Consumer
Challenge
Panel

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Jemena Gas Networks (JGN) 2015-20 Access Arrangement remittal proposal

On 31st October 2018, JGN wrote to Paula Conboy, with a proposal to finalise the 2015-20 Access Arrangement that was remitted back to the AER for reconsideration of two main issues. The two remitted issues were Market Expansion (ME) capex, remitted by the Australian Competition Tribunal in February 2016 and the cost of debt which was remitted by the Federal Court in July 2017. A third issue has arisen as a result of the delays in finalising the revenue allowance being the collection of revenue from consumers pursuant to a series of 'placeholder' revenues being agreed, while the other matters were resolved.

The proposal from JGN in summary form is:

1. transition to the trailing average cost of debt methodology for 2015-20,
2. an additional $21 million (real) for ME capex is allowed, above the original 2015 Access Arrangement decision,
3. an update to the tariff variation mechanism for the pass through that is not yet given effect and
4. a reduction in revenue of $169 million for the total 2015-20 Access Arrangement period.

The transition to a trailing average debt methodology effectively resolves the dispute regarding cost of debt issues.

An allowance of an additional $21 million (real) for market expansion for the 2015-20 period resolves the dispute regarding ME capex.

An acceptance of a reduced revenue of $169 million for 2015-20 from what has been collected resolves the placeholder issue, though we provide some comments about how this can be implemented in the following paragraphs.

Summary response

The proposal from JGN to resolve the three issues arising from remitted decisions is considered to be reasonable by CCP10 and acceptance of the proposal would be in the long-term interests of consumers.

Engagement

JGN has engaged actively with CCP10 in seeking to finalise the remitted decisions.

We note that the JGN remitted decision was one of five regulatory proposals / access arrangements that were remitted back to the AER and that CCP10 has been active in seeking to resolve each of these remitted decisions. The other four businesses involved have been Evoenergy, Ausgrid, Endeavour Energy and Essential Energy.

The remittal resolution process was commenced in August 2017 when the AER held a Roundtable of network businesses, consumer groups and CCP10, where the AER called for collaboration between all parties. JGN was not a part of this discussion because the main focus was on electricity businesses. However, we observe that the spirit of collaboration that was encouraged at that meeting has been actively picked up by JGN, who we regard as having been proactive in seeking to resolve the remitted decisions and engaging actively with consumer groups. We are aware that along with CCP10, JGN has also maintained regular contact and communication with PIAC, ECA and St Vincent Paul Society as prominent consumer voices.

While engagement with CCP10 has been regular through email and telephone conversations, particularly once the pace of the process picked up from midyear, there has been a series of more formal processes of engagement that we summarise in the table below.

Consultations with JGN and CCP10	**Dates**
AER hosted a roundtable meeting to consider ME capex – CCP10 participated with JGN and AER	18th January 2018
CCP10 responds to AER "Debt paper"	23rd February 2018
JGN briefing of CCP10, and other consumer Groups	8th August 2018
Draft proposal forwarded to CCP10 by JGN and discussed by email and phone	19th September 2018
Teleconference – JGN and CCP10	4th October 2018

The ongoing engagement and discussion has been very constructive throughout the process, a further reason for CCP10 being confident in our support of this proposal.

Debt

There has been a separate process being undertaken with regard to cost of debt issues as this matter was remitted back to the AER for the four electricity distribution businesses as well as JGN. CCP10 said in our submission to that process in February 2018:

> "*CCP10 supports the AER proposal to adopt the trailing average with a transition as it is:*
> 1. *consistent with the NEO and ARORO,*
> 2. *consistent with efficient debt costs and efficient pricing and*
> 3. *avoids the creation of windfall losses or gains for either the NSP or the consumers*."

This perspective has been consistent throughout the remittal processes and has been supported by AER in recent draft and final decisions relating to remitted decisions. JGN's proposal is consistent with the recent cost of debt decisions.

Cross period revenue smoothing

In their proposal, JGN says:

> "*As these remitted matters are being resolved in year four of our five-year regulatory period, there is only one year remaining in which to make the resulting revenue adjustment. This would lead to undesirable price volatility for our customers (through an X factor that provides a significant price drop at the end of the current period, but followed by significant price increase in the subsequent period to return JGN to revenue amounts close to cost of service.)*"

They also state that they have sought a rule change to secure a mechanism to allow for smoothing of revenues across the 2015-20 and 2020-25 Access Arrangement periods.

We consider this approach to be eminently sensible and support the proposal for cross period revenue smoothing so that bill impacts for customers are as consistent as possible over an extended period of time.

Long-term interests of consumers

CCP10 believes that the JGN proposal is in the long-term interests of their customers. The proposal involves JGN increasing their ME capex by a modest $21 million and returning $169 million of consumer's money, consumers will benefit from:

- the certainty provided by the resolution of the proposed price path, with cross period smoothing;
- the removal of the risk for consumers from the re-opening of the contentious issues from the Federal Court decision, particularly in regard to debt costs;
- the return of $169 million to consumers over the regulatory periods to 2025;
- ongoing focus on consumer engagement, building on relationships that we observe have been strengthened by the discussions and transparency associated with developing this proposal; and
- a further demonstrable example of "AER 2.0" being effectively applied.

It is our opinion that the benefits of this proposal significantly outweigh the costs (including ME capex increase), in aggregate, for consumers from this proposal.

Final comment

CCP10 commends JGN for taking this opportunity to resolve the 2015-20 Access Arrangement. Consumers were not well served by the regulatory impasse between the AER and the NSW/ACT businesses around the 2014-19 determinations and the 2015-20 Access Arrangement.

We also commend the consumer groups on their willingness to engage with JGN for this remittal process and the ‘good faith’ that they have demonstrated, and which has been responded to very constructively by JGN.

Confidential material

CCP10 confirms that to the best of our knowledge, this statement does not contain any confidential material nor reference to confidential material.

Mark Henley, Mike Swanston and Louise Benjamin

CCP10