Draft decision

Jemena Gas Networks (NSW) access arrangement 2025 to 2030

(1 July 2025 to 30 June 2030)

Overview

November 2024

AUSTRALIAN ENERGY REGULATOR

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Version	Date	Pages
1	29 November 2024	46

Invitation for submission and next steps

This Overview forms part of our draft decision on the access arrangement that will apply for the 2025–30 access arrangement period. It should be read with all parts of our draft decision.

In response to our draft decision, Jemena Gas Networks (JGN) (NSW) has the opportunity to submit a revised proposal for its upcoming 2025–30 access arrangement by 15 January 2025.

A public forum will be held on Wednesday, 11 December 2024 to discuss our draft decisions. Stakeholders can register their interest online through Eventbrite.

Interested stakeholders are also invited to make submissions on both our draft decision and JGN's revised proposal (once submitted) by Friday, 14 February 2025. Our final decision on JGN's access arrangement will be published by May 2025.[1]

Submissions and enquiries should be sent to: JGN2025@aer.gov.au.

Alternatively, submissions can be sent to:

Arek Gulbenkoglu
General Manager
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Submissions should be in Microsoft Word or another text readable document format.

We prefer that all submissions be publicly available to facilitate an informed and transparent consultative process. We will treat submissions as public documents unless otherwise requested.

Parties wishing to submit confidential information should:

1. Clearly identify the information that is the subject of the confidential claim.
2. Provide a non-confidential version of the submission in a form suitable for publication.

All non-confidential submission will be published on our website.[2]

1 An indicative timetable of the key milestones during the JGN access arrangement is available on the AER website.

2 See the ACCC/AER Information Policy for further information.

List of attachments

This Overview forms part of our draft decision on the access arrangement that will apply to Jemena Gas Networks (NSW) for the 2025–30 access arrangement period. It should be read with all other parts of this draft decision.

The draft decision includes the following documents:

Overview

Attachment 1 – Services covered by the access arrangement (no attachment - covered in the Overview)

Attachment 2 – Capital base

Attachment 3 – Rate of return

Attachment 4 – Regulatory depreciation

Attachment 5 – Capital expenditure

Attachment 6 – Operating expenditure

Attachment 7 – Corporate income tax

Attachment 8 – Efficiency carryover mechanism

Attachment 9 – Reference tariff setting

Attachment 10 – Reference tariff variation mechanism

Attachment 11 – Non-tariff components

Attachment 12 – Demand

Attachment 13 – Capital expenditure sharing scheme

Executive summary

The Australian Energy Regulator (AER) exists to ensure energy consumers are better off, now and in the future. Consumers are at the heart of our work, and we focus on ensuring a secure, reliable, and affordable energy future for Australia. The regulatory framework governing gas transmission and distribution networks is the National Gas Law and Rules (NGL and NGR). Our work is guided by the National Gas Objective (NGO).

As a regulated business, the New South Wales (NSW) gas distribution network service provider, Jemena Gas Networks (JGN) must periodically apply to us for a ruling on network charges. This is submitted in the form of an access arrangement, specifying the services it will provide, the tariffs for those services, and the other terms and conditions on which they will be provided.

On 29 June 2024, JGN submitted its access arrangement proposal for the period of 1 July 2025 to 30 June 2030 (2025–30 period). This draft decision sets out our initial response to JGN's proposal.

Future gas demand uncertainty

Transformation in the energy system and the Australian Government's goal of reaching net zero emissions by 2050 create considerable uncertainties in future gas demand expectations. The complexity of the journey to get to the 2050 emission objective means that there is no single strategy to reach this target. Each jurisdiction is responding based on their own individual circumstances and needs.

The NSW Government is responding to the energy transition and has indicated that its upcoming Gas Decarbonisation Roadmap will provide clarity to the community on gas decarbonisation and the role of gas in the future of the energy system.[3] It will be consulted on with the community and industry.[4]

JGN has also been considering how the energy transition will impact the future of its network and this is a key theme throughout its proposal. Its demand forecasts for the 2020–25 period is largely consistent with the actual demand experienced on its network. However, for the 2025–30 period, JGN has forecast a decline in demand across residential, commercial, and industrial customers, due to factors such as electrification and fewer customers choosing to connect to the network.

Demand is an important input into our decision. It affects the derivation of reference tariffs, as well as forecasts for the operating and capital expenditure (opex and capex) required to deliver a safe and reliable service for an ageing network. Demand forecasts for the 2025–30 period and long-term demand modelling have also been important considerations in our assessment of JGN's accelerated depreciation proposal.

Our assessment of JGN's proposal

JGN is the first gas distribution business selected to participate in the early signal pathway under the Better Resets Handbook (the Handbook). In our Issues Paper, we acknowledged

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3 NSW DCCEEW, *NSW Consumer Energy Strategy*, September 2024, p. 73.

4 NSW DCCEEW, *NSW Consumer Energy Strategy*, September 2024, p. 73.

that JGN had undertaken a high standard of stakeholder engagement to inform its proposal. However, we outlined that the proposal raised a number of complex issues as part of the energy transition that meant some of the Handbook expectations were not met.[5]

The proposal from JGN would allow it to set gas network charges resulting in the recovery of an expected $3,132.7 million ($ nominal, smoothed) in revenues from consumers over the 2025–30 period. Our draft decision is not to accept that proposal.

This draft decision instead would allow JGN to recover an estimated $3,082.5 million from consumers over the 2025–30 period: a reduction of $50.2 million (1.6%).

Compared to the current access arrangement period, our draft decision is $877.5 million (39.8%) higher than JGN's allowed revenue in the 2020–25 period in nominal terms. This increase is in part driven by movements in market factors outside the control of the network. This includes higher actual inflation rates for the 2020–25 period and higher expected interest rates for the 2025–30 period.

The changes in these market variables account for approximately 38% of the increase in revenue. Our draft decision on accelerated depreciation accounts for approximately 22% of the increase in revenue. The remaining 40% of the increase is mainly due to the expiry of a one-off large negative revenue adjustment for the 2015–20 remittal decision which was included in the 2020–25 access arrangement.

Key elements of our draft decision include:

- Reducing JGN's proposed accelerated depreciation from $300 million ($2024–25) to $156 million for the 2025–30 period, determined by limiting the average annual real price increase over the 2025–30 period at a 0% limit.
- Reducing JGN's proposed volume (small) customer abolishment tariff from $1,472 to $1,104 to align with other networks, and socialising most of that cost across all customers to reduce the tariff to $250. Reducing the price gap between temporary and permanent disconnection services is aimed at addressing safety concerns consistent with the view of the NSW safety regulator.
- Not accepting JGN's proposed capex and substituting an alternative estimate of $654.1 million ($2024–25). This is $162.5 ($2024–25) million or 20% lower than JGN's proposal. This includes not accepting JGN's proposed $80.8 million ($2024–25) for renewable connection projects at this stage. Our decision substitutes an amount of $0 as a placeholder.
- Not accepting JGN's proposed opex and substituting our alternate estimate of $1,095.4 million ($2024–25). This is $59.8 million (or 5.2%) lower than JGN's proposed opex forecast. However, we have also included additional opex of $66.4 million ($2024–25) to account for the recovery of socialised small customer connection abolishment costs. Our draft decision therefore includes a total opex forecast of $1,161.7 million, which is slightly higher than JGN's proposal once these abolishment costs are included.
- Our draft decision does not accept JGN's demand forecast, and we have substituted our alternative forecast, including a lower rate of disconnections and abolishments for residential customers, as well as a slower decline in usage per customer. For JGN's

5 AER, *Issues Paper - Jemena Gas Networks (NSW) – 2025–30 Access Arrangement*, August 2024, p. 7.

revised proposal, we are looking for further information and analysis to support its residential disconnection and demand per user forecast. We are mindful that for gas distribution businesses there is evidence of under forecasting of demand in the past. We consider our alternative forecast is the best available, based on the current information. However, JGN would have scope to apply for variation to its access arrangement in the case that circumstances materially change.[6]

- Approving JGN's proposed hybrid tariff variation mechanism for its gas transportation reference service, incorporating elements of both weighted average price cap and revenue cap regulation. The hybrid mechanism reduces JGN's incentive to grow the volume of gas carried by its network while mitigating year-on-year tariff volatility associated with revenue caps.
- Approving JGN's proposed changes to its volume customer declining block tariff structure for gas transportation, but also requiring further explanation of its intended reforms and additional work on potential pathways to flatten its tariff structure for both volume and demand customers. Our draft decision on this issue and on JGN's hybrid tariff variation mechanism both reflect the updated NGO which now incorporates an emissions reduction element.
- Updates for movements in market variables such as interest rates, bond rates and expected inflation, which are currently acting to increase the return on JGN's capital base.

The guidance provided in our draft decision will provide an opportunity for JGN to consider what further information and analysis may be required to support prudent and efficient investment as part of its revised proposal.

JGN's expenditure

Our draft decision seeks to balance affordability with the safe, reliable, and secure delivery of essential energy services for an ageing network, so that consumers are better off both now and in the future. Our draft decision approaches this in two ways:

- by ensuring consumers pay no more than necessary by closely scrutinising forecasts of the capex and opex required to provide safe, secure, and reliable gas supply
- by taking small steps now to address the equitable recovery of those costs from a declining, and sometimes vulnerable, customer base over time, while maintaining the incentive for JGN to continue to invest to manage the safe and reliable operation of its ageing network.

We have reduced JGN's proposed capex by 20% and we consider our alternative estimate does not contain significant growth capex, particularly given new connections are declining and augmentation is minimal. The forecast capex allowed is necessary for JGN to maintain the safety and reliability of an ageing network, rather than grow it during a time of uncertainty. As such, our draft decision on a lower forecast capex is consistent with our decision to allow some amount of accelerated depreciation for the 2025–30 period.

We have reviewed JGN's opex and included a lower output growth forecast to align with the latest customer number forecast produced by our consultant, ACIL Allen. We have also

6 AER, *2024 Electricity and gas networks performance report,* September 2024, p. 55.

adjusted JGN's proposal relating to opex step changes to remove and avoid double-counting, and to ensure only prudent and efficient opex step change costs are included in the forecast.

Consistent with our decisions for the Victorian gas businesses, we have considered the costs of abolishing connections, and how costs are recovered from consumers. That is, whether to continue to recover costs from individual customers at the time of disconnection, or to socialise them across all customers in the network. Our draft decision reduces JGN's abolishment tariff by 25%, as well as socialising a large portion of the costs across the customer base. For customers wishing to leave the network, we consider a reduction in the abolishment tariff, to close the gap between the price of a permanent disconnection and a temporary disconnection, may lead more customers to request an abolishment, leading to safer outcomes.

Accelerated depreciation of gas network assets

JGN has indicated that reduced demand will see a smaller number of customers required to maintain its ageing network. It submitted that the earlier it starts to address the risk presented by the energy transition, the smoother the pathway to net zero will be.[7] For example, JGN proposed accelerated depreciation of $300 million to reduce stranded asset risk associated with the uncertainty around the future demand on its gas network.[8] JGN considers its accelerated depreciation proposal is measured and provides options and flexibility for its business, and customers, while also reducing the risks that will arise in a future scenario of declining demand.[9] The amount of accelerated depreciation proposed by JGN was determined following customer consultation and modelling of future demand scenarios.[10]

As fewer customers seek connection to the network and usage by remaining customers falls, the ongoing costs of maintaining an ageing network are shared by a smaller number of customers over time. This poses a number of challenges, including that the cost burden of past investments may be disproportionately borne by future gas customers and the potential for assets to become economically stranded.

We have been challenged by stakeholders throughout our consultation process on the issue of accelerated depreciation. Stakeholders have submitted that accelerated depreciation shifts risk away from the network and onto residential consumers. They have also queried the need for the proposed level of accelerated depreciation in the context where JGN is continuing to invest in new customer connections.[11]

Based on the material before us, our draft decision has considered the balance between accepting some accelerated depreciation to reduce JGN's long term asset stranding risk, against the short-term price impacts in the context of the NSW government policies regarding the future role of gas. Although the policy environment surrounding the future role of JGN's network in NSW is still developing, we have allowed some level of accelerated depreciation in recognition of early indications that JGN may potentially face some degree of stranded

7 JGN, *2025 Plan*, June 2024, p. 56.

8 JGN, *Att. 7.3 – Depreciation approach,* June 2024, p. 7.

9 JGN, *2025 Plan*, June 2024, p. 40.

10 JGN, *2025 Plan*, June 2024, p. 99.

11 See submissions for JGN received in September 2024 on the AER website.

asset risk in NSW, but to a lesser extent than that faced by networks operating in Victoria and ACT.

Therefore, we have determined a lower accelerated depreciation amount of $156 million for the 2025–30 period. This reduced amount is determined by limiting the average annual real price increase over the 2025–30 period, set at a 0% limit for this draft decision. This reduced amount is also consistent with our decision for a declining demand forecast for the 2025–30 period, and lower alternative forecast capex, which does not contain any significant growth capex. We consider that accelerated depreciation and minimising capex together, are both necessary in order to respond to stranded asset risk.

