

Jemena Gas Networks (NSW) 2025–30 access arrangement draft decision public forum

AER Board Member – Lynne Gallagher – Conference Chair
11 December 2024

Acknowledgement of country

Lynne Gallagher
AER Board Member

AER welcome and introductions

Lynne Gallagher
AER Board Member

Agenda

Topic	Speaker	Duration
Welcome / Acknowledgement of country	Lynne Gallagher, AER Board Member	5 mins
Key themes of our draft decision	Lynne Gallagher, AER Board Member	10 mins
AER's JGN draft decision	Kris Funston, Executive General Manager, Network Regulation, AER	10-15 mins
Reflections from stakeholders	<ul style="list-style-type: none"> • Douglas McCloskey, The Justice and Equity Centre • Gavin Dufty, St Vincent De Paul • Helen Bartley and Mark Henley, AER's Consumer Challenge Panel, sub-panel 31 	5 mins each
Jemena Gas Networks (NSW)	Shaun Reardon, Executive General Manager, Jemena Gas Networks	5-10 mins
Facilitated discussion	Kris Funston, Executive General Manager, Network Regulation, AER	40 mins
Closing remarks, next steps	Lynne Gallagher, AER Board Member	5 mins

Key themes of our draft decision

Lynne Gallagher
AER Board Member

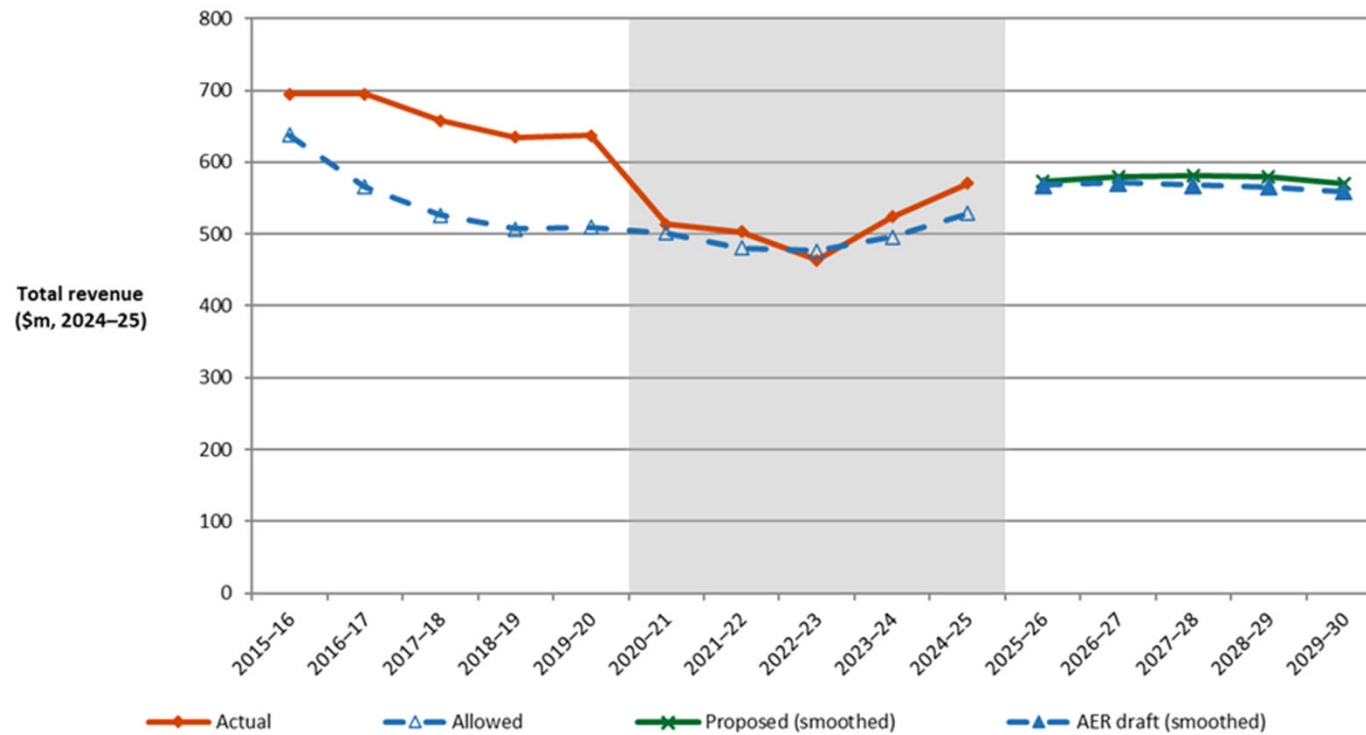
Key themes

- Uncertainty of the future of gas in the energy transition
- Ongoing demand and a requirement to provide services, means a level of investment is needed in the network
- Consideration of accelerated depreciation of gas network assets
- Abolishment costs for permanent disconnections of customers leaving the network

AER's JGN (NSW) 2025–30 draft decision

Kris Funston
Executive General Manager
Network Regulation Division

