



DRAFT DECISION
Jemena Gas Networks (NSW)
Ltd
Access Arrangement

2020 to 2025

Attachment 1
Services covered by the access
arrangement

November 2019

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Note

This attachment forms part of the AER's draft decision on the access arrangement that will apply to Jemena Gas Networks (NSW) Ltd ('JGN') for the 2020–2025 access arrangement period. It should be read with all other parts of the draft decision.

The draft decision includes the following documents:

Overview

Attachment 1 – Services covered by the access arrangement

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

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Shortened forms

Shortened form	Extended form
AEMC	Australian Energy Market Commission
AER	Australian Energy Regulator
CCP/CCP19	Consumer Challenge Panel, sub-panel 19
ENP	Embedded network provider
JGN	Jemena Gas Networks (NSW) Ltd
NECF	National Energy Customer Framework
NGL	National Gas Law
NGO	National Gas Objective
NGR	National Gas Rules

1 Services covered by the access arrangement

The National Gas Rules (NGR) require a network service provider's access arrangement to:

- identify the pipeline to which the access arrangement relates,¹
- describe all of the pipeline services the network service provider can reasonably provide on the pipeline, having regard to the characteristics of different pipeline services,² and
- from the pipeline services identified above, specify the services the network service provider proposes to specify as reference services having regard to the reference service factors.³

1.1 Draft decision

We approve JGN's proposed reference service for the 2020–25 access arrangement, with the exception of its boundary metering strategy.⁴ As we discuss in section 1.4.1.1, we consider JGN should continue to offer individual hot water metering to new high rises in the 2020–25 access arrangement period⁵ as part of its reference service. We would like further evidence from JGN and other stakeholders regarding the potential take up rate—and the costs and benefits—of individual hot water metering as part of JGN's reference service offering.

As with the 2015–20 period, JGN propose to offer a single reference service in the 2020–25 period, which includes:⁶

- receipt of and transportation of gas from an upstream pipeline or other gas facility through the JGN network to each customer's premises for use and consumption within the premises
- providing gas metering equipment at customers' premises and associated services to read the quantity of gas flowing through the gas meters
- ancillary services.

We approve the ancillary services JGN propose for the 2020–25 access arrangement as part of its reference service, which are:⁷

¹ NGR, modified r. 48(1)(a). Modified r. 48 is referred to in NGR, schedule 1, part 12, r. 62(5).

² NGR, modified r. 48(1)(b).

³ NGR, modified r. 48(1)(c) and r. 47A(15).

⁴ The boundary metering strategy involves JGN's proposal to stop offering hot water meters to individual premises in new high rise buildings, from 1 July 2020, where residents are supplied hot water from a centralised hot water system. We discuss this further in sections 1.2.1 and 1.4.1.1.

⁵ NGR, r. 59(2).

⁶ JGN, *Access arrangement: JGN's NSW gas distribution network 1 July 2020 – 30 June 2025*, June 2019, p. 2.

- hourly charge—non-standard user initiated requests and queries
- disconnection (and reconnection)—Volume customer delivery points
- abolishment
- special meter reads
- expedited reconnections.

These services will be offered to residential and non-residential customers.

1.2 JGN's proposal

For the 2020–25 period, JGN propose to retain the high-level service classification from the 2015–20 period:

- A reference service, comprising:
 - Haulage
 - Ancillary services
- Non-reference services.

JGN termed its single reference service as the 'Haulage reference service' in the 2015–20 period. For simplicity, JGN propose to rename this as the 'Reference service' in the 2020–25 period.

1.2.1 Haulage

As with the 2015–20 period, JGN propose to offer a single reference service for the 2020–25 period, which includes:⁸

- receiving gas injected from an upstream gas pipeline or other gas facility
- transporting gas from the receipt point to each customer's premises
- enabling withdrawal at each customer's premises
- providing gas metering equipment at customers' premises and associated services to read the quantity of gas flowing through the gas meters
- procuring gas to replenish the difference between the measured quantities of gas entering and leaving the network, known as Unaccounted for Gas.

From 1 July 2020, JGN propose to stop offering a hot water metering service to individual premises in new high rise buildings where residents are supplied hot water

⁷ JGN, *Access arrangement: JGN's NSW gas distribution network 1 July 2020 – 30 June 2025*, June 2019, pp. 2 and 51–52.

⁸ JGN, *2020–25 access arrangement proposal: Attachment 4.1: Our reference service and tariffs*, June 2019, p. 11; JGN, *Access arrangement: JGN's NSW gas distribution network 1 July 2020 – 30 June 2025*, June 2019, p. 2.

from a centralised hot water system.⁹ For these high rise sites, JGN propose to limit its metering of gas usage at the centralised hot water system only (its 'boundary metering strategy').

JGN states the hot water metering service is not a core business service. It also states that boundary metering is its fastest growing metering solution and considers it would facilitate gas embedded network providers (ENP or embedded networks), who are better placed to improve customer experience in new high rises.¹⁰

1.2.2 Ancillary services

Ancillary services are provided to customers on request. JGN propose several changes to its ancillary services for the 2020–25 period:¹¹

- Merging the 'Disconnection (small and large customers)' and 'Temporary disconnection for large customers' services. This is now termed 'Disconnection (and reconnection) – Volume customer delivery points'.
 - This also clarifies that JGN will calculate individual prices for disconnections for demand customers given their unique requirements.¹²
- For 'Disconnection (and reconnection) – Volume customer delivery points' and 'Special meter reads' services:
 - Provide the option to request an 'AM' or 'PM' appointment.¹³ This option also applies to the 'Abolishment' service.
 - Introduce a 'Wasted visit' charge.¹⁴
- Renaming 'Decommissioning and meter removal' to 'Abolishment' to avoid confusion.¹⁵
 - JGN also updated the threshold between its two charges for this service from 6m³/hr to 25m³/hr based on updated information.