We consider allowing a measured start to accelerated depreciation while maintaining price affordability for consumers to be prudent during a time of demand uncertainty. Whilst accelerated depreciation is only a temporary tool in managing stranded asset risk, it will help reduce the stranding risk to some degree. This will also provide incentives for JGN to continue making efficient investments to maintain safe and reliable services to an ageing network during the transition to net zero.

Our decision to allow accelerated depreciation is not intended to resolve the stranded asset risk issue, but rather to share some of the risk between JGN and a larger customer base while there is still an opportunity to do so. The opportunity to apply accelerated depreciation diminishes over time as demand declines and network prices continue to increase. As such, accelerated depreciation will not remove the need to resolve the broader policy question involving consumers, network businesses and governments on who should pay for the costs of stranding risk associated with past capital investments, or when, and how this will occur.

Tools to address ongoing uncertainty

We consider that the economic regulatory framework currently provides us the tools we need to address the risks associated with the uncertainty driven by the transition to net zero over the next 5 years. For example, where significant changes occur as a result of the transition, JGN may need to consider a variation to its access arrangement.

However, in the longer term it may be that the gas access arrangement process is not enough to deal with the related safety and equity issues that may arise. If future access arrangement periods see a winding down of gas networks, there could be fewer customers to share fixed costs of the network over time. There is an important role for Governments to continue to set clear policy direction on the future use of gas in order to facilitate a safe, reliable, and affordable transition.

Contents

1 Our draft decision

Jemena Gas Networks' (JGN) (NSW) proposed access arrangement sets out the services it will provide in the 5 years from 1 July 2025 to 30 June 2030 (2025–30 period), the tariffs for those services, and the other terms and conditions on which they will be provided.

Our decision on an access arrangement proposal must be to either approve it in its entirety, or not at all. Our draft decision indicates whether we are prepared to approve the proposal as submitted and, if not, the nature of the amendments that are required in order to make the proposal acceptable to us. At the centre of our decision is the forecast total revenue requirement for the provision of the regulated reference services over the next 5 years.

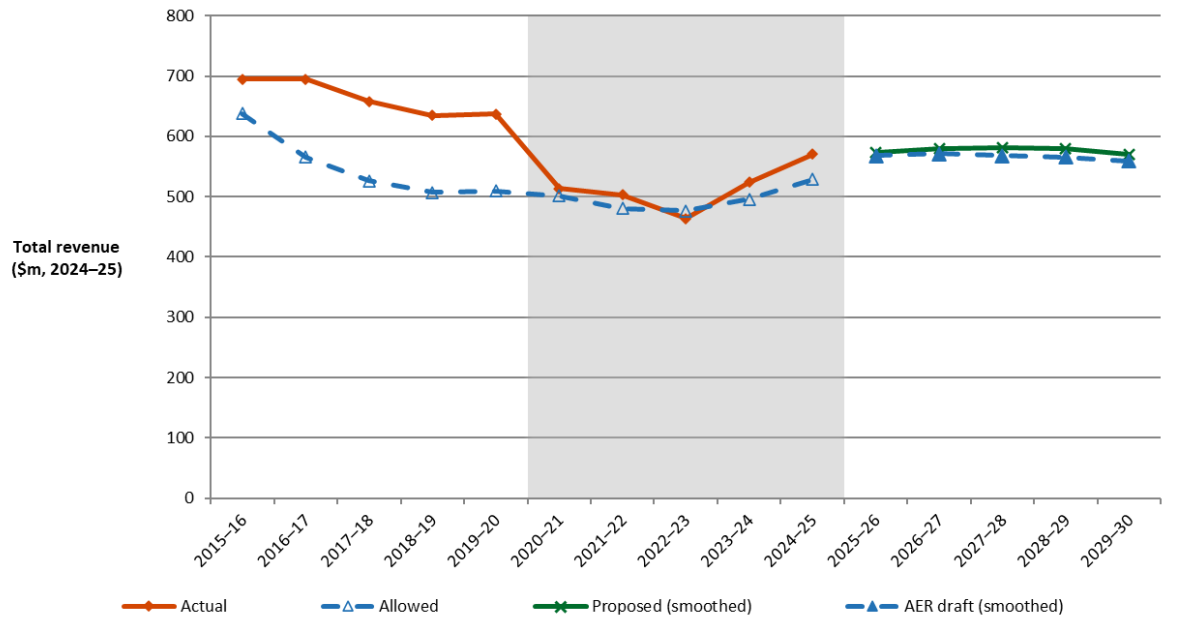
Our draft decision is to not accept JGN's proposal. In the sections below, we briefly outline what is driving the expected revenue in this draft decision, and the key differences between our draft decision revenue of $3,082.5 million ($ nominal, smoothed) compared to JGN's proposed $3,132.7 million.

1.1 What is driving revenue?

Over time, inflation impacts the spending power of money. To compare revenue from one period to the next on a like-for-like basis, in this section we use 'real' values based on a common year (2024–25) that have been adjusted for the impact of inflation instead of the nominal values above.

Where the assumptions in JGN's proposal would have resulted in total smoothed real revenue that was $398.8 million (16.1%) higher than approved for the current period, the modelled impact of our draft decision is an increase of $348.0 million (14.0%).Figure 1 shows how real revenue would change over the next 5 years under this draft decision, compared to JGN's proposal.

Figure 1 Changes in regulated revenue over time ($ million, 2024–25)



Source: AER analysis.

There are several reasons for this increase in revenue. Figure 2 highlights the key drivers of the change between the expected real revenue approved for JGN's 2020–25 period and that approved in this draft decision for the 2025–30 period. It shows that our draft decision provides for increases in the building blocks for:

- return on capital, which is based on the opening capital base, forecast capex and rate of return. This is $191.9 million (21.7%) higher than the 2020–25 period. As shown in Figure 3, JGN's capital base is projected to decline in real terms over the 2025–30 period. Forecast capex is lower than in previous periods as the amount of capex required to meet growth in demand and new customer connections declines. Also contributing to the declining capital base is the measured start to accelerated depreciation of assets under this draft decision, which will increase the rate at which assets are 'removed' from the capital base, balancing recovery of asset costs between current customers, while the customer base is still relatively large, and an expected smaller number of customers in the future. However, forecast inflation over the 2025–30 period and rate of return over the 2025–30 period is higher than the 2020–25 period, offsetting what would otherwise be a downward impact on the return on capital building block.
- cost of corporate income tax, which is $52.5 million higher than the 2020–25 period, primarily due to a higher return on equity, a higher regulatory depreciation, and a lower tax depreciation in the 2025–30 period compared to the 2020–25 period.[12]
- revenue adjustments, which are $254.0 million higher than the 2020–25 period, mainly due to the expiry of a one-off large negative revenue adjustment for the 2015–20 remittal decision included in the 2020–25 access arrangement.[13] To a lesser extent, it is also driven by a higher carryover amount resulting from the opex Efficiency Carryover Mechanism (ECM), and a positive revenue adjustment resulting from the introduction of the Capital Expenditure Sharing Scheme (CESS).

Figure 2 also shows that our draft decision provides for decreases in the building blocks for:

- return of capital (regulatory depreciation), which is $3.7 million (0.7%) lower than the 2020–25 period. This is primarily driven by the higher indexation of the capital base reflecting higher expected inflation rate for the 2025–30 period and lower straight-line depreciation associated with new capex reflecting a lower capex forecast for the 2025–30 period. This more than offsets the impact of the higher straight-line depreciation associated with the accelerated depreciation allowed in our draft decision.
- forecast opex for the 2025–30 period is $155.3 (11.8%) lower than allowed in the determination for the 2020–25 period. The decrease in the forecast period is due to the removal of ancillary reference service costs from the opex forecast for the 2025–30 period and lower unaccounted for gas costs.

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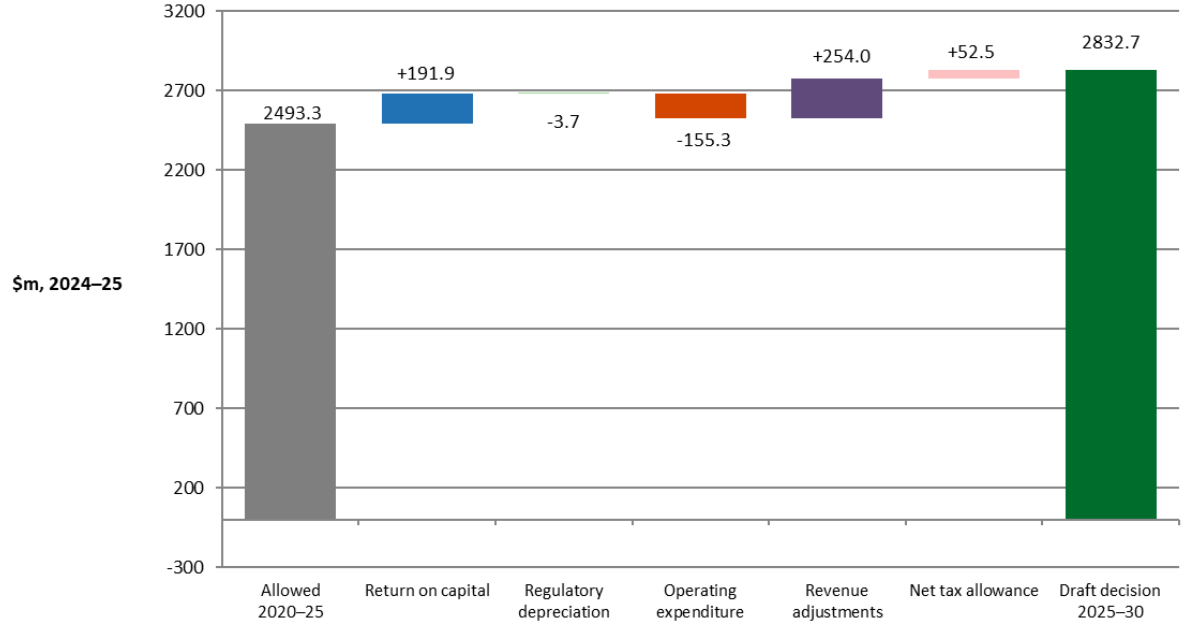
12 Both return on equity and regulatory depreciation are components of revenue for tax purposes and tax depreciation is a component of tax expense. All else equal, a higher return on equity and a higher regulatory depreciation and lower tax depreciation means a higher taxable income and therefore a higher cost of corporate income tax amount.

13 See AER, *Final decision - JGN access arrangement 2020–25 – Overview,* June 2020, p. 13.

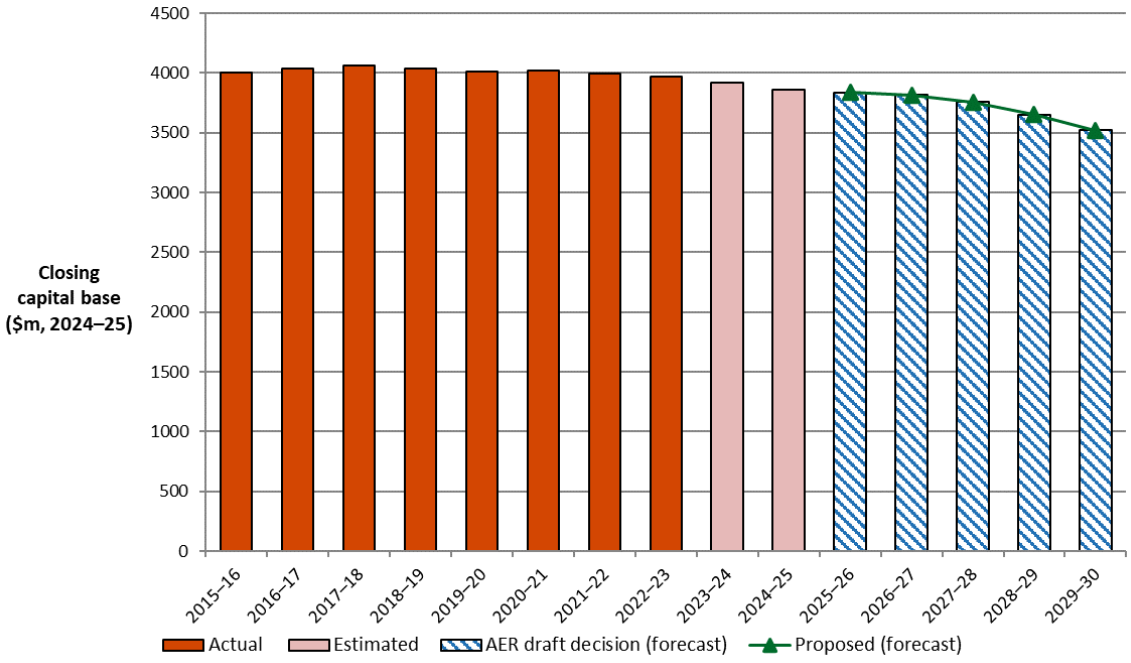
Figure 2 Changes in total revenue between 2020–25 period and 2025–30 period ($ million, 2024–25 unsmoothed)



Source: AER analysis.

Note: Allowed revenue and proposed revenue in the chart are unsmoothed total revenue for the access arrangement period. The 2020–25 allowed revenues (including opex) are converted to real 2024–25 dollars using lagged CPI. The higher revenue adjustments are mainly due to the expiry of a one-off large negative revenue adjustment of $203.9 million for the 2015–20 remittal decision included in the 2020–25 access arrangement decision.

