Customer impact
Within ±5%	JGN	5%	5%	5%	None
Outside ±5%	JGN	0%	0%	0%	
	Customers	**0%**	**0%**	**0%**	

Case 2: Threshold of 3%

		50/50 sharing ratio	60/40 sharing ratio	40/60 sharing ratio	Customer impact
Within ±3%	JGN	3%	3%	3%	Customers will be slightly better off. Customers benefit from any outperformance above the 3% threshold.
Outside ±3%	JGN	1%	0.8%	1.2%	
	Customers	**1%**	**1.2%**	**0.8%**	

Example 2 – the amount of gas used is 7% higher than the forecast approved by the AER

Case 1: Threshold of 5%

		50/50 sharing ratio	60/40 sharing ratio	40/60 sharing ratio	Customer impact
Within ±5%	JGN	5%	5%	5%	Customers will be slightly better off. Customers benefit from any outperformance above the 5% threshold.
Outside ±5%	JGN	1%	0.8%	1.2%	
	Customers	**1%**	**1.2%**	**0.8%**	

Case 2: Threshold of 3%

		50/50 sharing ratio	60/40 sharing ratio	40/60 sharing ratio	Customer impact
Within ±3%	JGN	3%	3%	3%	Customers will be better off. Customers benefit from any outperformance above the 3% threshold.
Outside ±3%	JGN	2%	1.6%	2.4%	
	Customers	**2%**	**2.4%**	**1.6%**	

Notably, participants were confident to question JGN about the tariff options and sought more detail on price impacts, which JGN subsequently provided in the second forum. In particular, JGN provided greater detail about the hybrid option and explained it was considering two variables that would trigger different tariffs. It also sought participant views on its proposed approach.

1. The **tipping point in variation in volume of gas supplied** that triggered the move to risk-cost sharing. The main options explored were 3%, 5% and 7% in excess of forecast gas supply
2. The **sharing ratio of cost-reward between customers and JGN** once the volume tipping point is reached, sharing options of 60/40, 50/50 and 40/60.

Importantly, in response to participant queries in the first forum, JGN presented a slide with indicative bill impacts and winner/loser outcomes, such as the following example which also aimed to assist participants to form a view.

Figure 0-3: Sample bill impact slide presented at Tariff Forum 2

Residential customer bill impacts - 3% threshold

60/40 (customer/network) sharing

Customer type	Annual consumption	Average annual network bill	Bill change $ (%) 5% outperformance	Bill change $ (%) 7% outperformance
Cooking only	2 GJ	$117	-$1.24 (-1.1%)	-$2.53 (-2.2%)
Small home (cooking and hot water)	7.5 GJ	$261	-$2.77 (-1.1%)	-$5.65 (-2.2%)
Larger home (cooking and hot water)	15 GJ	$323	-$3.42 (-1.1%)	-$6.98 (-2.2%)
All gas home (cooking, hot water and heating)	25 GJ	$399	-$4.22 (-1.1%)	-$8.62 (-2.2%)

Key takeaway: Customers benefit the most under these options, with an average bill saving of 2.2% if outperformance reaches 7%.

JGN separately engaged with small business customers, but did not observe these sessions. Accordingly, the scope of our advice is limited to our observations of JGN's engagement with its broader customer group predominantly through its Customer Forum and the Advisory Board.

The only other engagement since JGN published its Draft Plan is research conducted by Sagacity Research and Jackie Duke Insights to gather independent feedback from Customer Forum participants in response to advice contained in CCP31's May 2024 Conclusions Report to the AER. The report is published on JGN's website and the findings were used as evidence of consumer support for JGN's proposal. We have provided some comments on this research in the body of our Advice.

CCP31 also notes JGN has reconvened its Advisory Board to meet on 13 September 2024, with the key focus areas being to:

- Revisit the key regulatory response options recommended by the Advisory Board and how they transpired into the Final Plan
- Provide members with an overview of how JGN's Access Arrangement proposal initiatives align to customer expectations including considering matters raised by the CCPs Conclusions Report on its engagement program
- Consider what has changed since the Advisory Board last met in early February 2024, with a focus on the regulatory and policy landscape
- Allow the AER to present on key areas raised in its Issues paper
- Discussion on what key matters Jemena should consider in preparing for its revised Access Arrangement proposal.

