

Jemena Gas Networks access arrangement 2025-30: Draft decision

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About the Justice and Equity Centre

The Justice and Equity Centre is a leading, independent law and policy centre. Established in 1982 as the Public Interest Advocacy Centre (PIAC), we work with people and communities who are marginalised and facing disadvantage.

The Centre tackles injustice and inequality through:

- legal advice and representation, specialising in test cases and strategic casework;
- research, analysis and policy development; and
- advocacy for systems change to deliver social justice.

Energy and Water Justice

Our Energy and Water Justice work improves regulation and policy so all people can access the sustainable, dependable and affordable energy and water they need. We ensure consumer protections improve equity and limit disadvantage and support communities to play a meaningful role in decision-making. We help to accelerate a transition away from fossil fuels that also improves outcomes for people. We work collaboratively with community and consumer groups across the country, and our work receives input from a community-based reference group whose members include:

- Affiliated Residential Park Residents Association NSW;
- Anglicare;
- Combined Pensioners and Superannuants Association of NSW;
- Energy and Water Ombudsman NSW;
- Ethnic Communities Council NSW;
- Financial Counsellors Association of NSW;
- NSW Council of Social Service;
- Physical Disability Council of NSW;
- St Vincent de Paul Society of NSW;
- Salvation Army;
- Tenants Union NSW; and
- The Sydney Alliance.

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1. Introduction

The Justice and Equity Centre (JEC) welcomes the opportunity to respond to the Australian Energy Regulator's (AERs) Jemena Gas Networks (JGN) access arrangement 2025-30 draft decision.

The role of this access arrangement in addressing long-term challenges

As households and businesses electrify and leave the gas network, JGN faces the challenge of managing this decline equitably and maintaining a safe and reliable service. In our view, the fundamental question underpinning this process is how to balance these challenges, and transition to a sustainable future business based on the new dynamics of the energy system and economy.

We agree with the AER's assertion that in the longer term, the challenges outlined above require governments, consumers, and network businesses to come together to determine an equitable solution. The JEC supports the AER highlighting the need for such a process and continuing to advocate for it.

We appreciate that the AER is constrained in how far it can go to address many of the fundamental questions associated with the challenge facing JGN. However, this process does have a crucial role to play in asserting enduring principles of the consumer interest and ensuring every step is taken to mitigate future risk and cost to NSW consumers. This access arrangement is a critical opportunity to start implementing 'no regrets' measures to ensure minimal additional cost and risk to consumers in advance of more durable solutions.

In this context we welcome Jemena's early engagement on these issues and commend them for their extensive work in providing a platform to discuss what gas network businesses can do to commence this process, and effectively manage the transition of their networks.

Accelerated depreciation

We have been unequivocal in our view that JGN's request for accelerated depreciation should not be approved and is not in the consumer interest. We have been similarly consistent in our view that the basis for JGN's proposal on accelerated depreciation is flawed and incapable of supporting a decision of the materiality involved. Our view here has not changed. We outline below our rationale for this perspective.

Capital expenditure

We welcome the AER's decisions on JGN's proposed capex relating to meter replacement and renewable gas connections, which we previously flagged as inconsistent with its request for accelerated depreciation and insufficiently detailed to assess prudence and efficiency. Below we offer comment on how JGN could strengthen its proposal on these matters and the relevant evidence needed to give consumers confidence that such expenditure is warranted and efficient.

Emissions detection operational expenditure

We also comment on JGN's proposed actions to measure and reduce its emissions through its proposed opex step change to enhance its leak detection capabilities. Here we note that JGN's

proposal aligns well with the preferences customers expressed as part of engagement. While we defer to the AER's assessment on the prudence and efficiency of these investments, we support JGN taking all possible efficient steps to accurately measure and reduce its emissions.

Temporary and permanent disconnection

In the final section, we consider the draft decision on temporary and permanent disconnection services, noting the need for greater consistency and clarity around how abolishment is managed. We maintain abolishment should provide consumers with a least-cost, efficient option to make their connection safe and permanently inactive.