JGN - Changes in regulated revenue over time (\$ million, 2024–25)



Source: AER analysis

Key figures on our draft decision

Our draft decision: **\$3,082.5 million** (\$ nominal, smoothed)

- **\$50.2 million (nominal, smoothed)** or 1.6% reduction from JGN's access arrangement proposal
- 14% higher than our decision for the current (2020–25) period, in real terms

Bill impacts

- Residential household: Increase of **\$54 by 2029-30 (nominal)** or \$11 per annum (1.4%)
- Small business: Increase of **\$558 by 2029-30 (nominal)** or \$112 per annum (0.7%)

Capital and operating expenditure (capex and opex)

- Capex: **\$654.1 million (\$2024–25)** – a reduction of \$162.5 million or 20%.
- Opex: **\$1,161.7 million (\$2024–25)** – this is an increase of \$6.6 million from JGN's forecast total opex, due to the inclusion of \$66.4 million customer connection abolishment costs, offset by reductions in other areas

Key areas of difference from JGN's proposal to our draft decision

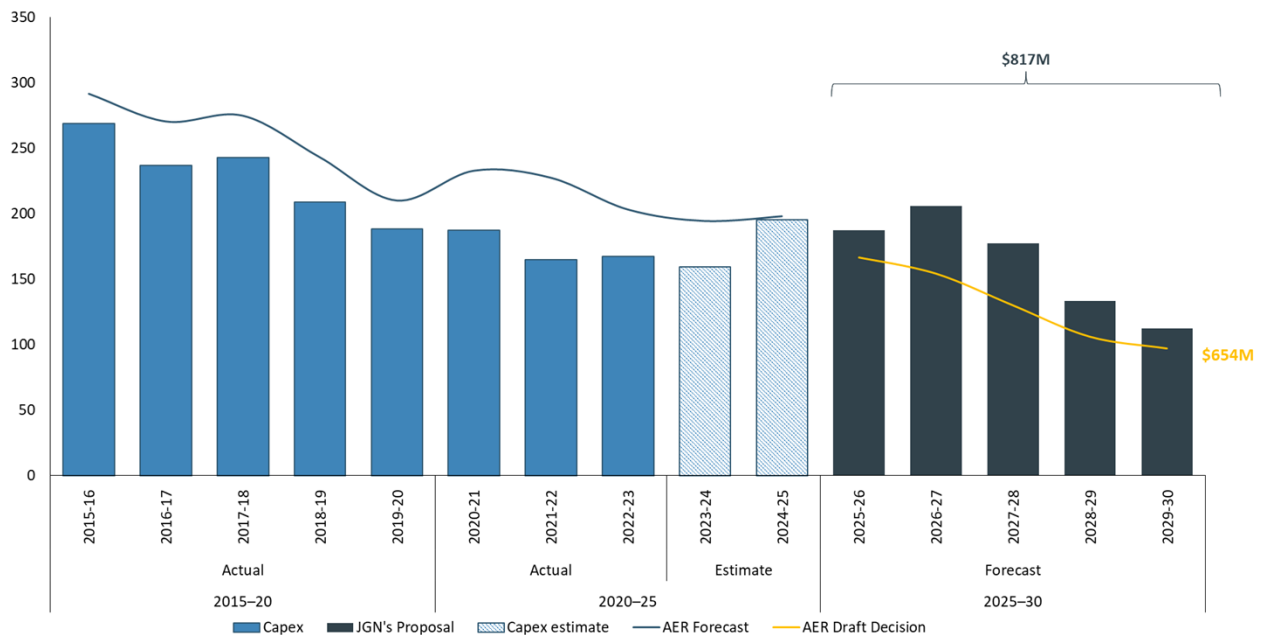
- **Reductions in forecast capex and opex**
- **Alternate forecasts for JGN's demand forecast:** Including a lower rate of disconnections and abolishments for residential customers, as well as a slower decline in usage
- **Reduction in accelerated depreciation:** A lower amount of \$156 million (from JGN's proposed \$300 million) determined on a base average annual real price increase of 0%
- **A reduction in** proposed volume customer abolishment tariff, and socialising most of that cost across all customers
- **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.