⁹ New high rises are those that obtain construction certificates after 1 July 2020. JGN, *2020 Plan*, June 2019, p. 40.

¹⁰ JGN, *2020 Plan*, June 2019, pp. 40–41; JGN, *2020–25 access arrangement proposal: Attachment 4.1: Our reference service and tariffs*, June 2019, pp. 24 and 40.

¹¹ JGN, *2020–25 access arrangement proposal: Attachment 4.1: Our reference service and tariffs*, June 2019, pp. 12–17; JGN, *Access arrangement: JGN's NSW gas distribution network 1 July 2020 – 30 June 2025*, June 2019, pp. 51–52.

¹² The disconnection/reconnection ancillary service applied to volume and demand customers in the 2015–20 access arrangement period. JGN, *Response to AER information request IR040: Ancillary reference services*, 30 September 2019, p. 1.

¹³ An 'AM' appointment is at any time between 7.00 AM and 12.00 midday, and a 'PM' appointment is at any time between midday and 5.00 PM on a Business Day. JGN, *Access arrangement: JGN's NSW gas distribution network 1 July 2020 – 30 June 2025*, June 2019, Schedule 2, clause 4.1(j), p. 52.

¹⁴ A wasted visit involves the attendance by JGN in response to a request for a disconnection or special meter read where JGN is unable to gain safe or unhindered access to complete the request. JGN, *Access arrangement: JGN's NSW gas distribution network 1 July 2020 – 30 June 2025*, June 2019, Schedule 2, clause 4.1(j), p. 52.

¹⁵ JGN stated, in the gas market, a site which has been temporarily disconnected is flagged as 'decommissioned'. JGN, *2020–25 access arrangement proposal: Attachment 4.1: Our reference service and tariffs*, June 2019, p. 15.

- Offer a new ‘Expedited reconnection’ service—this service would enable a disconnected customer to reconnect in more urgent timeframes than currently available or required by the NGL.

1.2.3 Non reference services

JGN propose to change the name of its ‘Interconnection of embedded networks’ non reference service to ‘Interconnection Service.’ This avoids the potential for confusion with the growth of embedded networks for high rise buildings and shopping centres (see section 1.4.1.1 for a discussion of embedded networks in high rises).

JGN states that connection of these premises is done as part of the normal connection procedures under chapter 12A of the NGR. JGN subsequently delivers gas to these premises under the reference service. JGN states that its original ‘Interconnection of embedded networks’ service has never applied to these types of customers. Additionally, the clarification more closely aligns to the actual service, which was originally devised to accommodate the connection of a gas distribution network within the geographic area of its network.¹⁶

1.3 Assessment approach

JGN is required by the NGR to specify all reference services in its access arrangement proposal.¹⁷ A reference service is a pipeline service specified as a reference service having regard to the reference service factors.¹⁸ A pipeline service is a:¹⁹

- service provided by means of a pipeline, including a:
 - haulage (i.e. transportation) service
 - service facilitating the interconnection of pipelines
- service ancillary to one of these services.

JGN's services are also required to be consistent with the National Gas Objective (NGO).²⁰

In summary, this means that a gas distribution company is using its network of underground pipes to transport gas from the production source to households and commercial and industrial premises. These customers use the gas for heating homes and for cooking, and as an input into manufacturing goods and services or undertaking other industrial processes. Gas powered generators also use the gas as an input to produce electricity for the National Electricity Market.

¹⁶ JGN, *2020–25 access arrangement proposal: Attachment 4.1: Our reference service and tariffs*, June 2019, p. 17; JGN, *Access arrangement: JGN's NSW gas distribution network: 1 July 2020 – 30 June 2025*, June 2019, p. 3.

¹⁷ NGR, modified r. 48(1)(c).

¹⁸ NGR, r. 47A(15).

¹⁹ NGL, Chapter 1—Preliminary, Part 1—Citation and interpretation, 2 Definitions.

²⁰ NGR, r. 100(1)(a).

Our assessment approach is to identify the covered pipeline²¹ that is providing these services and any additions or expansions that have occurred during the current (2015–20) access arrangement period.

A full access arrangement must specify the pipeline services JGN proposes as reference services having regard to the reference service factors.²²

For ancillary services, we have considered the services JGN currently offers and the amendments it proposes to these services.

We have considered the views that stakeholders submitted regarding JGN's proposed reference service for the 2020–25 access arrangement.

For non-reference pipeline services or negotiated services, we are not required to set tariffs for these or the terms or conditions on which they will be provided.

1.3.1 Interrelationships

JGN's services have an interrelationship with the tariffs it charges for the use of its services and the total revenues it can recover through the total revenue requirement we approve and the application of annual tariff variation mechanisms.

In particular, our draft decision on JGN's boundary metering strategy (see section 1.4.1.1) has implications for our draft decision on JGN's conforming capex (see Attachment 5).