2. Accelerated depreciation

We are disappointed by the AER's draft decision to allow JGN to claim \$156 million in accelerated depreciation for the 2025-30 period. We maintain and reiterate our view outlined in our submission to the Issues Paper, namely that,

- Consumers are not the appropriate party to bear the cost of future asset stranding risk.
- The rules make provisions to deal with actual redundancy, which is a more appropriate mechanism to deal with 'stranding' at the point it can be quantified accurately.
- Accelerated depreciation does little to reduce actual asset stranding risk while imposing material costs on current consumers¹.
- JGN's engagement on accelerated depreciation should not be regarded as an unqualified basis for asserting consumer support. Engagement outcomes should be discounted as participants were not provided with a sufficiently robust basis to make a meaningful decision².

We reiterate our contention that future asset stranding risk on the timeframes outlined by Jemena, would be more effectively addressed through measures such as minimising capex by planning for a network decline and recovering the full cost of new connections upfront.

Recovery of investment costs

We welcome AER comment that JGN should have a *reasonable* (as opposed to absolute) opportunity to recoup the costs of their investments. As such, we question the continued reliance on rule 89 for direction on accelerated depreciation when a specific rule on redundancy exists in the NGR, namely rule 85. As we pointed out in our previous submission, rule 85 indicates that there should be no pre-emptive compensation for future capital redundancy, and certainly no payment merely for the risk of redundancy, especially when there is such uncertainty at present as to when and how the risk might materialise³.

At issue is the inability to accurately and transparently identify 'future stranding risk' (and for what assets) and reasonably determine what is consumers fair contribution to mitigating this. In absence of any robust means of undertaking this assessment we regard use of accelerated

¹ See ECA and Dynamic Analysis, [Turning down the gas: Minimising consumer risk](#).

² See [JEC submission to AER Issues Paper: Jemena Gas Network's 2025-30 Access Arrangement](#), pp. 20-22

³ Ibid. pp. 15-17.

depreciation as a measure to mitigate future stranding risk as fundamentally inappropriate and an inherent risk that consumers will pay an unreasonable share of stranding risk mitigation costs.

Issues with the basis for the AER determination of allowed accelerated depreciation

We understand the AER decision to award \$156 million for accelerated depreciation is based on a calculation intended to limit real price increases attributable to this expenditure to zero percent over the 2025-30 period. We disagree with this approach in principle and practice.

As noted earlier, accelerated depreciation is effectively being utilised as a means to have consumers assume the cost burden of mitigating an undefined and unquantified future stranding risk. Rather than basing their determination of allowable accelerated depreciation on an assessment of what the future risk may be associated with and what consumer share of that could reasonably be said to be, the AER has proposed an amount based on an unrelated set of criteria ('real' impact on bills)

While we strongly disagree any acceleration should be allowed, if the AER is to award any level of accelerated depreciation it must be according to robust criteria responding to the problem JGN is intending to address. That is, the specific assets at risk of stranding should be identified, and there should be a clear delineation of costs involved and how consumers fair share of mitigating future stranding risk for those assets has been determined. As it stands, the draft decision to shift \$156 million of investor costs onto JGN customers appears arbitrary given the explanation for how this number was arrived at. We do not consider this draft decision reasonable or appropriately justified.

Should the AER continue with a process to approve some level of accelerated depreciation for JGN this must be accompanied by, and founded on:

- identification of the assets which are at risk of stranding and when;
- the total cost of these assets;
- an assessment of the portion of the value of these assets already recovered;
- what, if any portion of the potentially stranded investments, it is equitable to apportion to consumers (and why);
- which class of consumers should bear this cost; and
- how the cost will be apportioned between consumers over time.

Without clarification on these matters there is a real risk consumers may be responsible for costs associated with assets that have already been depreciated and consumers will bare an unreasonable share of the costs.