Figure 3 JGN's capital base value over time ($ million, 2024–25)



Source: AER analysis.

1.2 Key differences between this draft decision and JGN's proposal

In real terms, this draft decision would allow JGN to recover a total building block revenue of $2,832.7 ($2024–25, unsmoothed) over the 2025–30 period. We have made amendments to core components of JGN's proposal which have led to a lower revenue outcome. For the 2025–30 period, the main areas of difference between our calculation and JGN's proposal include:

- Our reduced forecast capex, primarily driven by reduction to JGN's meter replacement, other capex (which includes obsolescence expenditure), an adjustment to JGN's proposed risk premiums for capex projects, and not accepting the renewable connections proposal at this point in time.
- Our reduced accelerated depreciation amount. While we allow a measured start of accelerated depreciation of JGN's existing pipeline assets, we do not accept the full amount proposed by JGN in its proposal.
- Our reduced opex forecast, primarily driven by: a lower output growth forecast, lower total amount for step changes and category specific forecasts, and updates for more recent inflation. We acknowledge that the addition of $66.4 million ($2024–25) of forecast costs for small customer connection abolishment means that, overall, our alternative opex forecast is $6.6 million higher than JGN's proposed opex.

Movements in market variables have also led to the different revenue outcome in our draft decision compared with JGN's proposal, all else being equal. These include:

- Our updated calculation of JGN's rate of return, which increased to 5.87% from JGN's placeholder estimate of 5.21%.[14] This resulted in a higher return on capital amount of $1,169.9 million ($ nominal) determined in this draft decision compared with JGN's proposed $1,040.9 million.
- Higher expected inflation, based on the Reserve Bank of Australia's (RBA) August 2024 Statement on Monetary Policy (3.20% per annum compared with 3.15% in JGN's proposal), has slightly reduced the regulatory depreciation amount relative to JGN's proposal.

These updates in market variables are a standard part of our decision-making process and do not reflect areas of difference between us and JGN.

This draft decision marks the mid-point in our consultation on JGN's proposal, and final decision outcomes on most of these components are likely to differ. The components of forecast revenue will also change when we update our final decision for movements in market variables, such as interest rates, bond rates and inflation. It is now open to JGN to submit additions or other amendments in an access arrangement revised proposal to address matters raised in this draft decision.[15] The amendments must be limited to those necessary to address matters raised in our draft decision unless we approve further

[14] Average nominal vanilla WACC over 2025–30.

[15] NGR, r. 60(1).

amendments.[16] They should be limited to externally driven changes that JGN was not in a reasonable position to respond to at the time of its initial proposal. We would encourage JGN, where possible, to continue to engage with its consumers on issues for consideration in its revised proposal.

1.3 Expected impact of our draft decision on tariffs and gas bills

We combine our forecast revenue requirement for JGN with forecast demand to determine its network tariffs. The forecast demand in this draft decision is declining. In simple terms, tariffs are determined by dividing cost (total revenue requirement) by total demand. This means that for the same revenue amount, a decrease in forecast demand leads to an increase in tariffs.

The combined effect of rising revenue and declining demand over the 2025–30 period is that this draft decision will increase JGN's tariffs relative to the current period. For illustrative purposes only, we estimate the modelled impact of this draft decision would be a total increase to average tariff of around 17.7% in nominal terms by 2029–30 compared to 2024–25 levels, or an average nominal increase of 3.3% per annum.[17]

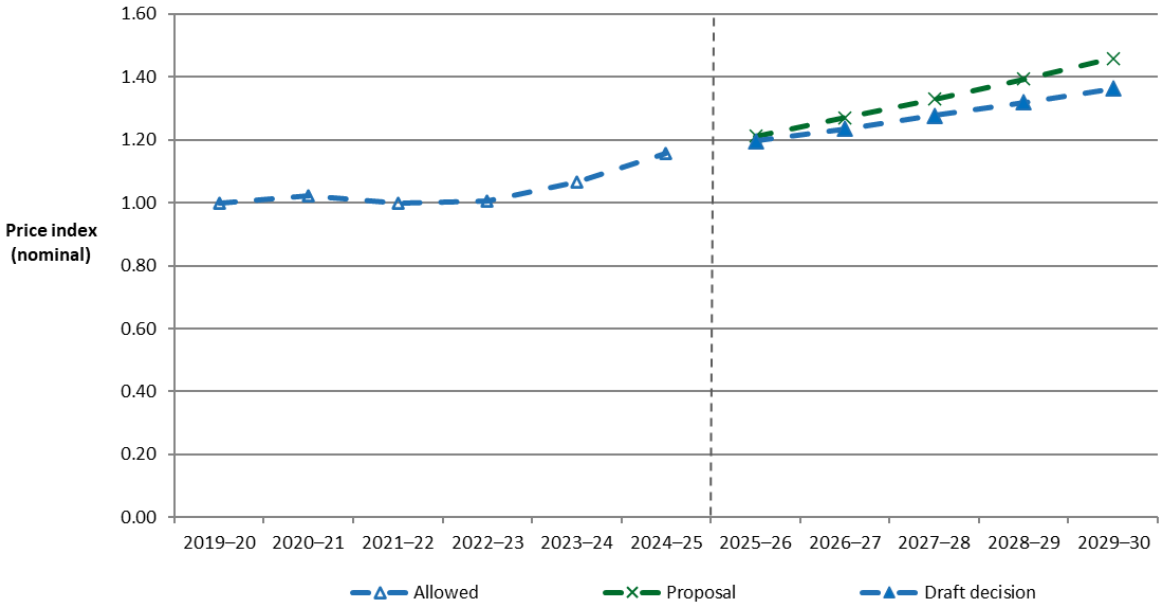
Figure 4 shows the indicative tariff paths for JGN's gas transportation reference services across the 2025–30 period. It compares the tariff path under this draft decision with that approved previously for the 2020–25 period, and with JGN's current proposal. These are simple estimates only, calculated based on an aggregate level rather than individual zone level tariffs. While our decision establishes tariffs for year 1 (2025–26) directly, tariffs for years 2 to 5 will be set as part of the annual reference tariff variation mechanism reflecting actual inflation, updated return on debt and any cost pass throughs.[18]

16 NGR, r. 60(2).

17 In real ($2024–25) terms, the impact of this draft decision on JGN's tariffs is an increase of around 2.3% by the end of the 2025–30 period, or an average real increase of 0.4% per annum.

18 The annual reference tariff variation mechanism is discussed in Attachment 10.

Figure 4 Indicative reference tariffs paths for JGN's reference services from 2025 to 2030 (Price index, nominal)



Source: AER analysis.

1.3.1 Potential bill impact

JGN's network charges make up around 39.6% of its residential customers' gas bills and 20.2% of its small business customers' gas bills. Other components of the gas supply chain—the cost of purchasing gas from the wholesale market, transmission network charges, and the costs and margins applied by gas retailers in determining the prices they will charge consumers for supply—also contribute to the prices ultimately paid by consumers. These sit outside the decision we are making here but will also continue to change throughout the period.

In nominal terms, which include the impact of expected inflation, this draft decision would lead to an increase in the distribution component of gas bills for JGN's customers. We estimate that the modelled impact of our draft decision on the average annual gas bill, as it is today, would be:[19]

- a nominal increase of $54 (7.0%) by 2029–30, or an average of $11 (1.4%) per annum for a residential customer
- a nominal increase of $558 (3.6%) by 2029–30, or an average of $112 (0.7%) per annum for a small business customer.

1.4 JGN's consumer engagement

High quality consumer engagement is critical to developing proposals that support delivery of services that meet the needs of consumers at a price that is affordable and efficient. The

[19] Our estimated bill impact is based on the typical annual gas usage of 15 GJ and 500 GJ for residential and small business customers in JGN's network area, respectively, with a base bill of $771 for residential customers and $14,593 for small business customers as at 2024-25, based on data provided by JGN, *RIN – Att 15 – Workbook 5 – Bill Impacts*, June 2025.

Better Resets Handbook (the Handbook) sets out principle-based expectations for considering consumer engagement, covering the nature of engagement; the breadth and depth of engagement; and clearly evidenced impact from this engagement.[20]

Consumer engagement is an important facet of our assessment; however, we must be satisfied that the proposed forecast reasonably reflects prudent and efficient costs and a realistic expectation of future demand and cost inputs.

Our Issues Paper on the early signal pathway outlined JGN's extensive engagement program developed over 20 months. We acknowledged the work that JGN undertook in delivering a well-planned, comprehensive, and high-quality consumer engagement program, which delivered transparent and sincere engagement with its customers and stakeholders.[21]

The Justice and Equity Centre (JEC) agreed with our Issues Paper, that JGN has demonstrated a genuine commitment to quality engagement. It noted that JGN commenced its engagement early, and 'committed substantial resources, time, effort and good faith to obtain a meaningful direction from consumers and the community to shape important decisions by JGN'.[22]

The Consumer Challenge Panel, sub-panel 31 (CCP31) also commended JGN for its engagement plan.[23] CCP31 noted that JGN openly dealt 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'. [24] They also called out JGN's early and detailed planning of its engagement program, and the use of broad and deep engagement forums. [25]

In relation to JGN's Draft Plan, CCP31 highlighted the sincerity of the engagement that was demonstrated through: the attendance of senior management, ensuring participants were equipped with appropriate information so they could effectively deliberate, as well as listening and adapting to participants' feedback, and providing the opportunity to hear from independent experts with different perspectives.[26]

While we acknowledge the overall quality of the tools used by JGN in developing its engagement, some stakeholder submissions have raised concerns that this engagement may not have achieved the most meaningful outcomes.

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20 AER, *Better resets handbook*, December 2021.

21 AER, *Issues paper on the early signal pathway expectations: Jemena Gas Networks (NSW) Access Arrangement 2025–30*, p.8.

22 JEC, *Submission on JGN 2025–30 Access Arrangement Proposal*, September 202, p. 4.

23 CCP31, *Advice to the AER - JGN 2025–30 Access Arrangement Proposal and Issues paper*, September 2024, pp. 19-20.

24 CCP31, *Advice to the AER - JGN 2025–30 Access Arrangement Proposal and Issues paper*, September 2024, p. 19.

25 CCP31, *Advice to the AER - JGN 2025–30 Access Arrangement Proposal and Issues paper*, September 2024, p. 19.

26 CCP31, *Advice to the AER - JGN 2025–30 Access Arrangement Proposal and Issues paper*, September 2024, p. 20.

Outcomes of engagement

The expectations set out in the Handbook do not prescribe any particular form or model of consumer engagement. Rather, they are targeted outcomes we want to see from engagement.[27] The Handbook states:

> Our expectation is that consumers should guide, and be seen to guide, the development of proposals. This means that consumers should be consulted on the outcomes that they want from the proposal and how they would like network businesses to engage with them in the development of a proposal to give effect to those outcomes.[28]

JEC's submission asked whether JGN's process obtained the most meaningful expression of consumer preference, due to their concern that JGN lacked a consistent link between the questions under consideration and the key questions of principle and community trade-off which underpin them.[29] JEC raise the example of JGN's approach to the issue of accelerated depreciation where it considers:

> JGN sought community validation for a pre-determined response to an issue (future risk and uncertainty), rather than establishing community values in relation to risk and uncertainty, and testing a range of measures available to Jemena in addressing that issue in line with those values. [30]

Our Issues Paper outlined CCP31's concerns regarding JGN's engagement on accelerated depreciation.[31] In their September advice, CCP31 stated that, consistent with their conclusions report provided during the early signal pathway process, they:

> 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.[32]

CCP31 note that they are not aware of JGN undertaking any further engagement with residential customers, or independently re-testing support for its proposal on accelerated depreciation.[33] CCP31 consider that this topic requires further engagement, particularly with

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27 AER, *Better resets handbook*, December 2021, p. 12.

28 AER, *Better resets handbook*, December 2021, p. 15.

29 JEC, *Submission on JGN 2025–30 Access Arrangement Proposal*, September 202, p. 5.

30 JEC, *Submission on JGN 2025–30 Access Arrangement Proposal*, September 202, p. 5.

31 AER, *Issues paper on the early signal pathway expectations: Jemena Gas Networks (NSW) Access Arrangement 2025–30*, pp. 18-19.

32 CCP31*, Advice to the AER - JGN 2025–30 Access Arrangement Proposal and Issues paper*, September 2024, p. 27.

33 CCP31*, Advice to the AER - JGN 2025–30 Access Arrangement Proposal and Issues paper*, September 2024, p. 28. CCP note that JGN indicated it engaged with commercial and business customers but note this is a different customer segment.

residential and small business customers and that such engagement should validate customers' understanding of what they are being asked.[34]

There are areas, where the outcomes may have been limited by the engagement approach taken. However, we consider that for example, JGN ran a strong engagement program on its tariff variation mechanism, developing a mechanism that has never been applied before, which our draft decision approves.

CCP31 observed JGN's engagement with its customers through the Tariff Forum. Over the three sessions that the forum met, the participants discussed who should bear the financial risk of JGN not having sufficient revenue, what constitutes fair sharing of the risk, as well as creating greater certainty around the future of gas.[35] The Tariff Forum ultimately supported JGN's hybrid approach and CCP31 observed:

> 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).[36]

On tariff structures changes, JEC considered that this aspect of JGN's engagement was 'the most commendable and well structured, particularly within the difficult time constraints imposed on them.'[37]

Ongoing engagement

We acknowledge that the uncertainty of the future of gas creates challenging issues for discussion with customers, which is why it is it is important to understand how customer values and preferences are being taken into account in JGN's access arrangement.