JGN's reference tariffs are adjusted annually by the application of a weighted average price cap formula. Its reference tariffs are derived from the total revenue requirement after consideration of demand for each tariff category. This means the tariffs we determine (including the means of varying the tariffs from year to year) are the binding constraint across the 2020–25 period, rather than the total revenue requirement set out in our decision.

After the first year of the access arrangement period, JGN's ancillary service prices are set by application of the ancillary service tariff variation formula.

Our draft decision on:

- JGN's total revenue requirement is set out in the Overview to this draft decision
- the tariffs JGN will charge for the provision of these services is set out in Attachment 9—Reference tariff setting
- the annual tariff variation mechanisms are set out in Attachment 10—Reference tariff variation mechanism.

²¹ A covered pipeline means a pipeline that is regulated under the NGL and NGR. In that respect, it is 'covered by regulation'.

²² NGR, modified r. 48(1)(c).

1.4 Reasons for draft decision

We first considered whether JGN has complied with the requirements of the NGR, which we set out in Table 1.1.

Table 1.1 Assessment of JGN’s compliance with the NGR

NGR requirements	AER assessment
A full access arrangement must:	
identify the pipeline to which the access arrangement relates and include a reference to a website at which a description of the pipeline can be inspected — NGR modified rule 48(1)(a)	Compliant. Clauses 1.2 and 11.1 and schedules 8 and 10 of the access arrangement proposal.
describe all of the pipeline services that the service provider can reasonably provide on the pipeline, which must be described having regard to the characteristics of different pipeline services, including those listed in subrule 47A(2) of the Amending Rule — NGR modified rule 48(1)(b)	Compliant. Section 2 of the access arrangement proposal.
from the pipeline services identified under subrule (b), specify the services the service provider proposes to specify as reference services having regard to the reference service factors including any supporting information required by the AER — NGR modified rule 48(1)(c)	Compliant, with the exception of the boundary metering strategy. Clause 2.2 of the access arrangement proposal specifies the proposed reference service. Table 3.3 of attachment 4.1 to the access arrangement proposal sets out JGN’s consideration of the reference service factors. ²³
if the pipeline service provider has engaged with pipeline users and end users in identifying the reference services under subrule (c), describe any feedback received from those users about which pipeline services should be specified as reference services — NGR modified rule 48(1)(d)	Compliant. Sections 2 and 3 of attachment 4.1 to the access arrangement proposal. ²⁴

The reference tariffs and other (non-tariff) terms and conditions on which the reference service will be provided are considered in Attachments 9 and 11.

1.4.1 Haulage

We consider that JGN’s proposed reference service is mostly appropriate having regard to the reference service factors.²⁵ The exception to this is JGN’s boundary metering strategy. As we discuss in section 1.4.1.1, we consider JGN should continue to offer the individual hot water metering service to new high rise buildings in its reference service in the 2020–25 period.

²³ JGN, 2020–25 access arrangement proposal: Attachment 4.1: Our reference service and tariffs, June 2019, p. 19.

²⁴ JGN, 2020–25 access arrangement proposal: Attachment 4.1: Our reference service and tariffs, June 2019, pp. 6–18.

²⁵ NGR, Schedule 1, r. 62(5), modified r. 48(1)(3); NGR, r. 47A(15).

JGN's proposed reference service delivers gas each day to final customers for use in households or commercial enterprise. JGN is able to allocate costs to the reference service—the Overview to this draft decision summarises our assessment of JGN's proposed costs for its reference service.²⁶

There are no competing providers of these services to which customers would have access, and the ancillary services that JGN is proposing to provide are not substitutable for haulage.²⁷ We therefore also consider specifying the service as a reference service will support access negotiations and dispute resolution for any other similar services that may be sought from JGN.²⁸

For the 2020–25 period, JGN proposes largely the same haulage reference service as it currently provides. We have in the past approved these same services as reference services and there have been no changes to the market in recent years that would alter our view. Accordingly, we consider that there is substantial actual and forecast demand for these services.²⁹ We also consider the likely regulatory costs of continuing to specify these services in the reference service is small.³⁰

1.4.1.1 Boundary metering strategy

We consider JGN should continue to offer the individual hot water metering service to new high rises in its reference service in the 2020–25 access arrangement period. We therefore consider that JGN's reference service is not wholly appropriate having regard to the reference service factors.³¹

In particular, there still appears to be a large number of users and prospective users for this service in the high rise buildings market.³² In addition, there is still considerable concern regarding the extent of consumer protection offered to gas customers in embedded networks, which JGN's boundary metering strategy is intended to promote.

Hence, the benefits of keeping the option to install individual hot water metering may be material for a large part of the high rise buildings market.

On the other hand, we acknowledge there are merits to JGN's boundary metering strategy: for example, the potential capex savings as JGN would not be installing individual hot water meters in new high rises.³³ We also acknowledge the increasing take up rate of JGN's boundary metering option in the 2015–20 period.

²⁶ NGR, r. 47A(15)(c).

²⁷ NGR, r. 47A(15)(b).

²⁸ NGR, r. 47A(15)(d).

²⁹ NGR, r. 47A(15)(a).

³⁰ NGR, r. 47A(15)(e).

³¹ NGR, Schedule 1, Part 12, rr. 60 and 62(4)–(5), modified r. 48(1)(c); NGR, r. 47A(15).