While we appreciate the intent behind limiting real price increase from accelerated depreciation to zero, presenting this as having no impact on bills misinterprets the manner in which consumers understand and experience such increases. For consumers, impacts are 'real' when they involve a bill that is higher than it was previously, or a higher dollar amount than would otherwise have been the case. Approving any level of accelerated depreciation will result in bills throughout the 2025-30 period which are higher than they would be without this added cost.

Correctly characterising uncertainty and management of risks

Uncertainty continues to be used inappropriately as a blanket argument for accelerated depreciation.

We agree that ‘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.’ However, while we share the view that more clarity on cost and risk sharing arrangements is needed, we disagree with the broader framing of uncertainty as relates to the future of gas in NSW.

Emissions reduction commitments and targets (and their associated emissions budgets) are established, and the rules now require consideration of emissions reduction in line with Paris commitments to be an integral part of decision-making by energy businesses and regulators. The energy transition is well under way and is accelerating to meet the increasingly urgent demands these targets imply. The direction of travel on gas is clear and uncertainty around timelines (to the extent it exists) is much more circumscribed than suggested.

Prudent decision-making should aim to limit uncertainty through separating the reasonably predictable from the genuinely uncertain. In this context, uncertainty is not about what role gas will play in 2050, but how quickly it will retreat and how to smoothly and efficiently manage the retreat of residential gas networks, while maintaining and transitioning remnant network areas supporting industrial uses, to provide more efficient renewable products.

To this end, we reject claims that accelerated depreciation is justified as a ‘temporary measure’ until there is more policy certainty. Australia’s climate commitments, and the emissions targets implementing them, require rapid emission reduction by 2030 and 2035. This will require drastic reductions to methane emissions. AEMO forecasts and every credible Australian and international assessment indicates this must involve rapid renewable electrification, particularly of household and business gas uses. The NSW Net Zero Commission affirmed these conclusions in their latest annual report⁵.

Decisions assuming conversion of the entire gas network to biomethane or other gases by 2050 cannot meet emissions targets, and doing so within the 2035 timeframe is not credible, and would not be in the consumer interest. Similarly, measures to ‘reduce’ emissions through incremental additions of biomethane and other gases are inefficient and do not constitute a meaningful reduction to emissions.

Ongoing issues with engagement as the basis for accelerated depreciation proposals

We support the AER recommendation that JGN undertake further customer engagement ahead of submitting its revised proposal in order to gain supplementary insights into consumer perspectives as regards key issues such as accelerated depreciation. We note that JGN has conducted a follow-up survey to assess customer perspectives on the quality of its engagement and the information provided to inform decision-making on accelerated depreciation.

⁵ NSW Net-Zero Commission, [2024 Annual Report](#)

However, we note that consumer stakeholders, including JGN's customer panel (of which we are a part), had little to no input on the design, development, delivery, or assessment of the content and findings of this survey. This does not meet the bar for robust, good practice in engagement. Such limited oversight over the content, intent, and interpretation of engagement on a matter of material impact for consumers is not good practice and risks the perception of seeking out data to validate a predefined or preferred narrative.

While we acknowledge the curtailed timeframes between proposals make it difficult to organise high-quality engagement, doing so is feasible and well precedented⁶. As such, we do not consider JGN's follow-up survey sufficiently robust and recommend its results be discounted in their contribution to any assessment of the validity of consumer preferences in relation to accelerated depreciation. Given the materiality of the decision and its long-term impacts on consumers, we consider it reasonable and appropriate to set a high bar for the level of engagement required to demonstrate proposals are well grounded in consumer preferences.

3. Renewable connections

As we noted in our previous submission, we do not consider renewable gas a credible solution to decarbonising residential load within the diminishing timeframes required⁷. Renewable gas may play a role for large industrial and commercial customers that use gas as a feedstock, or that require process heat in excess of what an electric alternative can efficiently provide in the medium-term. In such cases, JGN must demonstrate not only that commensurate demand for renewable gas exists (and can reliably be assumed to exist over a longer timeframe), but that related consumers are willing to pay a premium for this resource.

