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1 April 2010

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Mr Mike Buckley  
General Manager, Network North Branch  
Australian Energy Regulator  
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**JGN access arrangement revision proposal: Amcor submission (not dated)**  
**[Public letter – confidential attachment]**

Dear Mike

Thank you for providing Amcor's submission to Jemena Gas Networks (NSW) Ltd's (**JGN**) proposed revisions to its access arrangement on 12 March 2010. In this letter, JGN provides its response to the specific issues raised by Amcor in relation to our method of rolling in the Newcastle to Sydney trunk and our initial year price adjustment (**P<sub>0</sub>**). JGN appreciates the opportunity that both Amcor and the AER have provided for JGN to do so.

JGN notes that the attachment to this letter contains information that is confidential to the relevant retailer that supplies Amcor. JGN therefore requests that the AER treat the information in the attachment as confidential. JGN has obtained the consent of the relevant retailer to allow JGN to provide a copy of the confidential attachment to the AER and Amcor only.

*Method of trunk roll-in*

Amcor believes that, by rolling in the trunk charge for demand customers, JGN is seeking to cross-subsidise gas users in Newcastle and protect JGN's revenues in the event of Queensland gas connection.

This is not the case. The rolling in of the trunk and the postage stamping of prices for demand customers is required in order to implement pricing arrangements that:

- *will best facilitate the STTM and associated wholesale gas price benefits* – JGN's proposal provides an even playing field for different sources of gas and transmission connection points into the STTM. This can be expected to better support efficient wholesale gas prices in the future.<sup>1</sup>

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<sup>1</sup> JGN, Clarifications following the round-table discussion of Jemena's access arrangement proposal (2010-2015) tariffs and tariff structures, 22 December 2009.

- *comply with the pricing provisions of rule 94 for distribution pipelines* – JGN’s network is not a transmission pipeline. JGN has comprehensively demonstrated its compliance with the provisions of rule 94 of the national gas rules (**NGR**) in relation to pricing between standalone and avoidable cost and having regard to a quantified level of long-run margin cost.<sup>2</sup>

The NGR are designed to enable JGN to earn the same allowed revenues in any price structuring scenario. JGN has proposed the pricing structure that it considers best meets the national gas objective (**NGO**). JGN developed its proposal having regard to both network and non-network elements of the gas supply chain as required by the NGO and the desire to minimise the possibility of future network price adjustments.<sup>3</sup>

*Extent of initial year price adjustment or  $P_0$*

JGN notes Amcor’s concern about the extent of price increases in the transition to JGN’s next AA period. JGN also notes that these increases arise from two distinct factors that warrant separate consideration:

1. *increased cost of service* – The price adjustment is mostly attributable to increases in JGN’s building block cost of service, which in turns reflects JGN’s forecast of its efficient costs.
2. *price restructuring* – The price adjustment is partly attributable to JGN’s trunk roll-in to facilitate the STTM and the National Competition Council’s decision to reclassify JGN’s trunk pipeline as a distribution pipeline.

The  $P_0$  attributable to JGN’s increased cost of service (i.e. 30.08% in the revised AA proposal) is not an outcome of JGN’s proposed pricing structure.

Prices at Amcor connection points adjusted for the  $P_0$  are set out in the confidential Attachment 1.

Regarding the residual price adjustment, JGN notes that its revised AA revision proposal introduces a new major end-customer throughput tariff class for each of the five Sydney demand customer locations. This recognises that the ability for certain large Sydney users to respond to the new price signals - rule 94 (4)(b)(ii) – may be constrained in the short term and therefore proposes to cap the charge to these users.

If you have any questions regarding this letter please contact me on (02) 9270 4512 or [sandra.gamble@jemena.com.au](mailto:sandra.gamble@jemena.com.au).

Yours sincerely



**Sandra Gamble**  
Group Manager Regulatory  
Jemena Limited

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<sup>2</sup> JGN, Initial response to the draft decision, appendices 12.3 and 12.2, 19 March 2010.

<sup>3</sup> JGN, Clarifications following the round-table discussion of Jemena’s access arrangement proposal (2010-2015) tariffs and tariff structures, 22 December 2009.