³² We have also considered the other reference service factors – see further discussion in sections that follow.

³³ JGN estimated the boundary metering strategy would reduce capex by approximately \$6 million per year (JGN, *2020 Plan*, June 2019, p. 41). Attachment 5 includes our assessment of this capex saving.

JGN's broader strategy to keep gas competitive

Further, we understand the boundary metering strategy is one aspect of JGN's broader strategy to keep gas competitive to energy users more broadly.

The boundary metering strategy is intended to incentivise developers to install a gas supply in high rise buildings, and not opt for an electricity solution only. As mentioned above, JGN's boundary metering strategy potentially results in capex savings. Further, JGN proposes to provide lower than average increases—or higher than average decreases—to its boundary tariffs in the 2020–25 period.³⁴

By attracting new multi-dwelling sites to install gas, JGN would increase the customer base across which it could share costs for the reference service (all else being equal). This, in turn, would put downward pressure on JGN's reference service prices.³⁵

We consider JGN's broad strategy of keeping gas attractive and affordable to high rise building developers (and energy users more generally) is reasonable.

Note for our upcoming final decision

In arriving at this draft decision, we acknowledge the competing costs and benefits of JGN's boundary metering strategy. Based on available information, we are not convinced the benefits of the boundary metering strategy outweigh the costs—particularly having regard to the reference service factors. The sections below detail our assessment against these factors.

However, we are open to reconsidering our position on JGN's boundary metering strategy in our upcoming final decision. As we detail in the following sub-sections, we seek further information from JGN and other stakeholders to better ascertain the costs and benefits of JGN's boundary metering strategy, including:

- the likely level of demand for individual hot water metering from JGN in the high rise buildings market in the 2020–25 period
- consumer protections available to customers in embedded networks
- the implication of the potential capex savings from the boundary metering strategy on customer bills.

Demand for individual hot water metering

The first of the reference service factors states we must have regard to 'actual and forecast demand for the pipeline service and the number of prospective users of the

³⁴ JGN, *2020–25 access arrangement proposal: Attachment 4.1: Our reference service and tariffs*, June 2019, p. 40.

³⁵ JGN, *2020 Plan*, June 2019, pp. 33 and 41.

service.³⁶ In its final determination, the Australian Energy Market Commission (AEMC) stated:³⁷

“The COAG Energy Council's proposed amendments to the NGR reflect the Commission's recommendations on this issue. Specifically, to require the regulator to have regard to the following factors in order to determine reference services:

- Actual and forecast demand for the service and the number of prospective users: Services with historical or forecast high demand are likely to be useful to a larger number of users and prospective users. Consequently, the benefits of making such services reference services are likely to be relatively high. Conversely, for rarely demanded services, the cost of an ex ante determination of the reference service and reference tariff and non-tariff terms and conditions may be relatively high. Should a user or prospective user and service provider be unable to negotiate access for such a service, the tariff and non-tariff terms and conditions for the service would be determined at that time through arbitration. As a result, direct regulatory costs are only incurred in the less likely event of the service being brought to arbitration.
- ...”

JGN states it expects embedded networks to provide gas services, including gas-heated hot water, to around 106,000 individual apartments by 2025 under its boundary metering proposal.³⁸ In the absence of its boundary metering strategy, JGN forecasts 67,000 individual apartments would still come under a boundary metering arrangement. Hence, JGN forecasts 39,000 individual apartments would be under an individual hot water metering arrangement in the absence of its boundary metering strategy.³⁹

Accordingly, it would appear that JGN expects a significant part of the new high rise buildings market (approximately 37 per cent) would still demand individual hot water metering by 2025 in the absence of JGN's boundary metering strategy.

This does not imply that we agree with JGN's forecasts of the number of potential dwellings that would come under individual hot water metering. Our analysis indicates an additional 10,000 customers (9 per cent) is also plausible for the number of customers that would come under individual hot water metering (see Attachment 5). We consider this is still a material number of customers that could come under

³⁶ NGR, r. 47A(15)(a).

³⁷ AEMC, *Rule determination: National gas amendment (regulation of covered pipelines) rule 2019*, 14 March 2019, p. 35.

³⁸ JGN, *2020 Plan*, June 2019, p. 40.

³⁹ JGN, *Response to AER information request IR034: Reference services - Boundary metering further questions*, 12 September 2019, p. 3.

individual hot water metering. Further, the prospective take up rate of the individual hot water metering service is potentially higher than these figures.⁴⁰

JGN also states that the number of high rise buildings opting for individual hot water metering would ‘naturally decline to near-zero’.⁴¹ However, we did not receive evidence this would be the case. It is plausible that the annual take up rate of individual hot water metering from JGN could plateau at a lower (but still significant) level in upcoming access arrangement periods.

We therefore would like JGN to describe in its upcoming revised proposal the prospective take up rate of the individual hot water metering service in the absence of its boundary metering strategy, including the methods JGN has used to derive its forecast.

The discussion above suggests the individual hot water metering service could still provide benefits to a significant part of the new high rise buildings market, including greater certainty with regard to:

- the costs of individual hot water meters and associated services (such as meter reading)
- attributing and charging for each individual dwelling’s gas usage
- consumer protection for gas usage (which we discuss next).