Appendix B: CCP31 meetings and observations

Up to CCP31 finalising its March 2023 Preliminary Report

CCP31 meetings with JGN

Meetings between CCP31 and JGN to keep informed as to their approach and progress:

- Initial briefing: 26 October 2022
- Update on JGN's engagement plans: 5 December 2022
- Update on JGN's engagement plans: 18 January 2023
- Introduction to JGN's Early Signal Pathway: 8 March 2023

Engagement observed by CCP31

- Expert Panel CCP31 (online observations): 11 November 2022
- Consumer User Group (online observations): 12 November 2022
- Advisory Board Session 3 (half day - online observations): 25 November 2022
- Advisory Board Session 4 (half day - online observations): 9 December 2022
- Advisory Board Session 5 (half day - online observations): 10 February 2022
- Advisory Board Session 6 (half day - online observations): 21 February 2022
- Advisory Board Session 7 (full day - online and in-person observations): 22 March 2023

March 2023 to October 2023

The following table lists JGN's engagement activities from our preliminary advice, noting those observed by CCP27 members:

Stakeholder group and activity	Date	CCP31 observed
Advisory Board		
Session 8: Refine process and themes for Customer Forum engagement	18 Apr 2023 (half day online)	Yes
Opt-in Session: Tariff Engagement	8 June 2023 (1 ¾ hour	No
Customer Forum		
Meeting 1: meet and greet	8 June 2023 (1 hour online)	No
Meeting 2: introducing the purpose of the engagement and themes and the concept of deliberation	13 June 2023	Yes
Meeting 3: participants heard from external guest speakers as part of their subject matter exploration	28 June 2023 (3 hours online)	Yes (first hour)
Meeting 4: focused on exploring JGN's responses around reliability, affordability, safety, fairness and choice	27 June 2023 (full day in-person	Yes

Meeting 5: focused on assessing customer values against JGN's regulatory responses related to reliability, affordability, safety, fairness and choice	28 June 2023 (full day in-person	Yes
Meeting 6: focused on checking in with the group as to their recommendations around managing uncertainty and meeting customer expectations	15 Aug 2023 (3 hours online)	Yes
Meeting 7:	9 Sep 2023 (full day face-to-face)	Yes
Youth Steering Group		
Meeting 1	1 Apr 2023 (full day in person)	No
Meeting 2	12 Jun 2023 (3 hours online)	No
Meeting 3	9 Aug 2023 (online)	Yes
CALD Steering Group		
Meeting 1	1 Apr 2023 (half day in person)	No
Meeting 2	15 Jun 2023 (3 hours online)	No
Meeting 3	10 Aug 2023 (online)	Yes
Tariffs Customer Forum focusing on: • Who should bear the risk if fewer customers are connected to the gas network? • Given zero net targets and climate change impacts should JGN be encouraging gas use?		
Tariffs Customer Forum 1: Introduction to tariffs	5 July 2023 (3 hours online)	Yes
Tariffs Customer Forum 2: Brains Trust Meeting with focus on independent experts offering perspectives on the questions	18 July 2023 (3 hours online)	Yes
Tariffs Customer Forum 3: focus on responding to the question	2 Aug 2023 (3 hours online)	Yes

October 2023 to present

The following table lists JGN's engagement activities from our preliminary advice, noting those observed by CCP27 members:

Stakeholder group and activity	Date	CCP31 observed
Advisory Board and Expert Panel		
Re-convene to discuss and preview the key findings detailed in the JGN Gas Networks Draft 2025 Plan	2 February 2024 (half day in-person)	Yes
Customer Forum, Youth Steering Group and CALD Steering Group		
Meeting 8: Have your say on our Draft Plan Presentation of Draft Plan, checking in with the Customer Forum that the Draft Plan reflected their views	2 March 2024 (full day in-person)	Yes
Tariffs Customer workshops focusing on: 1. Presenting more information on the bill impacts of the tariff options discussed in 2023, and 2. Obtaining feedback on how to share risk between JGN and customers (following Stage 2 discussions)		
Workshop 1 JGN Tariff Stage 2	9 Nov 2023(2 hours online)	No
Workshop 2 JGN Tariff Stage 2	22 November 2023 (2 hours online)	No
Workshop 3 JGN Tariff Stage 2	6 December 2023 (2 hours online)	No
Workshop 1 JGN Tariff Stage 3	26 March 2024 (2 hours online)	Yes
Workshop 2 JGN Tariff Stage 3	2 April 2024 (2 hours online)	Yes
Retailers		
Check in and consult on the Draft 2025 Plan	23 February 2024	No
Small businesses		
Small Business Sydney Focus Group 1	18 October 2023 (1.5 hours online)	No
Small Business Sydney Focus Group 2	1 November 2023 (1.5 hours online)	No
Small Business Parramatta Focus Group 2	8 November 2023 (1.5 hours online)	No
Check in and consult on the Draft 2025 Plan	27 March 2024	No