For example, the Handbook notes that until recently, businesses had not typically engaged on accelerated depreciation with customers. But the Handbook goes on to note there is scope for consumers to challenge a business's motivation for selecting certain assets for accelerated depreciation including whether the proposal naturally fits with other aspects (such as replacement considerations) or has been motivated by perceived problems with the regulatory regime.[38]

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34 CCP31*, Advice to the AER - JGN 2025–30 Access Arrangement Proposal and Issues paper*, September 2024, p. 28.

35 CCP31*, Advice to the AER - JGN 2025–30 Access Arrangement Proposal and Issues paper*, September 2024, p. 35.

36 CCP31*, Advice to the AER - JGN 2025–30 Access Arrangement Proposal and Issues paper*, September 2024, p. 35.

37 JEC, *Submission on JGN 2025–30 Access Arrangement Proposal*, September 202, p. 19.

38 AER, *Better resets handbook*, December 2021, p. 32.

Complex topics that are novel will challenge engagement and evoke a broad range of perspectives. We have seen this in stakeholder submissions to JGN's proposed accelerated depreciation.[39]

Given these challenges, particularly during a time of transition and uncertainty of the future of gas, we commend JGN in its genuine commitment to its engagement program. Where we have not accepted expenditure in JGN's access arrangement, it is not a reflection on the consumer engagement, but an assessment based on each of the factors we are required to consider under the NGR.

We acknowledge that there is a limited time between our draft decision and JGN's revised proposal to engage with its customers. However, we would encourage JGN to undertake further and ongoing engagement with its customers to continue to ensure that customer preferences are reflected through its revised proposal, where possible, and in future proposals.

[39] See submissions from Alinta Energy, Energy Consumers Australia, Institute for Energy Economics and Financial Analysis, JEC, Red and Lumo, and Rewiring Australia.

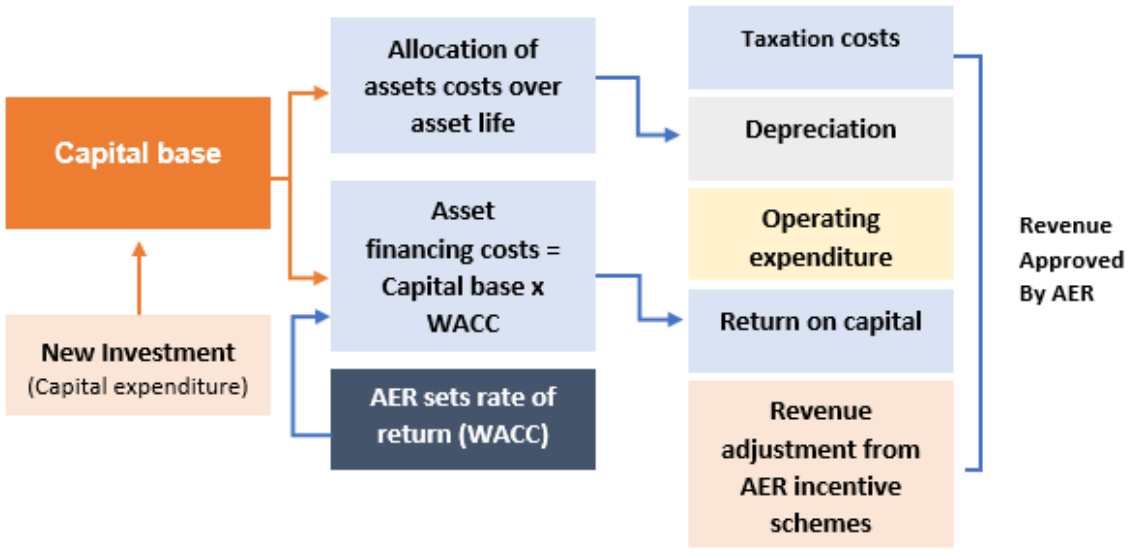
2 Total revenue requirements

The foundation of our regulatory approach is a benchmark incentive framework to setting revenues: once regulated revenues are set for the 5-year period, a network that keeps its actual costs below the regulatory forecast of costs retains part of the benefit. Service providers have an incentive to become more efficient over time, as they retain part of the financial benefit from improved efficiency. Consumers also benefit when efficient costs are revealed, and a lower cost benchmark is set in subsequent access arrangement periods.

JGN's proposed revenue requirement, and our assessment of it under the NGL and NGR is based on six cost components or building blocks, illustrated in Figure 5.

- return on the capital base – to compensate investors for the opportunity cost of funds invested in this business
- depreciation of the capital base – or return of capital, to return the initial investment to investors over time
- capex – the capital costs and expenditure incurred in the provision of network services, which directly affects the size of the capital base and, therefore, the revenue generated from the return on capital and depreciation building blocks
- forecast opex – the operating, maintenance and other non-capital expenses, incurred in the provision of network services
- revenue increments/decrements resulting from the application of incentive schemes, such as the ECM and CESS
- estimated cost of corporate income tax.

Figure 5 The building block approach to determining total revenue



Source: AER.

2.1 Draft decision on total revenue

The total revenue requirement is a forecast of the efficient cost of providing gas distribution services over the access arrangement period. We determine annual revenue, and the total revenue requirement, in nominal terms that take expected future inflation into account. We use 5-year inflation expectations to convert revenues to nominal values.

Our draft decision on JGN's total revenue requirement is $3,082.5 million ($ nominal, smoothed). This is a reduction of $50.2 million (1.6%) from JGN's proposal.

Table 1 sets out our draft decision on JGN's total revenue requirement (by building block) for each year of the 2025–30 period, the total revenue after equalisation (smoothing), and the X factors that we have determined for use in the tariff variation mechanism.

Table 1 AER's draft decision on JGN's smoothed total revenue and X factors for the 2025–30 period ($ million, nominal)

	2025–26	2026–27	2027–28	2028–29	2029–30	Total
Return on capital	224.6	229.7	234.8	239.1	241.7	1,169.9
Regulatory depreciation	90.0	98.1	108.2	118.1	127.6	542.1
Operating expenditure	238.8	239.1	249.2	260.0	278.5	1,265.7
Revenue adjustments	37.3	4.7	–16.8	6.0	7.0	38.2
Net tax allowance	11.4	12.4	13.5	14.9	16.7	68.9
Total revenue - unsmoothed	602.2	584.0	588.9	638.2	671.5	3,084.8
Forecast revenue – smoothed	**583.9**	**604.1**	**617.7**	**633.2**	**643.6**	**3,082.5**
X factors[a]	–0.47%	–0.44%	–0.44%	–0.44%	–0.44%	n/a

Source: AER analysis.
n/a: not applicable.
(a) Under the CPI–X form of control, a negative X factor is an increase in price (and therefore, in revenue). The X factor for 2025–26 is indicative only. Our decision establishes 2025–26 tariffs directly, rather than referencing a change from tariffs for 2024–25. The X factors for 2026–27 to 2029–30 will be revised to reflect the annual return on debt update.

2.2 Revenue smoothing and tariffs

JGN currently operates under a weighted average price cap as its tariff variation mechanism, but proposed a hybrid mechanism, incorporating elements of both weighted average price cap regulation and revenue cap regulation, for the 2025−30 period. As noted in the executive summary our draft decision is to approve JGN's proposed hybrid tariff variation mechanism, We discuss the hybrid mechanism in more detail in section 5.2.

The hybrid mechanism does not change how we determine JGN's gas transportation tariffs ahead of the 2025−30 period. The revenue cap elements of the hybrid mechanism will apply during the period, to partially true-up revenues in the event that actual volumes significantly diverge from forecasts used to derive JGN's gas transportation tariffs. Ahead of the period

beginning, our approach to set tariffs is unchanged from our approach under JGN's existing weighted average price cap.

This means we must determine the weighted average tariff change each year such that the net present value (NPV) of unsmoothed and smoothed revenue is equal across the 2025–30 period. This average tariff change is known as the 'X factor'.

Our decision on JGN's access arrangement proposal includes a determination of JGN's total building block revenue (unsmoothed revenue), and a smoothed revenue profile across the 2025–30 period.

The X factors represent the weighted average real change in tariffs. As part of the annual reference tariff variation process applying from 2026–27, we combine the X factors we have determined in our decision with actual inflation to create nominal reference tariffs for the coming year. This means that the prices paid by consumers, and therefore the revenues received, change with actual inflation, plus the annual X factor rate.

By smoothing revenue we also aim to minimise price volatility between and within access arrangement periods by keeping the difference between smoothed and unsmoothed revenue in the final year of each period as close as possible, and to provide price signals across tariffs that reflect JGN's underlying, efficient costs of providing services. Our standard approach has been to keep a divergence of up to +/–3% between the smoothed and unsmoothed revenues for the last year of the period if this can achieve smoother price changes across the access arrangement periods.

For this draft decision, we approved lower revenues than JGN's proposal. This is mainly driven by our reduction to JGN's proposed accelerated depreciation. However, our draft decision allows for higher revenues than those determined in the 2020–25 period. The rising revenues and declining demand mean that prices are increasing over the 2025–30 period.

We have smoothed the increase in forecast revenues to achieve a more stable price path for the 2025–30 period. Consequently, we have relaxed our standard approach to the final year difference between the smoothed and unsmoothed revenues. In the present circumstances, we have determined that the final year revenue difference is about –4.2%. We are satisfied that the draft decision tariff path effectively balances the aims of price path stability within the 2025–30 period and across periods.

The average annual tariffs in year 1 (2025–26) determined in our draft decision are 1.4% lower in nominal terms than that proposed by JGN. This is not necessarily indicative of final decision tariffs, which will change again with our final decisions on revenue and forecast demand.

While our decision establishes tariffs for year 1 (2025–26) directly, tariffs for years 2 to 5 will be set as part of the annual reference tariff variation mechanism reflecting actual inflation, updated return on debt and any cost pass throughs.[40]

[40] The annual reference tariff variation mechanism is discussed in Attachment 10.

3 Key elements of our draft decision on revenue

The components of our draft decision include the building blocks we use to determine the total revenue requirement. The following sections summarise our revenue decision by building block. The attachments to this draft decision provide a more detailed explanation of our analysis and findings.

3.1 Capital base

The capital base accounts for the value of regulated assets over time. To set revenue for a new access arrangement period, we take the opening value of the capital base from the end of the last period and roll it forward year by year by indexing it for inflation, adding new capex and subtracting depreciation and other possible factors (such as disposals). This gives us a closing value for the capital base at the end of each year of the access arrangement period. The value of the capital base is used to determine the return on capital and depreciation building blocks.

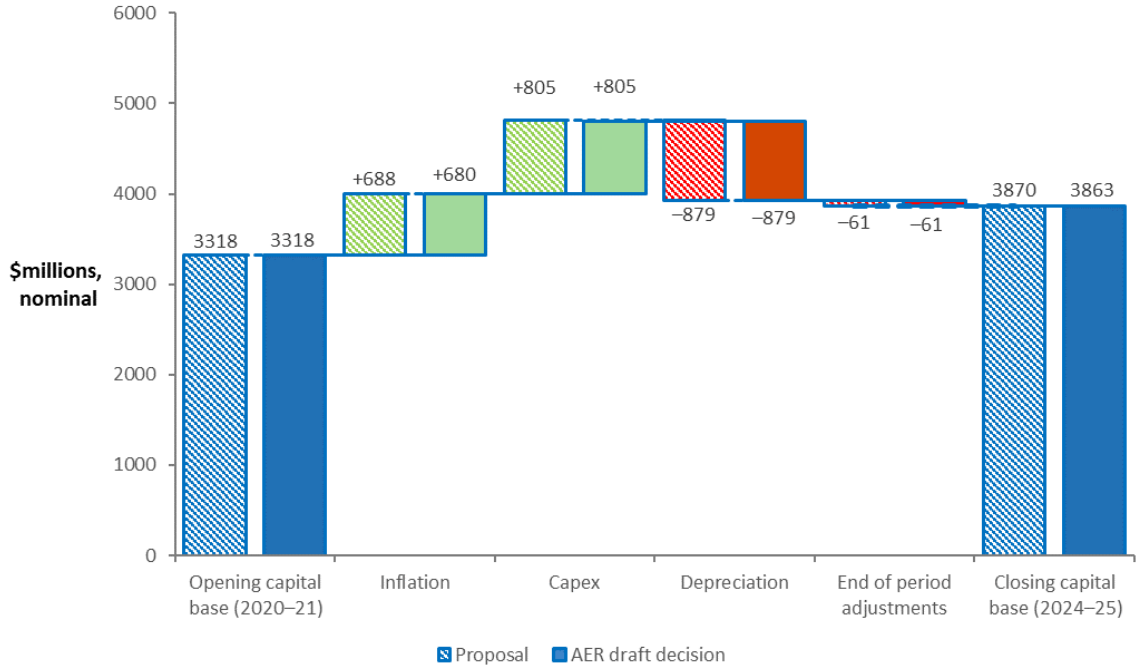
We determine an opening capital base value of $3,863.0 million ($ nominal) as at 1 July 2025 for JGN. This value is $7.3 million (0.2%) lower than JGN's proposed opening capital base of $3,870.3 million ($ nominal) as at 1 July 2025.[41] This reduction is mainly due to the update we made to the estimated consumer price index (CPI) input for 2024–25 in the roll forward model (RFM) with the RBA forecast, published in its August 2024 Statement on Monetary Policy, to reflect updated economic conditions.[42]

For our draft decision, we therefore adopt an estimated CPI value of 3.00% for 2024–25, compared to JGN's proposed 3.20%. The CPI input for 2024–25 will be updated again, to reflect the actual CPI published by the Australian Bureau of Statistics, for our final decision. Figure 6 shows the key drivers ($ nominal) of the change in JGN's capital base over the 2020–25 period in its proposal compared to our draft decision.