Facilitating embedded networks and consumer protection

As noted in section 1.2.1, JGN considers its boundary metering strategy would facilitate gas embedded networks, who it believes are better placed to improve customer experience in new high rise buildings.⁴² However, there is concern such apparent improvements to customer experience may be offset by a reduction in customer protection. Where JGN does not own and operate the meter, there are concerns such customers would not fall under the protection of the National Energy Customer Framework (NECF).⁴³

Submissions from the Public Information Advocacy Centre (PIAC), Energy Consumers Australia (ECA), our Consumer Challenge Panel (CCP19) and Origin generally supported JGN’s boundary metering strategy, especially with respect to the potential

⁴⁰ For example, JGN’s 106,000 and 66,000 figures appeared to include numbers from the 2017–18 to the 2024–25 regulatory years. On the other hand, the 39,000 figure appears to include numbers from the 2018–19 to the 2024–25 regulatory years.

⁴¹ JGN, *Response to AER information request IR005: Capex: Various - Volume Boundary Metering*, 14 August 2019, p. 4.

⁴² JGN, *2020 Plan*, June 2019, pp. 40–41; JGN, *2020–25 access arrangement proposal: Attachment 4.1: Our reference service and tariffs*, June 2019, pp. 24 and 40.

⁴³ Energy and Water Ombudsman NSW, *Factsheet: Common hot water*, accessed September 2019 (<https://www.ewon.com.au/content/Document/Resources%20for%20customers/EWON-Factsheet-Common-hot-water.pdf>).

capex savings (approximately \$6 million per annum).⁴⁴ However, these submissions remained wary of reductions to consumer protection, particularly for customers of embedded networks.⁴⁵

EnergyAustralia did not support JGN's boundary metering strategy because it could potentially lead to consumer detriment. EnergyAustralia pointed to an AEMC report that considered customers in embedded gas networks in NSW have little recourse to protection.⁴⁶

We note stakeholders raised these concerns regarding consumer protection during JGN's consultation process, prior to submitting its access arrangement proposal.⁴⁷ As evident from the submissions above, consumer protection for customers of embedded networks is still an ongoing concern.

Capex savings from the boundary metering strategy

Following from the discussion in the previous section, the ECA suggested further analysis is required that would assess:

- whether the capex savings is less than the costs to be passed on by embedded networks
- what impact the reduction in choice for affected residents will have on the overall cost of gas.⁴⁸

It is unclear whether the potential capex savings from the boundary metering strategy would result in better pricing outcomes for consumers, particularly customers of embedded networks. The AEMC recently noted there is anecdotal evidence that electricity embedded networks may not be passing on lower costs to its customers—we understand these concerns could also apply to gas embedded networks.⁴⁹ We also understand some jurisdictions are concerned enough regarding these adverse pricing outcomes so as to consider limiting the facilitation of embedded networks.⁵⁰

⁴⁴ See Attachment 5 for our assessment of these capex savings.

⁴⁵ PIAC, *Submission to Jemena Gas Networks' 2020 plan*, August 2019, p. 5; CCP19, *Submission to the AER on JGN's Regulatory Proposal*, August 2019, pp. 15–16; ECA, *Jemena Gas Networks (NSW) access arrangement 2020–25 proposal: Submission to the AER*, August 2019, pp. 16–17; Origin, *Submission: Jemena Gas Networks (NSW) access arrangement proposal 2020–25*, August 2019, pp. 1 and 3.

⁴⁶ EnergyAustralia, *Submission: Jemena Gas Networks (NSW) - Access arrangement 2020–25*, August 2019, pp. 4–5.

⁴⁷ JGN, *2020 Plan*, June 2019, pp. 40–43; JGN, *2020–25 access arrangement proposal: Attachment 4.1: Our reference service and tariffs*, June 2019, pp. 8–9.

⁴⁸ ECA, *Jemena Gas Networks (NSW) access arrangement 2020–25 proposal: Submission to the AER: Attachment*, August 2019 p. 31.

⁴⁹ AEMC, *Final report: Updating the regulatory frameworks for embedded networks*, June 2019, p. iv. Chapter 11 of this report discussed gas-specific issues, such as the lack of clarity regarding the applicable regulatory frameworks for gas embedded networks.

⁵⁰ We understand the Victorian Government recently committed to banning embedded networks in new residential apartment blocks because they 'often lock in high costs for consumers' (see

JGN acknowledged it cannot definitively state whether the capex savings from its boundary metering strategy would result in savings to retail bills. However, JGN stated ‘there are a number of [embedded networks] in the market offering competitive tariffs’.⁵¹

We note that embedded networks can (and do) install individual hot water meters in high rise buildings. In that case, it would appear the potential capex savings from JGN may be passed on to another party.⁵² Further, we understand embedded networks may charge for the amount of water used—with the gas usage charge implicit in the water charge. There are concerns such customers would not fall under the protection of the NECF.⁵³

There would be capex savings if an embedded network does not install individual hot water meters in a new high rise building. However, residents in the building would not be billed on actual gas usage, but rather on an estimated or averaged basis, which ultimately may not promote the NGO.⁵⁴ This is because the estimated/averaged charges would likely not signal the costs of using the gas network to individual residents.

Given these competing considerations, we would like further evidence that the benefits of the boundary metering strategy (and its intention to promote embedded networks) outweigh the costs.

Other reference service factors

As well as considering demand for an individual hot water metering service, we have also had regard to the other reference service factors as follows.