We do not consider JGN has provided sufficient detail in their proposal to demonstrate this to be the case.

It is inappropriate to socialise the cost of renewable connections, given the likely customers for whom renewable gas may represent an efficient long-term decarbonisation pathway constitute just 0.02 percent of JGN's customer base. While a subset of industrial and hard-to-electrify users may see long-term benefits from renewable gas, its role in the transition is uncertain and likely to be small.

As such, we consider it unreasonable for the entire current customer base to assume the risks associated with facilitating a potential future service for a small fraction of future customers. This is particularly the case given the lack of detail around how JGN will manage uncertainty related to demand for renewable gas and where this demand is likely to exist in the network.

We maintain the view that Jemena's claims that renewable gas 'will help extend the usage for its gas network and therefore lower the risk of asset stranding' are incongruous and should be rejected. Connecting renewable gas risks not only unnecessarily expanding and augmenting the network but misallocating limited economic renewable gas supplies with limited (or no) emissions

⁶ For example, Ausgrid undertook significant, genuine engagement with both its customers and customer panel between submission of its draft and revised proposal for its 2024-29 determination.

⁷ See [JEC submission to AER Issues Paper: Jemena Gas Network's 2025-30 Access Arrangement](#), pp. 19-20.

reduction impact in the short-term and creating additional asset stranding risks consumers have no means of mitigating.

Should the AER approve any renewable connection expenditure, the project proponent should carry a substantial portion of the deeper connection costs associated with facilitating their connection in addition to the shallow connection costs.

JGN should also be required to detail location, prospective utilisation, and source of demand for its renewable connections to assist the AER in determining whether such expenditure is prudent and efficient. This should include a credible assessment of where on their network longer-term use of renewable gas is likely to be efficient and where renewable connections are most likely to represent a prudent 'no-regrets' decision.

We share the AER's view that renewable connections are not analogous to regular connections because JGN has greater discretion to control its spending on renewable connection projects. As such, we do not support excluding renewable connections capex from the CESS.

Likewise, we do not support JGN's proposed risk allocation to capex projects. Risk premiums should be recovered from the connecting entity, not consumers. JGN's rationale for seeking to recover these premiums from consumers is unclear.

4. Meter replacement

We maintain the view that a digital meter upgrade is not warranted solely because the existing meter is difficult to access. We note that a meter that is 'prohibitively difficult to access' for JGN may not be so for other parties. For example, JGN would be unable to conduct a manual read on a meter behind a locked gate, however the customer at the premises could still access said meter and submit a reading to JGN. In such cases a digital meter upgrade is not warranted. We note that during COVID lockdowns, JGN implemented a very successful program to facilitate consumer meter reads in apartments and other areas where access was not possible.

While digital meter upgrades may be justified in some cases, such upgrades should be assessed against alternatives such as providing the lowest cost simple, standard (non-digital) meters in cases of meter malfunction or danger to safety or permanent disconnection and electrification. The latter would be reasonable alternatives where JGN indicates a connection is particularly expensive to maintain.

Where digital meter upgrades are justified, they should be assessed as producing better outcomes for all consumers, not just the customer in question. In the context of a declining gas network consumers should not carry increased costs and risks associated with proactive replacements and meter upgrades. As noted in our previous submission⁸, we encourage JGN to publish data on the condition, failure modes, and risks relating to its metering stock. This would help give stakeholders confidence that JGN's proposed end-of-life replacements are justified.

⁸ Ibid. p. 27.

5. Leak detection services

JGN proposed a \$20.8 million opex step change for Picarro advanced mobile leakage detection technology (vehicle with advanced sensors) to help it more accurately detect gas leaks, enable a proactive maintenance approach, and provide greater visibility of its network integrity.