41 JGN, *2025 access arrangement proposal Plan, attachment 7.7M - Roll Forward Model*, 29 June 2024.

42 RBA, *Statement on Monetary Policy, Table 3.1: Detailed Forecast Table*, August 2024, p. 57

Figure 6 Key drivers of changes in the capital base over the 2020–25 period – proposal compared with AER's draft decision ($ million, nominal)



Source: AER analysis.

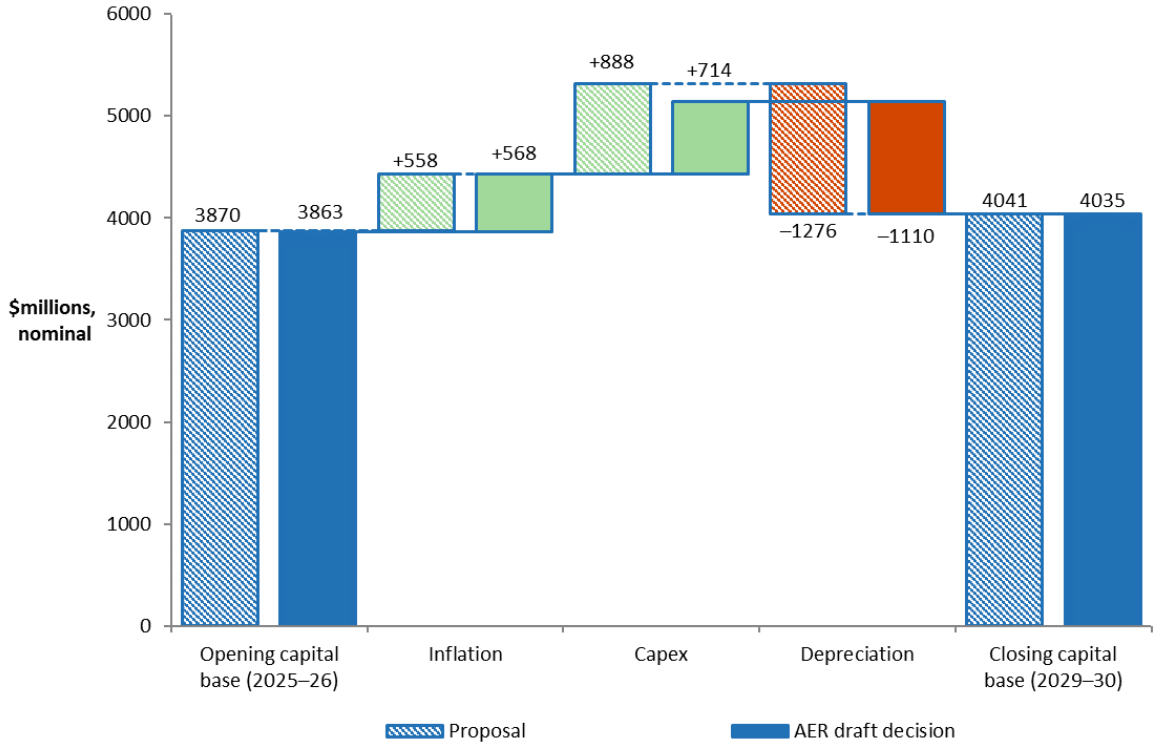
Note: Capex is net of disposals and capital contributions. It is inclusive of the half-year weighted average cost of capital (WACC) to account for the timing assumptions in the RFM.

Figure 7 likewise shows the key drivers ($ nominal) of the change in JGN's forecast capital base over the 2025–30 period in its proposal compared to our draft decision. Our draft decision projects an increase of $171.7 million (4.4%) to the capital base by the end of the 2025–30 period compared to the $170.8 million (4.4%) increase in JGN's proposal.[43]

We have determined a projected closing capital base of $4,034.7 million ($ nominal) as at 30 June 2030, which is $6.5 million (0.2%) lower than JGN's proposed $4,041.1 million. This lower value is mainly due to our draft decision to reduce JGN's forecast capex (discussed in section 3.4). It also reflects our draft decisions on the opening capital base as at 1 July 2025, forecast depreciation and expected inflation (discussed in sections 3.3 and 3.2).

[43] The 4.4% increase in capital base for the draft decision and JGN's proposal are the same due to rounding.

Figure 7 Key drivers of changes in the capital base over the 2025–30 period – proposal compared with AER's draft decision ($ million, nominal)



Source: AER analysis.

Note: Capex is net of disposals and capital contributions. It is inclusive of the half-year WACC to account for the timing assumptions in the RFM.

3.2 Rate of return and value of imputation credits

The return each business is to receive on its capital base (the 'return on capital') is a key driver of proposed revenues. We calculate the regulated return on capital by applying a rate of return to the value of the capital base. We estimate the rate of return by combining the returns of two sources of funds for investment – equity and debt. The allowed rate of return provides the business with a return on capital to service the interest rate on its loans and gives a return on equity to investors.

JGN's proposal and this draft decision applies the 2022 Rate of Return Instrument:[44]

- Our draft decision applies a placeholder allowed rate of return of 5.81% (nominal vanilla) for the first year of the regulatory period, compared to the placeholder rate of return of 5.39% used in JGN's proposal. This difference is due to updates to the return on debt and the risk-free rate.

[44] AER, *Rate of return Instrument 2022.* The 2022 *Rate of Return Instrument was amended in* March 2024. See https://www.aer.gov.au/publications/guidelines-schemes-models/rate-of-return-instrument-2022/final-decision.

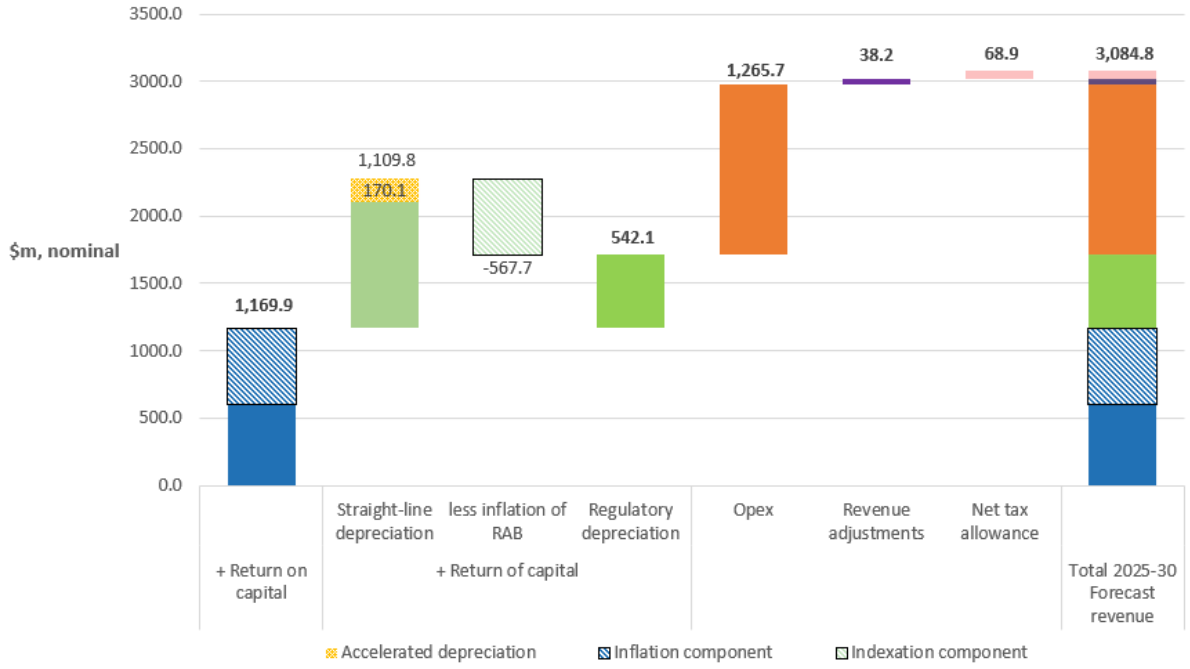
- Our draft decision and JGN's proposal apply a value of imputation credits (gamma) of 0.57 as set out in the 2022 Instrument.[45]

Our estimate of expected inflation for the purposes of this draft decision is 2.85% per annum. It is an estimate of the average annual rate of inflation expected over a five-year period based on the approach adopted in our 2020 Inflation Review[46] and the forecast from the RBA's August 2024 Statement on Monetary Policy.[47] This is higher than the estimate used in JGN's proposal (2.79%), which was taken from an earlier Statement on Monetary Policy.

We will update the estimate of the rate of return and expected inflation in our final decision.

Figure 8 isolates the impact of expected inflation from other parts of our draft decision, to illustrate its impact on the return on capital and regulatory depreciation building blocks and the total revenue allowance. Other elements held constant, lower inflation reduces the return on capital but increases regulatory depreciation.

Figure 8 Inflation components in draft decision revenue building blocks ($ million, nominal)



Source: AER analysis.

3.3 Regulatory depreciation (return of capital)

Depreciation is a method used in our decision to allocate the cost of an asset over its useful life. It is the amount provided so capital investors recover their investment over the economic

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45 AER, *Rate of return Instrument 2022,* Clause 27. The 2022 *Rate of Return Instrument was amended in* March 2024. See https://www.aer.gov.au/publications/guidelines-schemes-models/rate-of-return-instrument-2022/final-decision.

46 AER, *Final position – Regulatory treatment of inflation*, December 2020.

47 RBA, *Statement on Monetary Policy,* August 2024, Table 3.1: Forecast Table. See https://www.rba.gov.au/publications/smp/2024/aug/outlook.html#table-3-1.

life of the asset (otherwise referred to as 'return of capital'). When determining the total revenue for JGN, we include an amount for the depreciation of the projected capital base.[48]

Our draft decision includes a regulatory depreciation amount of $542.1 million ($ nominal). This is $175.3 million (24.4%) lower than from JGN's proposed $717.4 million ($ nominal). This reduction is primarily due to our draft decision for a lower accelerated depreciation amount.

It is also driven by our draft decision on other components of JGN's proposal which further contributed to the reduction to the regulatory depreciation amount. These amendments include a lower opening capital base at 1 July 2025, a lower forecast capex and a higher expected inflation rate.[49]

Accelerated depreciation due to stranded asset risk

For this draft decision, we accept JGN's proposal to apply accelerated depreciation to reduce stranded asset risk associated with long term demand uncertainty. However, we do not accept the $300 million accelerated depreciation proposed by JGN in full and instead determine a reduced amount of $156 million for the 2025–30 period. This reduced amount is calculated by limiting the 'base' average annual real price increase over the 2025–30 period. For this draft decision, we have set this limit at 0%.[50]

Based on the material before us, our draft decision has considered the balance between accepting some accelerated depreciation to reduce JGN's long term asset stranding risk, against the short-term price impacts. Although the policy environment surrounding the future role of JGN's network in NSW is still developing, we have allowed some level of accelerated depreciation in recognition of early indications that JGN may potentially face some degree of stranded asset risk in NSW. However, we consider the level of risk is to a lesser extent than that faced by networks operating in Victoria and ACT at the present time. We consider the real price increase limit of 0% provides a level of accelerated depreciation that is reflective of the outlook and strength of policy signals surrounding the future role of JGN at the present time.

Our decision to allow accelerated depreciation is also consistent with our decision for a declining demand forecast for the 2025–30 period, albeit a more gradual decline in demand than JGN's proposal, and lower alternative forecast capex which does not contain any significant growth capex. We consider that accelerated depreciation and minimising capex together, are both necessary to respond to stranded asset risk.

We consider allowing a measured start to accelerated depreciation, while maintaining price affordability for consumers to be prudent during a time of demand uncertainty. Whilst accelerated depreciation is only a temporary tool in managing stranded asset risk, it will help reduce stranding risk to some degree. This will provide incentives for JGN to continue

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48 NGR, r. 76(b).

49 A higher expected inflation rate increases the adjustment for indexation of the capital base that is offset against straight-line depreciation in determining regulatory depreciation.

50 The 'base' real price path excludes the impact of incentive schemes. This is required to preserve the intended objectives of the CESS and ECM incentive schemes.

making efficient investments to maintain safe and reliable services to an ageing network during the transition to net zero.

Our decision to allow accelerated depreciation is not intended to resolve the stranded asset risk issue, but rather to share some of the risk between JGN and a larger customer base while there is still an opportunity to do so. The opportunity to apply accelerated depreciation diminishes over time as demand declines and network prices continue to increase. As such, accelerated depreciation will not remove the need to resolve the broader policy question involving consumers, network businesses and governments on who should pay for the costs of stranding risk associated with past capital investments, or when, and how this will occur.