*The extent to which the pipeline service is substitutable with another pipeline service to be specified as a reference service*⁵⁵

We consider boundary metering as proposed by JGN is not a substitute for an individual metering service (in this case, a hot water meter). Similarly, a haulage service is not a substitute for an individual metering service. This is because these other services do not enable metering of an individual customer’s gas usage.

<https://www.energy.vic.gov.au/victoriandefaultoffer> – accessed 1 October 2019). While this applies to electricity, we consider the issue could potentially extend to gas embedded networks.

⁵¹ JGN, *Response to AER information request IR005: Capex: Various - Volume Boundary Metering*, 14 August 2019, p. 3.

⁵² It is unclear whether the costs of installing individual hot water meters are lower for embedded networks compared to JGN.

⁵³ Energy and Water Ombudsman NSW, Factsheet: Common hot water, accessed September 2019 (<https://www.ewon.com.au/content/Document/Resources%20for%20customers/EWON-Factsheet-Common-hot-water.pdf>).

⁵⁴ NGL, cl. 23.

⁵⁵ NGR, r. 47A(15)(2).

The feasibility of allocating costs to the pipeline service⁵⁶

JGN is able to allocate the costs of an individual hot water metering service. This is evidenced by the potential capex savings identified from its boundary metering strategy.

The usefulness of specifying the pipeline service as a reference service in supporting access negotiations and dispute resolution for other pipeline services⁵⁷

Specifying the individual metering service would support access negotiations and dispute resolution for other pipeline services that may also include the supply of the individual metering service.

The likely regulatory cost for all parties (including the AER, users, prospective users and the service provider) in specifying the pipeline service as a reference service⁵⁸

We consider the incremental regulatory costs of including individual hot water metering in the reference service are likely to be small. JGN offers individual hot water metering to high rise buildings in the current 2015–20 period.

Further, JGN has stated that it will still provide individual hot water metering and associated services to existing high rise buildings (to which JGN previously provided individual hot water meters) in the 2020–25 period. This means that it is unlikely to incur significant additional regulatory cost in continuing to supply these services to new high rise buildings.

1.4.2 Ancillary services

We consider JGN's proposed ancillary services are appropriate having regard to the reference service factors:⁵⁹

- hourly charge—non-standard user initiated requests and queries
- disconnection (and reconnection)—Volume customer delivery points
- abolishment
- special meter reads
- expedited reconnection.

⁵⁶ NGR, r. 47A(15)(3).

⁵⁷ NGR, r. 47A(15)(4).

⁵⁸ NGR, r. 47A(15)(5).

⁵⁹ NGR, Schedule 1, r. 62(5), modified r. 48(1)(3); NGR, r. 47A(15).

As we discuss in section 1.4.2.3, we require JGN to more clearly outline the processes and parameters for applying its wasted visit charge for several of its ancillary services. That aside, we are supportive of JGN's ancillary services proposal.

Like haulage discussed earlier, these are largely long standing services for which there continues to be significant actual and forecast demand, and which are provided to customers on a user pays basis.⁶⁰ That is, customers only pay for these services in the event they are required.

The costs for these services are therefore directly attributed to the requesting customer.⁶¹ For instance, a customer via their retailer may request that they have a special meter reading in order to confirm a prior estimated reading, or to resolve a dispute about gas consumption. Only that customer will pay for this service, rather than the cost of it being spread across all of JGN's customers, most of whom will not require this service.

We consider the proposed ancillary services in the reference service do not overlap, and are not substitutable, with haulage.⁶²

As we outlined in section 1.2.2, the proposed ancillary services in the reference service are substantively similar to those JGN offered in the 2015–20 period with some small modifications. Hence, we consider the likely regulatory costs of specifying these services in the reference service is small.⁶³

JGN proposed one additional ancillary service, being 'Expedited reconnections', for inclusion in the reference service. We accept this new inclusion in the reference service (see section 1.4.2.2 for further discussion).

The sections below discuss particular aspects of JGN's proposed ancillary services specified in the reference service, including stakeholder submissions.

1.4.2.1 Disconnections/reconnections

As we discussed in Attachment 9, we consider JGN's proposal to apply separate charges to volume and demand customers is reasonable.

JGN proposed to individually calculate the price for the 'Disconnection/reconnection' service for demand customers, which we consider is reasonable. Such works are much rarer for demand customers than volume customers and have more highly variable costs which depend on factors such as retailer or site requirements, meter size and the type of main connection.⁶⁴

⁶⁰ NGR, r. 47A(15)(a).

⁶¹ NGR, r. 47A(15)(c).

⁶² NGR, r. 47A(15)(b).

⁶³ NGR, r. 47A(15)(e).

⁶⁴ JGN, *Response to AER information request IR040: Ancillary reference services*, 30 September 2019, p. 1.

We did not receive any submissions regarding this modification to the ‘Disconnection/reconnection’ fees.

We also consider JGN’s proposal to maintain the combined ‘Disconnection/reconnection’ fee for volume customers is reasonable.

AGL submitted it does not agree with a combined disconnection and reconnection fee. AGL considers these should be separated to apply the ‘causer pays’ principle as customers who disconnect may churn to a different retailer.⁶⁵

JGN stated it was not aware of any material cross subsidy associated with the combined disconnection and reconnection charge. For example, evidence of the proportion of temporary disconnections end up churning before requiring reconnection.⁶⁶

We agree with JGN that no evidence has been presented of material cross subsidies occurring as a result of retailer churn. We invite concerned stakeholders to submit such evidence to inform our final decision.