The AER does not include this step change in its alternative estimate of JGN's total opex forecast due to concerns that the investment is not prudent and efficient. While we defer to the AER's economic assessment, we note that consumers broadly supported investment in improved leak detection and felt JGN should be doing 'everything possible' to reduce its own emissions.

Fugitive emissions form a significant portion of JGN's total greenhouse gas footprint and it has an obligation to address these emissions. Consumers indicated the need for a more detailed understanding of fugitive emissions and raised concerns with JGN's current accounting method which may be inaccurate and underestimate the true extent of leakages.

Likewise, consumers expressed a strong preference for reducing network emissions rather than relying on the purchase of carbon credits. We concur and, in principle, support JGN implementing robust measures which enable more effective emissions tracking and reduction across its operations.

We note the AER's assessment that JGN's proposed uplift to 8 Picarro units is not prudent and efficient for emissions reduction measurement given it can meet the requirements of its Safety and Operating Plan with its existing vehicle fleet. As such, we encourage JGN to outline how their proposed uplift in Picarro capability contributes to improved customer outcomes in terms of emissions measurement and reduction.

6. Temporary and permanent disconnection services

Abolishment charges should be cost-reflective and set transparently and consistently at an efficient level. We support the AER's decision to reduce JGN abolishment tariff to \$1,104, bringing it in line with that of other regulated gas distributors.

We note the AER's comment that 'having also assessed (and benchmarked) JGN's abolishment cost build-up model, we have not identified a rationale for the proposed significant price difference'. We share the AER's interest in this discrepancy and encourage JGN to outline the drivers for materially higher abolishment charges in NSW.

We request that JGN detail the costs included in its abolishment charge as part of its revised proposal. We are concerned that the lack of guidance on setting abolishment charges may inappropriately shift costs onto consumers that they should not be required to bear (such as removing infrastructure on the street side of the connection).

As we noted in our previous submission, abolishment should provide consumers with a least-cost, efficient option to make their connection safe and permanently inactive⁹. The AER should

⁹ Ibid. pp. 29-30.

issue guidance to this effect and provide a consistent definition of what constitutes permanent disconnection and how its costs can be calculated.

We share the AER's concern 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.' However, we do not support the AER's decision to socialise the abolishment tariff across all customers via gas transportation tariffs.

This approach is deeply inequitable and does not accord with the strongly expressed sentiment of consumers in JGNs engagement. Socialising abolishment costs will see remaining gas customers subsidise those who can afford to electrify their gas appliances to leave JGN's network. Many of the customers that will face higher bills as a result are those with fewer resources and opportunities to transition away from gas, making this decision particularly regressive.

While we support making abolishment more affordable and attractive to consumers (and even subsidising it), we do not consider it appropriate to do so through the rules, where this involves overriding otherwise consistent principles of cost recovery and pricing (causer/beneficiary pays and cost reflectivity).

We consider it unreasonable to shift these costs onto remaining gas customers. It would be more appropriate for the NSW Government to facilitate permanent disconnections by funding a portion (or all) of this cost differential and providing additional support to those who need it. As such, we recommend setting abolishment costs at an efficient and cost-reflective level until the NSW Government signals a clearer direction on the future of gas in the state.

Should the AER go ahead with the proposed socialised abolishment tariff, efforts should be made to minimise price impacts on remaining customers. We note the AER has proposed doing so by 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 the fully costed abolishment reference tariff. We understand this to mean that a consumer seeking to reconnect a previously abolished connection would be required to pay for the full cost of the connection in advance.

While we support the intent of this proposal, we consider it preferable to simply recover the full cost of *all* future connections upfront. This dispenses with the complexities associated with establishing whether a connection was previously abolished and reduces the risk that consumers pay twice for the same asset.

We support AER recommendation to rename temporary and permanent disconnection services to more clearly describe the nature of those services. We consider the proposed 'temporary disconnection' and 'permanent disconnection (abolishment)' service names appropriate.