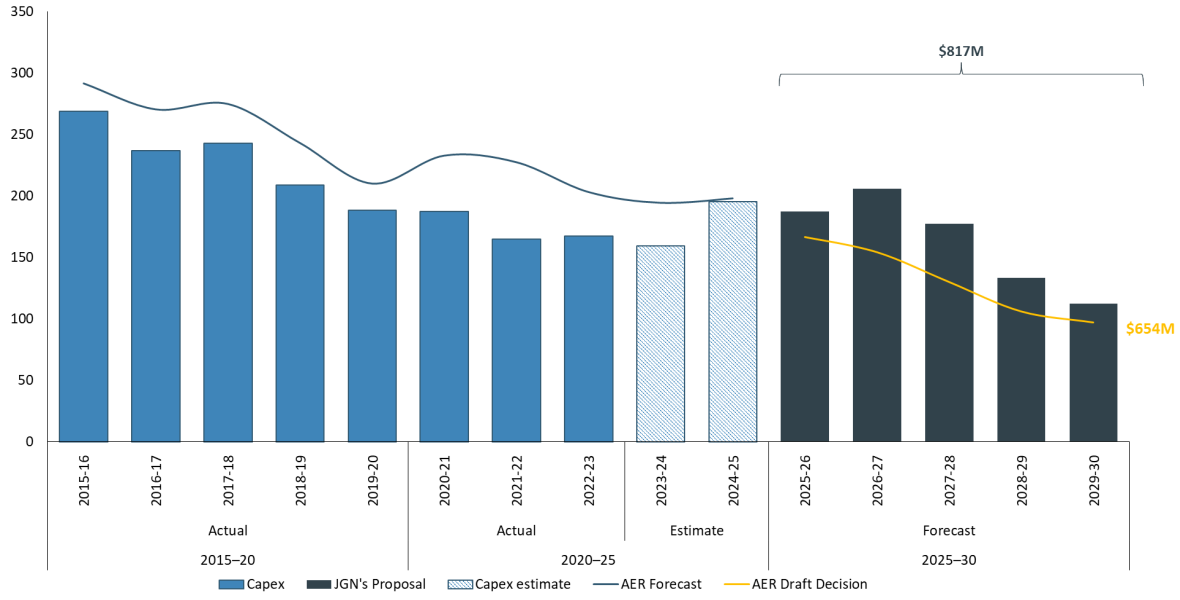
On balance, we consider a reduced accelerated depreciation amount for the 2025–30 period better reflects the level of stranded asset risk at this point in time and better shares some of the risk between JGN and a larger customer base.

3.4 Capital expenditure

Capital expenditure (capex)—the capital costs and expenditure incurred in the provision of network services—mostly relates to assets with long lives, the costs of which are recovered over several regulatory control periods. Forecast capex directly affects the size of the capital base and the revenue generated from the return on capital and depreciation building blocks.

Figure 9 compares JGN's actual and forecast capex with our previous capex decisions and our draft decision for the 2025–30 period.

Figure 9 Comparison of actual and forecast capex ($million 2024–25)



Source: AER analysis

Our draft decision is to include a total capex forecast of $654.1 million ($2024–25) for the 2025–30 access arrangement period, including overheads and net of capital contributions.

Our draft decision approves a lower total forecast capex than JGN's proposed $816.5 million ($2024–25). This a reduction of $162.5 million ($2024–25) or 20%.[51]

Key drivers of our draft decision alternative forecast are:

- We substitute an amount of $0 as a placeholder for forecast capex to fund renewable connection projects. We are concerned about completion risk and seek better information to demonstrate prudency and efficiency. Amongst other things, we consider JGN has not sufficiently justified its economic valuation of the benefits of these projects, such as those attributed to avoided gas transportation costs and those relating to the byproducts of biomethane production. We consider JGN needs to provide further justification demonstrating the benefit of these projects in its revised proposal. If it can demonstrate that the capital expenditure on these projects is justifiable, JGN should also consider whether to include these projects in a speculative account due to the uncertainty over whether the projects will progress in the 2025−30 access arrangement period.[52]
- We have reduced JGN's proposed meter replacement capex by $47.8 million (JGN proposed $158.6 million). JGN has not demonstrated that its existing meter fleet is deteriorating at the rate forecast in its proposal. Our alternative estimate is more in line with its historical expenditure.
- We have removed JGN's risk allocation to projects, which reduces total capex by $27.5 million. We do not consider applying a risk premium to forecasts accounts for the portfolio effect, whereby some projects will cost more, and some will cost less across a portfolio. Removing this has resulted in a reduction across several of JGN's capex categories.
- We have reduced the "other" capex category by $21.1 million (JGN proposed $171.7 million), to reflect our decision on replacements due to obsolescence. JGN did not establish that the replacement of these assets was required to meet its obligations as a network provider, nor that it represented the best value to its customers.

We discuss the difference between our alternative estimate and JGN's proposal in more detail in Attachment 5.

3.5 Operating expenditure

Opex is the operating, maintenance and other non-capital expenses incurred in the provision of pipeline services.

Our draft decision is to include a total opex forecast of $1,161.7 million ($2024–25) for the 2025–30 access arrangement period, excluding ancillary reference services and including debt raising costs.[53] Our draft decision approves higher total forecast opex than in JGN's

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51 These figures are net of cap cons but inclusive of asset disposals.

52 We are currently substituting a placeholder of $0 for renewable connection projects, we have addressed JGN's proposed exclusion of renewable connections from the CESS in the event JGN proposes these projects again in its revised proposal. We currently do not accept the proposed exclusion. We discuss this in more detail in Attachment 13.

53 JGN proposed to split its current reference service into the Transportation Reference Service and Ancillary Reference Service. This section relates only to opex for gas transportation.

proposal (by $6.6 million) as a result of an additional $66.4 million for forecast costs of small customer connection abolishment. We consider these costs meet the opex criteria[54] and the criteria for forecasts and estimates.[55]

However, we are not satisfied that the other elements of JGN's opex forecast satisfy the opex criteria and the criteria for forecasts and estimates. In this draft decision, our alternative estimate of the total opex forecast for these other elements is $1,095.4 million. This is $59.8 million (or 5.2%) lower than JGN's proposed opex forecast for these other elements over the 2025–30 access arrangement period.[56]

Figure 10 compares our alternative estimate of opex (including and excluding abolishment costs) to JGN's proposal for the next access arrangement period.[57] We also show the forecasts we approved for the last 2 access arrangement periods and JGN's actual and estimated opex.

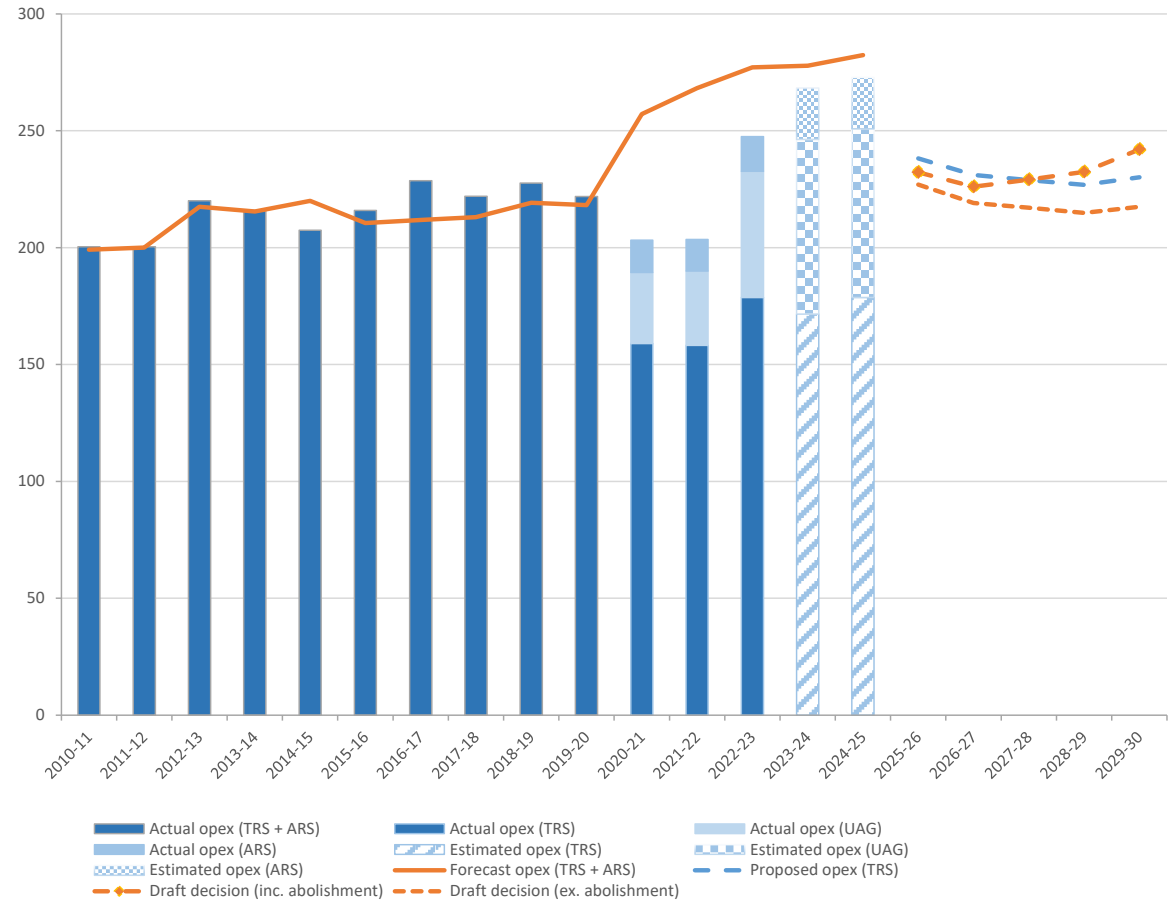
54 Under rule 91 of the NGR, opex 'must be such as would be incurred by service provider acting efficiently, in accordance with accepted good industry practice, to achieve the lowest sustainable cost of delivering pipeline services.' Where opex satisfies the test in rule 91, in this decision we say it satisfies the opex criteria.

55 Under rule 74 of the NGR, information in the nature of the forecast or estimate must be supported by a statement of the basis of the forecast/estimate. Further, forecasts and estimates must be arrived at on a reasonable basis and must represent the best forecast or estimate possible in the circumstances. Where a forecast or estimate meets the requirements of this rule, in this decision we say it satisfies the forecasts and estimates criteria.

56 Our alternative estimate of total opex forecast is not directly comparable with our allowance for the current access arrangement period as the latter incudes the ancillary reference service.

57 JGN's proposed opex did not include abolishment as it proposed abolishment as an ancillary reference service, which we have not accepted. This is further discussed in Attachment 9 of this determination.

Figure 10 Comparison of actual and forecast opex ($million 2024–25)



Source: JGN, *Regulatory accounts*, 2010 to 2023; JGN, *2025–30 Access arrangement proposal - Att 6.3M - Operating expenditure forecasting model,* June 2024; JGN, *Access arrangement, PTRM (multiple periods*: 2010–15, 2015–20, 2020–25); AER analysis; AER analysis.
Note: Includes debt raising costs and movements in provisions.

The inclusion of additional opex for small customer abolishment costs in our alternative estimate of total opex forecast reflects our draft decision to socialise a proportion of small customer connection abolishment costs across gas transportation reference service tariffs, and establish a discounted standalone ancillary reference service tariff, to ensure the safe operation of the network.[58] This means that a significant proportion of small customer connection abolishment costs will be recovered via gas transportation reference service opex and associated charges. This results in higher forecast opex than included in JGN's proposal. This is discussed in Attachment 9.

The key differences between JGN's proposed opex forecast, and our alternative estimate for the other elements of opex (i.e. other than the abolishment opex) are that we have included:

- a more recent inflation forecast from the RBA[59]
- a lower output growth forecast, which is $11.1 million less than JGN's forecast because we adjusted customer number forecasts to align with more recent forecasts from our

58 See section 9.4.5 of Attachment 9 of this draft determination.

59 RBA, *Statement on Monetary Policy – Appendix: Forecast*, August 2024.

consultant, ACIL Allen. Notably, ACIL Allen's forecasts do not include disconnected customers, which JGN had included in its customer number forecasts. Forecasts of customer numbers constitute an input into forecasting output growth.

- a lower total amount for step changes (a reduction of $14.5 million) than that proposed by JGN because either we were not convinced of the efficiency of the specific amounts proposed by JGN, we corrected the proposed amount to remove double counting, or we considered that the costs related to a proposed step change reflect business as usual costs. In our alternative estimate of JGN's total opex forecast, we did not include the "emissions measurement – Picarro leak detection services" and "emission reduction – climate change reporting" step changes. Further, we applied adjustments to the step changes for pipeline integrity management and ICT services for new recurrent projects.
- applying a true up approach to enable recovery of safeguard mechanism costs by incorporating a factor in the reference tariff variation mechanism, rather than through a category specific forecast of these costs.

We discuss the difference between our alternative estimate and JGN's proposal in more detail in Attachment 6.