While we agree with applying the ‘causer pays’ principle when possible, we must consider the relative costs and benefits of unbundling the disconnection/reconnection service. For example, JGN noted some retailers voiced concerns with the process and IT costs associated with unbundling the ‘Disconnection/reconnection’ service.⁶⁷ Meanwhile, JGN stated maintaining the bundled charge produces benefits by:⁶⁸

- reducing financial barriers to customers reconnecting to the gas network. This supports increased utilisation and increasing JGN’s customer base to share its fixed costs, ultimately putting downward pressure on network prices
- supporting vulnerable customers by providing an incentive for retailers to exhaust all debt management options prior to seeking a disconnection.

On balance, we agree with the ECA, who considers no case has been made to unbundle the disconnection and reconnection charge.⁶⁹

⁶⁵ AGL, *Submission: Jemena Gas Networks (NSW) access arrangement 2020–25*, August 2019, p. 7.

⁶⁶ JGN, *Response to AER information request IR040: Ancillary reference services*, 30 September 2019, p. 2.

⁶⁷ JGN, *2020–25 access arrangement proposal: Attachment 4.1: Our reference service and tariffs*, June 2019, p. 14.

⁶⁸ JGN, *Response to AER information request IR040: Ancillary reference services*, 30 September 2019, p. 2; JGN, *2020–25 access arrangement proposal: Attachment 4.1: Our reference service and tariffs*, June 2019, p. 14.

⁶⁹ ECA, *Submission on JGN 2020–25 access arrangement proposal: Attachment*, August 2019, p. 30.

1.4.2.2 Expedited reconnection

We consider the addition of ‘Expedited reconnection’ as an ancillary service is reasonable.

JGN states its service standards for reconnections are as follows:⁷⁰

- For reconnections requested within 10 business days of the disconnection, JGN will schedule the reconnection within 5 business days of the date the service order is received, unless the Customer Preferred Date provided by the Retailer is later.
- For reconnections requested more than 10 business days after the disconnection, JGN will use reasonable endeavours to schedule the reconnection within 5 business days of the date the service order is received, unless the Customer Preferred Date is later. Where the site has been removed from the Retailer’s customer list, the Retailer must (if requested by JGN) submit an application for a new connection.

We consider this ‘Expedited reconnection’ service is reasonable as it provides a disconnected customer the choice to reconnect in more urgent timeframes than described above. We are also satisfied JGN’s bottom-up method of determining the ‘Expedited reconnection’ fee is in addition to those already paid by the customer as part of the reconnection element of the ‘Disconnection/reconnection’ service.⁷¹

We did not receive any submissions regarding the new ‘Expedited reconnection’ service.

1.4.2.3 Wasted visit charge

JGN proposed a wasted visit charge for customers who request either the ‘Disconnections/Reconnections’ and ‘Special meter reads’ services, but do not provide safe access for JGN to complete the works. As we discuss below, we consider JGN’s proposal to charge customers for wasted visits is reasonable. However, we require JGN to more clearly outline the processes and parameters for applying the charge.

The ECA requested more detail on whether (and to what extent) there is to be a corresponding decrease in other ancillary charges now that this is a new standalone wasted visit charge.⁷²

We consider JGN’s proposal to charge for wasted visits is fair, transparent and cost reflective as JGN no longer incorporates the costs of wasted visits into the charge for completed works.⁷³

⁷⁰ JGN, *Response to AER information request IR040: Ancillary reference services*, 30 September 2019, p. 3.

⁷¹ JGN, *Response to AER information request IR040: Ancillary reference services*, 30 September 2019, p. 3; JGN, *Response to AER information request IR040: Attachment 1—Ancillary Services cost build Wasted visits and expedited reconnections*, 30 September 2019 (CONFIDENTIAL); JGN, *2020–25 access arrangement proposal: Attachment 4.1: Our reference service and tariffs*, June 2019, p. 15.

⁷² ECA, *Submission on JGN 2020–25 access arrangement proposal: Attachment*, August 2019, p. 30.

For the 'Disconnection/Reconnection' service, JGN is proposing a charge of \$182 per meter disconnection in 2020–21. This is higher than the \$150 per meter set charge for 2019–20 (acknowledging the latter occurred under the special circumstances of the remittal).⁷⁴

JGN states the \$150 per meter set charge for 2019–20 is the same charge that had been in place since 2015–16 (due to the appeals and remittal process). The increase in the fee for 2020–21 is primarily due to the labour cost increases over the previous five regulatory years that were not reflected in the 2019–20 fee. In addition, JGN would allocate a greater proportion of overheads to these fees due to its proposed change in the treatment of overheads in the 2020–25 period.⁷⁵

JGN also notes that a downward price pressure does not necessarily equate to a downward price movement. JGN states the fee for the 'Disconnection/Reconnection' service could be higher than \$182 per meter disconnection if there is no wasted visit charge.⁷⁶

By comparison, JGN's proposed charge for 'Special meter reads' of \$11.30 per meter read in 2020–21 is lower than the fee of \$14.80 per meter read in 2019–20.⁷⁷ JGN states separating out the wasted visit charge contributes to the decrease in the 'Special meter reads' charge. However, the principal driver of the price reduction is the increase in the number of meter data logger special meter read requests, which are less likely to require a site visit.⁷⁸

AGL stated it had no concern with the wasted visit charge but expected JGN would have a transparent process in place such as for appointment arrangements and cancellation periods.⁷⁹

JGN subsequently agreed with AGL's submission and stated it will include a transparent process in the access arrangement or the reference service agreement in its revised proposal. JGN stated it will offer 'Disconnections/Reconnections' and 'Special meter reads' on business days for AM and PM appointments.⁸⁰ JGN stated

⁷³ JGN, *2020–25 access arrangement proposal: Attachment 4.1: Our reference service and tariffs*, June 2019, p. 14.