Capital expenditure

Reductions in forecast capex driven by:

- JGN’s meter replacement
- Other capex (which includes obsolescence expenditure)
- An adjustment to JGN’s proposed risk premiums for capex projects,
- Not accepting JGN’s renewable connections proposal and including a \$0 placeholder

JGN - Comparison of actual and forecast capex (\$million 2024–25)

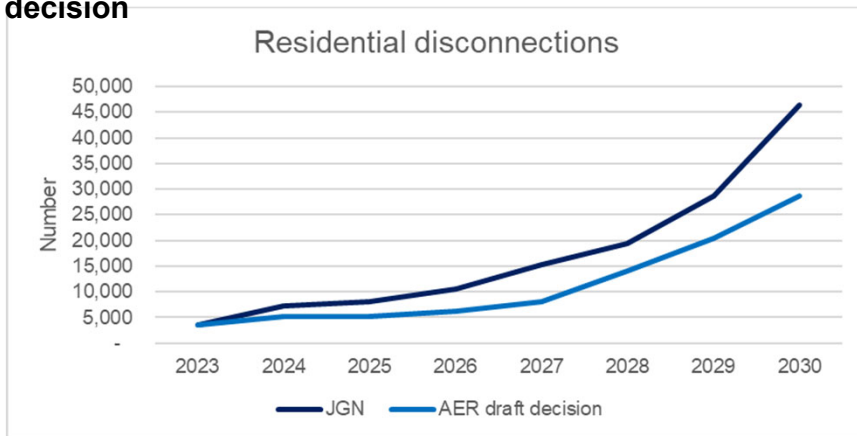


Demand

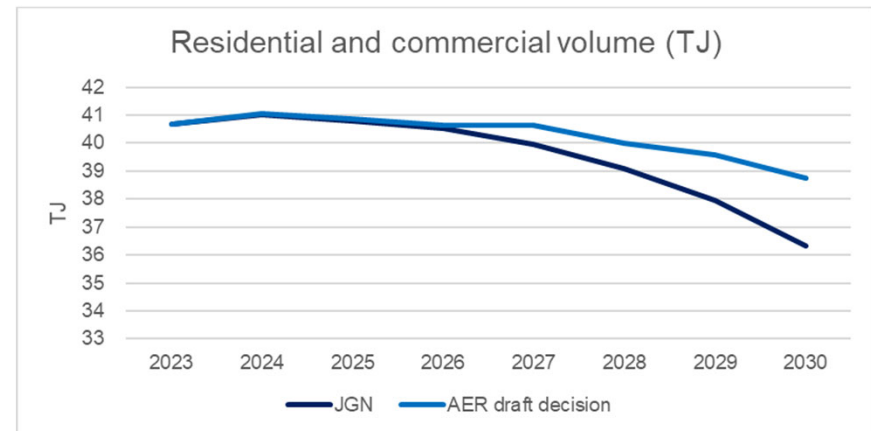
Our draft decision **does not accept** JGN's demand forecast, and substituted an alternative forecast, which includes:

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

Comparison of JGN's disconnection volumes and our draft decision



Comparison of JGN's demand forecast with our draft decision



Operating expenditure

Our alternate estimate for JGN is \$1,095.4 million (\$2024–25) - a reduction of \$59.8 million (or 5.2%) from JGN’s proposed opex forecast.