3.6 Revenue adjustments

Our calculation of total revenue for JGN includes adjustments under the opex ECM and CESS in its access arrangement. These mechanisms provide a continuous incentive for JGN to pursue efficiency improvements in opex and capex and provide for a fair sharing of these between JGN and users.

We have included a positive adjustment of $30.61 million under the CESS. Our decision is broadly consistent with JGN's proposal of $30.27 million, as we have only updated inputs such as CPI and weighted average cost of capital. The draft decision requires JGN to include our updated inputs in its revised proposal.

We have also included positive carryover amounts totalling $6.1 million ($2024–25), from the application of the ECM in the 2020–25 access arrangement period. This is $1.9 million higher than JGN's proposal of $4.2 million [60] because we have made adjustments to account for recent updates to actual and forecast inflation. The draft decision requires JGN to include our updated inputs in its revised proposal. This is further discussed in Attachment 8.

We have also approved JGN's proposal that the ECM and CESS continue to apply during the 2025–30 period.

JGN proposes to continue excluding non-renewable connections capex from the CESS. We accept this exclusion for the same reasons we did in our draft and final decision for the 2020–25 access arrangement period, namely that customer connections expenditure is primarily driven by market forces and so is largely outside JGN's control.[61]

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60 JGN, *Att 7.9M – ECM model*, June 2024.

61 AER, *JGN 2020-25 - Draft decision - Attachment 13 - Capital expenditure sharing scheme*, November 2019; AER, *Final decision - JGN access arrangement 2020-25 - Attachment 13 - Capital expenditure sharing scheme*, June 2020.

However, we do not accept JGN's proposal to exclude its renewable connections capex from the CESS.[62] We do not consider these renewable connections projects are analogous to its regular connections, because we consider renewable connections capex is within JGN's control. This is further discussed in Attachment 13 of this draft decision.

If JGN still wishes to exclude renewable connections capex from the CESS, we require it to provide further justification that this expenditure is largely outside of its control. Further, we invite stakeholder submissions on the topic.

We have also addressed JGN's proposed exclusion of renewable connections from the CESS, even though we have substituted JGN's renewable connections forecast with a placeholder figure of $0. We have addressed the proposed exclusion in the event that JGN wishes to propose its renewable connection projects, and their exclusion from the CESS in its revised proposal.

For the CESS to apply in the 2025–30 period, we consider JGN should include the new tiered sharing factor as described in our updated CESS guidelines.[63] JGN's proposal does not mention the updated sharing factor, but in response to an information request JGN stated it is open to our suggestion.[64] We require JGN to include the updated sharing factor in its revised proposal.

3.7 Corporate income tax

Our determination of the total revenue requirement includes the estimated cost of corporate income tax for the 2025–30 period. Under the post-tax framework, this amount is calculated as part of the building blocks assessment using our PTRM. Our adjustments to the return on capital (sections 3.1, 3.2 and 3.4) and the regulatory depreciation (section 3.3) building blocks affect revenues, which in turn impacts the tax calculation.

Our draft decision determines an estimated cost of corporate income tax amount of $68.9 million ($ nominal) for JGN over the 2025–30 period. This is a reduction of $11.7 million (14.5%) from JGN's proposal of $80.6 million.

The decrease is mainly driven by our draft decision on a lower regulatory depreciation amount resulting from our draft decision for a lower accelerated depreciation amount.

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62 Renewable connections capex includes the 8 biomethane projects discussed in the capital expenditure section of the overview.

63 AER, *Final decision - Capital expenditure incentive guideline*, 28 April 2023, pp. 4-5. Note that the new tiered sharing factor would only apply to the CESS mechanism as it applies in the 2025–30 period. It would not affect revenue increments from the CESS as it was applied in the 2020-25 period.

64 JGN, *Response to IR#006*, 6 September 2024.

4 Forecast demand

Forecast demand plays an important role in JGN's access arrangement:

- Demand is an important input into the derivation of JGN's reference tariffs under the price cap form of control in its access arrangement. In simple terms, tariffs are determined by dividing cost (forecast revenue) by total demand. This means that a decrease in forecast demand leads to an increase in tariffs, and vice versa.
- Forecast demand is also a driver of opex and capex (new connections), which inform our decision on the total revenue requirement.

The NGR require demand forecasts and estimates that are arrived at on a reasonable basis and represent the best forecast or estimate possible in the circumstances.[65]

Our draft decision does not accept JGN's demand forecast, and we have substituted an alternative forecast that better meets the NGR requirements. In particular, our alternative forecast includes:

- a lower rate of disconnections and abolishments for residential customers
- a slower decline in usage per customer.

JGN forecast declines in both customer numbers across residential, small business and industrial customers, and in usage per customer.

JGN forecast a decrease in connections for residential customers (down by 1.6% over the access arrangement period) and commercial customers (down 2.0% over the access arrangement period). JGN considers the decrease in gas connections is due to:[66]

- a material fall in new dwelling completions and commencements in NSW over the forecast period
- a decline in the proportion of those new dwellings connecting due to:
  - a high proportion of new dwelling activity happening outside of JGN's service area
  - a higher proportion of multi dwelling developments, which have a materially lower penetration rate
  - forecast increases in the full electrification of new dwellings.
- A moderate increase in disconnections and abolishments in the first 2 years of the period, followed by a material increase for the remainder as government policy and consumer preference drive electrification.

For industrial customers, JGN surveyed the largest customers to determine a base level of demand. It then adjusted this downward to account for energy efficiency and electrification initiatives in the industrial sector.

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65 NGR r 74

66 Core Energy & Resources, *Core Energy - Att 8.2 - Demand Forecast Report* , April 2024; CORE, *Att 8.3 - Demand Forecast Report Addendum*, April 2024.

We do not consider JGN's forecast increase in residential disconnections, nor its forecast fall in per customer usage for residential and commercial customers is reasonable and represents the best forecast in the circumstances. In forming this view, we were assisted by advice provided by ACIL Allen. This advice accepted that there would be an increase in disconnections and a fall in per user demand over the period, but that JGN had not established that the significant changes it proposed were justified.

We do however consider that JGN's proposed changes to require more customers to make an up-front contribution proposed as part of the Model Standing Offer to connect to the network would encourage the continued fall in new dwellings choosing to connect to JGN's network. [67]

We consider JGN's forecast rate of disconnection excessive and not sufficiently justified by its supporting information. JGN forecasts that, by 2030, disconnection rates will be 10 times higher than those observed in 2023, a major driver being customers switching to electric appliances.

ACIL Allen conducted analysis of the relative attractiveness of gas versus electric appliances for existing dwellings. On the basis of this analysis, ACIL Allen found that, for cooking, hot water and ducted heating, switching from gas to electric had a negative net present value.[68] Only room heating had a positive net present value, which is supported by a NSW Government subsidy for installing reverse cycle air conditioning. We agree with the ACIL Allen's views on disconnections.

We consider that, while disconnection rates are likely to increase over the next 5 years, JGN has not justified an exponential increase, particularly in the absence of subsidies or other incentives of sufficient size to support switching.

ACIL Allen suggested adjustments be made that better reflected the circumstances facing JGN over the 2025–30 access arrangement period. We agree that these are a better forecast in the circumstances and have adopted them in our draft decision. In particular, the adjustments are based on an economic assessment of the likelihood of JGN's customers switching to alternative fuels for space heating, hot water, and cooking, given the policy settings and subsidies available. Figure 11 compares our draft decision on the volume of residential disconnections with JGN's forecast.

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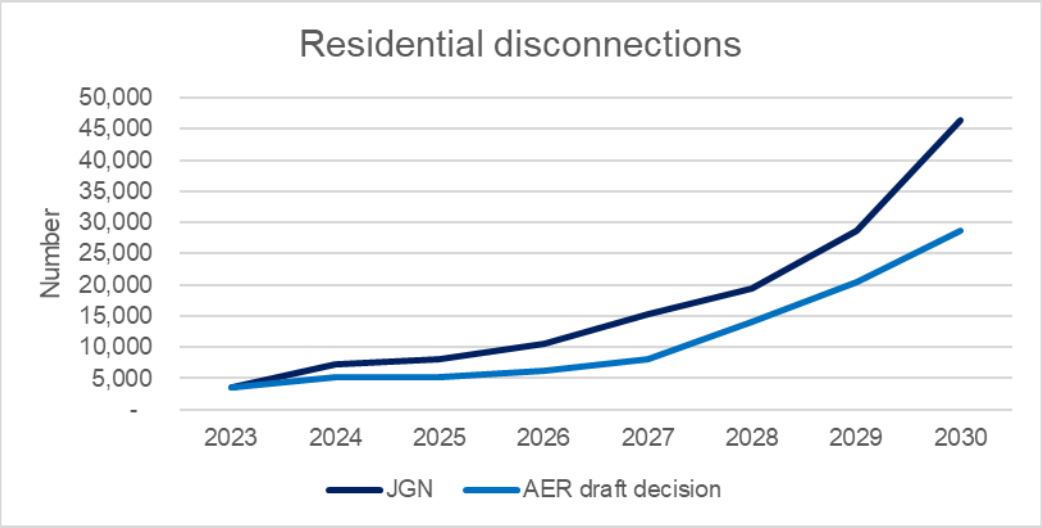
67 JGN's connection policy is considered in its model standing offer. The review of the model standing offer is separate process to the review of a gas access arrangement, However, JGN submitted its model standing offer for approval along with its access arrangement proposal for the 2025–30 period, because a number of the proposed changes aligned with considerations for its model standing offer. A decision on the model standing offer will be made separately.

68 ACIL Allen, *Review of Jemena Gas Network's demand forecasts*, November 2024, p. 11.

Figure 11 Comparison of JGN's disconnection volumes and our draft decision



Source: AER analysis

Our alternative forecast is for residential demand to fall by 3.3% (JGN's forecast a fall of 8.2%) over the access arrangement period, while we forecast commercial demand to fall by 7.6% (JGN's forecast a fall of 15.2%).[69] Figure 12 compares JGN's forecast for residential and commercial customers with our draft decision. We agree with JGN that usage is likely to fall over the access arrangement period. However, we do not consider it reasonable that usage will fall as rapidly as JGN has put forward.

Based on ACIL Allen's advice we have made an alternative forecast of usage that is more in line with historical usage. JGN's forecast is also based on historical usage, but it then accelerates the rate of decline on the basis of several assumptions. These assumptions include an increase in more energy efficient appliances in new dwellings, along with electrification and the penetration of solar and battery storage as a substitute for gas.[70]

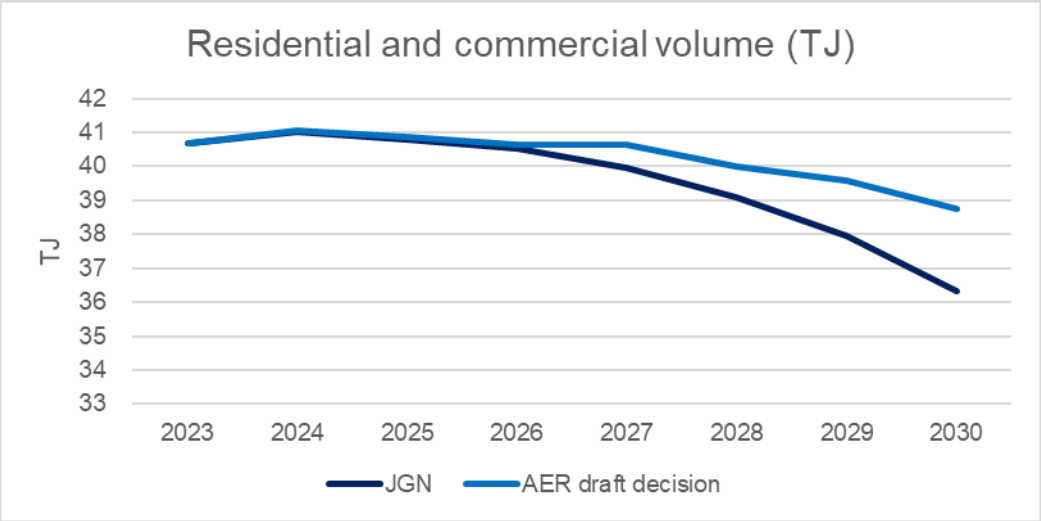
ACIL Allen does not consider JGN has been sufficiently transparent with how it quantified these assumptions. As JGN has not provided sufficient evidence to justify its adjustments, ACIL Allen considers it prudent to weigh historical trends of usage more highly. [71] We agree with ACIL Allen, and this is reflected in our alternative forecast.

69 ACIL Allen, *Review of Jemena Gas Network's demand forecasts*, November 2024.

70 CORE, *JGN - Core Energy - Att 8.2 - Demand Forecast Report - April 2024*, April 2024, p. 8.

71 ACIL Allen, *Review of Jemena Gas Network's demand forecasts*, November 2024, pp. 6-7.

Figure 12 Comparison of JGN's demand forecast with our draft decision



Source: AER analysis

We encourage JGN to provide further information and provide more transparent justification for its assumptions in its revised proposal to support its forecast. It should also update its forecasts to account for the latest available data at the time of the revised proposal.