⁷⁴ JGN, *Access arrangement: JGN's NSW gas distribution network 1 July 2020 – 30 June 2025*, June 2019, p. 51; JGN, *Access arrangement: JGN's NSW gas distribution networks: 1 July 2015 – 30 June 2020: [June 2015]: (Incorporating revisions required by AER Remade Decision 28 February 2019)*, February 2019, p. 56.

⁷⁵ JGN, *Response to AER information request IR040: Ancillary reference services*, 30 September 2019, p. 4.

⁷⁶ JGN, *Response to AER information request IR040: Ancillary reference services*, 30 September 2019, p. 4.

⁷⁷ JGN, *Access arrangement: JGN's NSW gas distribution network 1 July 2020 – 30 June 2025*, June 2019, p. 51; JGN, *Access arrangement: JGN's NSW gas distribution networks: 1 July 2015 – 30 June 2020: [June 2015]: (Incorporating revisions required by AER Remade Decision 28 February 2019)*, February 2019, p. 57.

⁷⁸ JGN calculates the charge using the average costs of special meter reads that require site visits and those that do not. JGN, *Response to AER information request IR040: Ancillary reference services*, 30 September 2019, p. 4; JGN, *2020–25 access arrangement proposal: Attachment 4.1: Our reference service and tariffs*, June 2019, pp. 28–29.

⁷⁹ AGL, *Submission: Jemena Gas Networks (NSW) access arrangement 2020–25*, 13 August 2019, p. 7.

⁸⁰ AM appointments will take place between 8AM and 11.59AM; PM appointments will take place between 12PM and 5PM.

cancellations must be made 24 hours prior to the appointment time, otherwise a wasted visit charge will apply.⁸¹ Specifically, the wasted visit charge will apply where a JGN representative attended the site but was unable to undertake the activity due to hindered access to the site, including:⁸²

- gate locked
- key required
- locked and no answer
- meter obstructed
- savage dog
- unsafe access
- shop closed
- no access—internal meter
- customer refusal.

We agree JGN should include this information regarding the wasted visit charge in the access arrangement or reference service agreement. We also consider JGN should include further information to increase clarity and transparency regarding the application of the wasted visit charge, including:

- arrival outside of the AM or PM appointment time—JGN states its ability to adhere to AM/PM appointments will depend on the extent of notice provided by the customer, amongst other factors.⁸³ JGN should make clear that the wasted visit charge will not apply where the JGN representative arrives outside of the AM/PM appointment (and is not able to undertake the activity due to hindered access to the site)
- communication protocols—JGN should detail when it would apply the wasted visit charge having regard to its communication protocols. For example, is a customer able to request a call from the JGN representative prior to arrival?⁸⁴ If so, what are the parameters for such a request? JGN should then make clear that the wasted visit charge will not apply where the JGN representative does not call the customer prior to arrival (and is subsequently not able to undertake the activity due to hindered access to the site).

⁸¹ In their response to an information request, JGN stated a 'wasted truck visit charge' will apply if a cancellation is not made 24 hours prior to the appointment time (JGN, *Response to AER information request IR040: Ancillary reference services*, 30 September 2019, p. 5). The inclusion of 'truck' appears to be a typing error.

⁸² JGN, *Response to AER information request IR040: Ancillary reference services*, 30 September 2019, p. 5.

⁸³ JGN, *Access arrangement: JGN's NSW gas distribution network 1 July 2020 – 30 June 2025*, June 2019, p. 52.

⁸⁴ For example, a residential customer may request a call to unlock a gate or restrain a dog prior to allowing the JGN representative access to complete the requested work.

1.4.3 Non reference services

JGN's non-reference services, as set out in its 2020–25 access arrangement proposal, are substantively similar to the non-reference services for the 2015–20 period.⁸⁵

For non-reference pipeline services or negotiated services, we are not required to set tariffs for these or the terms or conditions on which they will be provided.

1.5 Revisions

We require the following revisions to make the access arrangement proposal acceptable:

Table 1.2 JGN's reference services revisions

Revision	Amendment
Revision 1.1	Amend the proposed access arrangement to provide developers of new high rise buildings the option to individually meter the energy consumption of customers (including through metering the consumption of hot water supplied through a centralised residential gas hot water system).
Revision 1.2	Amend the proposed access arrangement or the proposed reference services agreement to more clearly outline the processes and parameters for applying the 'Wasted visit charge'.

⁸⁵ JGN, *Access arrangement: JGN's NSW gas distribution network: 1 July 2020 – 30 June 2025*, June 2019, p. 3; JGN, *Access arrangement: JGN's NSW gas distribution networks: 1 July 2015 – 30 June 2020: [June 2015]: (Incorporating revisions required by AER Remade Decision 28 February 2019)*, February 2019, p. 4.