



**ENERGY
CONSUMERS
AUSTRALIA**

A Suite 2, Level 14, 1 Castlereagh Street
Sydney NSW 2000

T 02 9220 5500

W energyconsumersaustralia.com.au

T @energyvoiceau

in /energyconsumersaustralia

f /energyconsumersaustralia

ABN 96 603 931 326

31 October 2018

Mr Shaun Reardon
Executive General Manager, Customer and Markets
Jemena Gas Networks
PO Box 1220
NORTH SYDNEY NSW 2059

Copy to: Usman Saadat (by email at Usman.Saadat@jemena.com.au)

Proposal for the remittal of Jemena Gas Networks' 2014-19 Determination

Dear Mr Reardon,

I write to express Energy Consumers Australia's support for the proposal for the remittal of Jemena Gas Networks' (JGN) 2015 -19 determination (the Proposal). This support is based on Jemena's proposed correspondence from you to Paula Conboy, Chair of the Australian Energy Regulator (AER).

In forming our view of the Proposal, we have considered whether, as a package, the Proposal is in the long-term interests of consumers served. We understand that you have also consulted with the Public Interest Advocacy Centre (PIAC); the St Vincent de Paul Society; JGN's Customer Council; Consumer Challenge Panel 10; and the AER.

Our understanding is that JGN will propose to the AER:

1. That it adopts the 2015 Final Determination, including the application of a transition to the trailing average cost of debt for 2015-20 (consistent with JGN's acceptance of the same methodology as part of the 2018 Rate of Return Guideline review process)
2. An additional allowance of \$21 million for market expansion capital expenditure
3. Returning \$169 million (\$2020) in revenue to consumers. This reflects the revenue amount that would have been recovered by JGN had a remade decision been in place during that period, as forecast by JGN. We understand that:
 - the over-recovery of revenue resulted from the enforceable undertakings that JGN entered into with the AER as an interim arrangement while the 2015 Access Arrangement was being finalised;
 - the AER will determine the method for returning the over-recovered amount to consumers. This is in line with a decision by the Australian Energy Market Commission (AEMC) to make a new, time-limited rule to allow the AER to ensure that the revenue is distributed smoothly over several years instead of in one lump sum. If the revenue was redistributed in one lump sum, this would see a fall in prices at the end of the current period with a large spike in prices the next year. We are pleased that JGN, the AER, the AEMC and consumer groups developed a solution to mitigate the risk of bill shock at the beginning of the next Access Arrangement period; and
 - the proposed \$169 million is \$9 million less than the AER's forecast revenue adjustment of \$178 million. JGN believes that its forecast (\$169 million) is more consistent with the weighted average price cap and is within an acceptable range to ensure an expedited resolution to the remittal. We believe that the proposed



\$169 million is capable of acceptance as on balance, the benefit outweighs further uncertainty for consumers from a protracted remittal process.

In our view, on balance, the benefits of the Proposal outweigh the costs and are in the long-term interests of consumers.

We understand that consumers will benefit from:

- the resolution of the proposed price path, with JGN agreeing not to re-open the issues arising from the Federal Court decision;
- the significant reduction in market expansion capital expenditure being sought by JGN (which was originally proposed to be \$114 million over and above the AER's original decision); and
- no real price increases over the 2019-24 period because of this proposal, and the work undertaken to smooth prices for consumers.

In supporting this Proposal, we encourage JGN to continue to seek efficiencies that will put downward pressure on gas prices, in the interests of consumers.

Separate to the proposal, we understand that the AER is reviewing how costs for the 2015-20 period are to be recovered from consumers via the "tariff variation mechanism". We would encourage the AER to work with JGN to deliver a smooth price outcome for consumers. We would be happy to engage with both JGN and the AER on this matter further.

If you would like to discuss this submission further, please contact Chris Alexander, Director Advocacy and Communications on (02) 9220 5506 or by email at chris.alexander@energyconsumersaustralia.com.au.

Yours sincerely,

Rosemary Sinclair AM
CEO
Energy Consumers Australia