5 Reference services and tariffs

JGN's access arrangement specifies the reference service it will provide, the tariffs for that service, and the other terms and conditions on which it will be provided.[72]

5.1 Services covered by the access arrangement

Determining a service to be a reference service, as compared to it being a non-reference service, makes a significant difference to how the service is regulated. Reference services are subject to our determined maximum prices, or price caps.

Services we determine to be non-reference services are not subject to price regulation, so gas networks set their own charges for non-reference services. We may be called upon to determine the tariff and other conditions of access to non-reference services if an access dispute arises.[73]

Our draft decision is to accept the reference services set out in JGN's 2025−30 access arrangement proposal. Those services are unchanged from our November 2023 decision to approve JGN's initial reference service proposal.[74] Our November 2023 decision set out our detailed assessment against the NGR reference service factors in NGR cl. 47A(15).[75] JGN proposed to split its existing single reference service into two reference services from 1 July 2025:

- gas transportation (haulage) including metering
- ancillary reference service.

The above split facilitates application of different tariff variation mechanisms to the newly separated reference services. JGN's new ancillary reference service comprises separate individual services, each with its own reference tariff:

- special meter reads
- disconnection (volume customer)
- reconnection (volume customer)
- disconnections and reconnections (demand customers)
- abolishment
- hourly charge – non-standard requests

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72 NGR, r. 48(1).

73 NGL, Chapter 5.

74 NGR, r. 47A and 48(1)(c). JGN's resubmitted October 2023 proposal incorporated additional details not included in its June 2023 proposal, but key elements were identical across the two iterations. AER, *Final decision - JGN reference service proposal 2025–30*, November 2023.

75 Under r 47A of the NGR, gas network service providers like JGN are required to submit a reference service proposal to the AER 12 months ahead of the scheduled date for submitting an access arrangement revision proposal. The AER is required to assess the reference service proposal and release its decision no later than 6 months ahead of receiving the service provider's access arrangement revision proposal.

- expedited reconnection.

JGN proposed to continue offering an interconnection service and a negotiated service as non-reference services.

Naming of temporary and permanent disconnection services

We consider there may be benefit to re-naming JGN's disconnection and abolishment services to more clearly describe the nature of those services.[76] We seek stakeholder views on the merits of JGN adopting "temporary disconnection" and "permanent disconnection (abolishment)" as service names, potentially also with service descriptions added to JGN's service list as footnotes.

Model standing offer changes

Concurrent with JGN's access arrangement revision process, JGN submitted its proposed model standing offer to us for approval.[77] As part of its model standing offer proposal, JGN proposed to make several types of small customer basic connection 'negotiated services', to facilitate more cost reflective charges for connecting customers. We have determined to approve JGN's model standing offer proposal. The newly categorised 'negotiated' basic connection services will be grouped with JGN's pre-existing non-reference service category of 'negotiated services'.

5.2 Reference tariff setting and variation mechanism

This section first discusses the tariff structures and tariff variation mechanism proposed by JGN for gas transportation, then for ancillary reference services.

Gas transportation tariffs

Our draft decision is to approve JGN's proposed changes to its gas transportation reference tariffs. JGN's proposal to merge its volume customer coastal and country tariff zones will reduce complexity for energy retailers without introducing pricing distortions given the near-identical existing tariffs across the 2 zones.

Its proposal to delineate between small (under 200 GJ consumption per annum) and large (above 200 GJ) volume customers usefully segments the existing tariff class by customer type to enable different tariff strategies. Similarly, we support JGN's proposal to increase the fixed charge payable by its large volume customers.

JGN's proposal to incrementally recover proportionally more revenue from its demand customers is also appropriate, given these customers currently contribute only around 8% of

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76 Temporary disconnection involves capping a service at or near the meter. While JGN typically does not remove meters, some gas distributors will remove the meter from a capped service. Abolishment involves digging down to the T intersection between the customer's connection pipe and the mains, severing the connection, removing gas from the connection pipe, re-sealing the mains, sometimes removing the customer connection pipe, removing the meter, then making the site safe – sometimes by re-sealing concrete footpaths or roadways – sometimes necessitating traffic control.

77 A model standing offer is a contract between JGN and a customer connecting to its distribution network. This contract sets the price and non-price terms and conditions for connection services provided by JGN.

JGN's total revenue despite receiving a larger proportion of total gas served by JGN. Doing so will alleviate volume customers of some cost recovery burden.

We also support JGN's proposal to reduce the number of pricing blocks within its volume customer declining block tariff, from 6 to 4. Again, this reduces complexity. We further support JGN's proposal to partially flatten its volume customer declining block tariff structure. We consider a flatter tariff structure would better reflect the emissions reduction element of the updated NGO. This is because declining block tariffs provide a progressively weaker incentive to reduce gas consumption as the level of consumption grows. We think a stronger incentive to reduce gas consumption, as would be provided by flat tariffs, better aligns with the NGO.

However, we consider JGN has not sufficiently explained its proposals to make further incremental changes during the 2025−30 period. While we support JGN further incrementally flattening its volume customer declining block tariff, we do not know how far or how fast JGN intends to make these changes. We also do not know how much additional revenue JGN intends to incrementally recover from its demand customers. Our draft decision is that JGN's revised proposal should spell out those details for us and stakeholders.

We also want to see additional bill impact modelling and potential implementation pathways from JGN to achieve flat tariffs for gas transportation, for both volume and demand customers. As part of this work, JGN should consider a tariff structure that retains a relatively high priced first price block with a single flat per-unit charge for volumes beyond that first block.[78] There may be other tariff structures or implementation pathways that can mitigate the existing weak incentives to moderate gas consumption while minimising negative bill impacts for customers. With that additional information available to ourselves and stakeholders, we will then be interested in stakeholder views submitted to us in response to this draft decision and JGN's revised proposal.

On JGN's tariff variation mechanism for gas transportation, our draft decision is to approve JGN's proposed hybrid mechanism that blends elements of its existing weighted average price cap with elements of revenue cap regulation.

Under JGN's new approach, for a year in which actual gas volumes supplied by its network are within 5% (+ or -) of the volume targets used to determine its tariffs, weighted average price cap regulation will apply as usual. However, if volumes are more than 5% higher (or lower) than target, JGN and customers will share in the resulting revenue over (or under) recovery. That is, JGN will retain 50% of any volume driven revenue over-recovery while 50% will be returned to customers via lower future network tariffs. Equally, 50% of any volume driven revenue under-recovery will be carried by JGN and 50% carried by customers via higher future network tariffs.

We note JGN's hybrid tariff variation mechanism was subject to significant stakeholder engagement during the design phase and attracted the support from many of those

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78 High priced initial blocks within a declining block tariff structure can be an efficient means of recovering gas network costs that are largely fixed, or sunk, in nature. Typically, such costs are most efficiently recovered via fixed charges – charges that don't vary with gas consumption. In the case of many existing gas network declining block tariffs, high priced initial blocks are proxies for larger fixed charges.

stakeholders because it shares volume risk between JGN and its customers. The hybrid design also mitigates negative aspects of revenue cap regulation, such as year-on-year tariff volatility. While the hybrid design does not entirely avoid incentivising JGN to grow the volume of gas carried by its network, it weakens that incentive. We consider this better aligns with the updated NGO than JGN's existing weighted average price cap.

Ancillary reference service tariffs

Our draft decision is to approve JGN's proposed reference tariffs for its ancillary reference services, except for volume customer connection abolishment, or permanent disconnection.

Permanent abolishment of a connection (by removing the network assets and closing off the connection or premises to the mains) is more costly to deliver than temporary measures that simply stop withdrawal of gas through the meter. For customers choosing to move away from gas, a higher charge for a permanent abolishment may deter those from seeking this permanent removal of the asset.

The NSW Safety Regulator supports closing the price gap between temporary disconnection and abolishment services due to safety risks associated with having live gas connections within the boundary of properties without gas appliances.[79] Over time, changes in property ownership will further increase the risk, as the new owners may be unaware of the live gas assets within the premises. As the number of customers moving away from gas increases over time, we are concerned about the incentives a continued difference in price between temporary and permanent disconnection measures may create.

JGN's proposed abolishment tariff of $1,472 for the 2025−26 year is inconsistent with abolishment charges levied by other regulated gas distributors which range from $884 to $1,044. Having also assessed (and benchmarked) JGN's abolishment cost build-up model, we have not identified a rationale for the proposed significant price difference. Therefore, our draft decision is to reduce the level of JGN's abolishment tariff by 25%, bringing the tariff down to $1,104.

While we consider our draft decision abolishment tariff is reasonable, levying this cost on individual customers is not the only cost recovery option available. We note that temporary disconnection will be priced at $84. We are concerned that pricing abolishment at a significant premium to temporary disconnections will incentivise customers to avoid requesting an abolishment, resulting in a growing number of dormant gas connections.

Therefore, our draft decision is to socialise most of the abolishment tariff across all customers via gas transportation tariffs, giving an ancillary reference tariff of $250.[80] We

[79] NSW Department of Climate Change, Energy, the Environment and Water (DCCEEW), Letter: *Costings for the disconnection and abolishment to the natural gas asset for households in NSW*, 2 July 2024, pp 1-2.

[80] Our approved network tariffs are ex-GST. Note also that retailers, when passing on these tariffs to customers, may add their own markup.

consider this approach is consistent with the views expressed by the NSW safety regulator.[81] It is also consistent with our approach in Victoria.[82]

We consider our proposed approach is the best option from those available, but we do not take this step lightly. We acknowledge that socialising abolishment costs will see remaining gas customers incurring more costs than otherwise. This may include customers with fewer resources while customers who can afford to electrify their gas appliances leave JGN's network. These issues will only grow over time, should the number of customers leaving JGN's network grow, as many people expect.

In our discussions with JGN staff, they indicated that around 60% of existing volume customer abolishments result in the customer re-connecting, because the customer is undertaking a property renovation or rebuild. While JGN expects the number of non-reconnecting abolishments to grow over the 2025−30 period, we are interested in JGN offering two abolishment services for small customers, one for permanently disconnecting customers with a partially socialised reference tariff, and one for reconnecting customers that would be priced at our fully costed abolishment reference tariff. This approach could minimise the price impact of socialising abolishment costs on remaining customers. We seek stakeholder views on this potential way forward.

On JGN's ancillary reference service tariff variation mechanism, our draft decision is to not accept the proposed CPI-X mechanism. Other regulated gas distributors adjust their ancillary reference services by CPI alone. On face value we do not see a case to treat JGN differently. CPI adjustments are also simpler and less prone to error. Our draft decision is that JGN should adjust its ancillary reference service tariffs by CPI.

5.3 Non-tariff terms and conditions

In addition to its total revenue requirement, demand forecast and resultant tariffs, our decision on JGN's proposed access arrangement includes an assessment of a range of non-tariff components that go to the commercial relationships between JGN and its retailers and other network users. JGN reference services are set out in the terms of its Reference Service Agreement (RSA).

JGN states that its intention in reviewing its RSA was to minimise changes to the existing position unless its experience during the current period suggests it is necessary, or its customers have requested that it reconsider an aspect of its current RSA.[83]

JGN proposed a number of amendments to its RSA, and considers that most of the changes were not substantive but reflect a desire to simplify and make the RSA more user friendly. It outlined that the main change to the RSA reflects the separation of its current Reference Service into two services: Transportation Reference Service and Ancillary Reference Service.[84]

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81 NSW DCCEEW, *Letter: Costings for the disconnection and abolishment to the natural gas asset for households in NSW,* 2 July 2024, pp 1-2.

82 AER, *Overview - Final decision – AusNet gas distribution access arrangement 2023–28*, June 2023.

83 JGN, *2025 Plan*, June 2024, p. 126.

84 JGN, *2025 Plan*, June 2024, p. 126.

JGN has engaged with its users on revisions to its RSA. We accept its proposed terms and conditions (including its proposed revisions to the previous RSA).

Our draft decision approves the proposed non-tariff components of JGN's access arrangement for the 2025–30 period. Attachment 11 sets out our draft decision on the non-tariff components in further detail.

A List of submissions

We received 10 in response to JGN's proposal and our Issues Paper. These are listed below in Table 2.[85]

Table 2 Submissions received on JGN's proposal and our Issues Paper

Submissions
Aeris Capital & Arena Energy
Alinta Energy
Ausgrid
Better Renting
CCP31
Energy Consumer Australia
Institute for Energy Economics and Financial Analysis
Justice and Equity Centre
Red Energy and Lumo Energy
Rewiring Australia

[85] Submissions are available on the AER website.

Glossary

Term	Definition
AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
Ancillary RS	Ancillary Reference Service
augex	augmentation capital expenditure
capex	capital expenditure
CESS	capital expenditure sharing scheme
CCP31	Consumer Challenge Panel, sub-panel 31
ECM	efficiency carryover mechanism
DCCEEW	Department of Climate Change, Energy, the Environment and Water
Handbook	The Better Resets Handbook
ICT	Information and communication technologies
JEC	Justice and Equity Centre
JGN	Jemena Gas Networks
NGL	National Gas Laws
NSW	New South Wales
NGO	National Gas Objective
NGR	National Gas Rules
NPV	net present value
opex	operating expenditure
RAB	regulated asset base
RBA	Reserve Bank of Australia
repex	replacement capital expenditure
Transportation RS	Transportation Reference Service
WACC	weighted average cost of capital