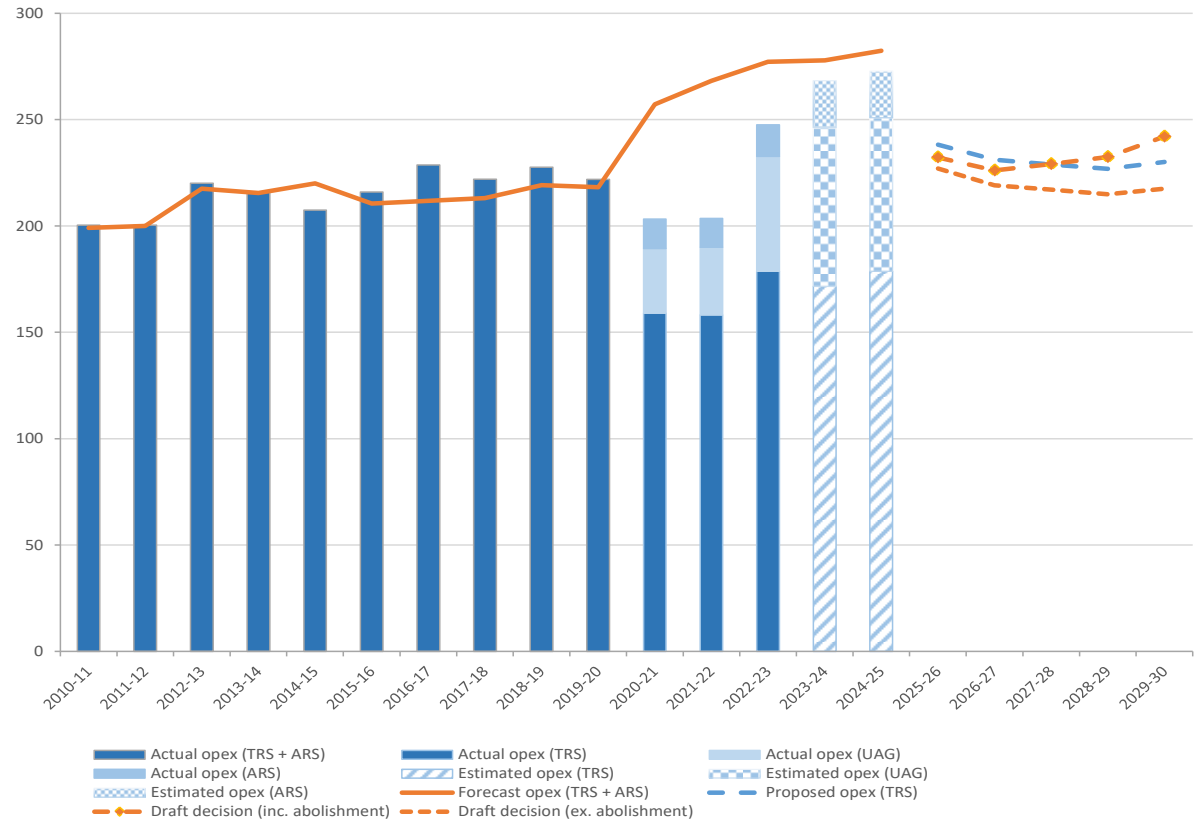
Reductions in forecast opex driven by:

- a lower output growth forecast
- lower total amount for step changes and category specific forecasts
- updates for more recent inflation.

However, reductions offset by the addition of \$66.4 million of socialised small customer connection abolishment costs.

Our draft decision includes a total opex forecast of **\$1,161.7 million (\$2024–25)**.

JGN – Comparison of actual and forecast opex (\$million 2024–25)



Accelerated depreciation of gas network assets

- **We accept** JGN's proposal to apply accelerated depreciation to reduce stranded asset risk associated with long term demand uncertainty.
- Our draft decision determines a reduced amount of **\$156 million** for the 2025–30 period. For the final decision, this amount may be subject to change to reflect changes in other building blocks.
- 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%.
- Our decision balances between accepting some accelerated depreciation to reduce JGN's long term asset stranding risk, against the short-term price impacts.
- Accelerated depreciation is only a temporary tool in reducing stranded asset risk.

Reference tariff setting and variation mechanism

Abolishment costs

- Our draft decision reduces JGN's proposed volume (small) customer abolishment tariff from \$1,472 to \$1,104 to align with other networks.
- We socialise a portion of that cost across gas transportation tariffs, to provide an abolishment tariff of \$250.

Hybrid tariff variation mechanism

- We acknowledge the positive work that JGN has undertaken in developing its reference service tariffs and tariff variation mechanism, including the engagement with its customers and stakeholders.
- Our decision:
 - Approves JGN's hybrid tariff variation mechanism – which incorporates both weighted average price cap and revenue cap regulation.
 - Approves JGN's proposed changes to its volume customer declining block tariff structure for gas transportation but asks JGN to clarify its further reform intentions and consider flattening the tariff.

Stakeholder presentations

- Douglas McCloskey, The Justice and Equity Centre
- Gavin Dufty, St Vincent De Paul
- Helen Bartley and Mark Henley, AER's Consumer Challenge Panel sub-panel 31

Jemena Gas Networks (NSW)

Shaun Reardon, Executive General Manager

Jemena Gas Networks 2025-30 Access Arrangement Review

Shaun Reardon, Executive General Manager, Jemena Networks

Revisiting JGN's 2025-30 AA Initial Proposal

In developing our 2025 Plan, we undertook an extensive customer engagement process, and the feedback from our customers was important in shaping our plans.

To manage the uncertainty presented by the energy transition, we must manage our risks dynamically and be innovative.

Our 2025 Plan included a suite of complementary, measured initiatives to address future uncertainty and to support a smoother energy transition for our customers over the long-term including:

- targeted approach to asset management
- investing in renewable gas connections
- Changes to our Model Standing Officer (connections policy)
- accelerating the recovery of our capital investments
- changes to our tariff structures so they can be more adaptable and ensure fairness combined with a move towards a hybrid tariff variation mechanism.

Despite uncertainty around future gas demand, JGN must continue to meet its regulatory obligations.

Our 2025 Plan included:

- expenditure to ensure network safety, reliability, security
- expenditure to connect customers to our network – we have obligations to make connection offers to customers, and our network is still growing
- expenditure to support achievement of emissions reduction targets.

We have sought to carefully balance short vs long term affordability to support the transition towards net zero by 2050

Responding to the AER's draft decision

We welcome the AER's draft decision, which has accepted many aspects of our proposal, and acknowledges the high standard of customer and stakeholder engagement that we have undertaken.

We are still digesting the detail of the AER's draft decision to understand the basis for its decisions, and the potential implications for our network and operations.

We only have until 15 Jan 25 to provide our revised proposal. To ensure we can meet this deadline, our approach to responding to the draft decision will involve:

Accepting components of the draft decision where it:

- approves sufficient funding to enable us to invest efficiently in, and safely and sustainably manage, the network in the long-term interests of our customers
- requires immaterial amendments to our proposal.

Providing additional support for other components of our 2025-30 AA Proposal to address the concerns raised by the AER in its draft decision for its further consideration.

Updating our 2020-25 AA Proposal for **new information** and or circumstances since our 2025 Plan was prepared (e.g. base year opex, demand forecast etc).

Draft decision – Q&A

Kris Funston
Executive General Manager
Network Regulation Division

Next Steps

Milestone	Date
JGN submits its regulatory proposals to AER	29 June 2024
AER published an issues paper for JGN	23 August 2024
AER holds a public forum	2 September 2024
Submissions on JGN's access arrangement and our issues paper close	13 September 2024
AER publishes draft determination decision	29 September 2024
AER public forum on our draft determination decision	11 December 2024
JGN submits revised regulatory proposals to AER	By 15 January 2025
Submissions on revised regulatory proposals and draft decision close	By 14 February 2025
AER publishes distribution determinations for regulatory control period	By May 2025

Submission details

- We invite interested parties to make submissions on the revised proposals and our draft decision by **5pm AEDT, 14 February 2025**
- **We encourage early submissions, where possible, to inform our final decisions**
- Submissions should be emailed to JGN2025@aer.gov.au.



