

16 June 2023



Warwick Anderson
General Manager, Network Pricing
Australian Energy Regulator
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Sent by email to aerpricing@aer.gov.au.

Dear Mr Anderson

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Response to AER's Issue Paper on the Review of gas distribution network reference tariff variation mechanism and declining block tariffs

Jemena Gas Networks (NSW) Ltd (**JGN**) welcomes the opportunity to respond to the Australian Energy Regulator's (**AER**) Issues Paper regarding the *Review of the gas distribution network reference tariff variation mechanism and declining block tariffs*.

The AER's review comes at a crucial juncture as the gas industry explores the challenges associated with the uncertain future of gas networks, in the context of an accelerating energy transition driven by government emission reduction policies.

Whilst we acknowledge the importance of the AER's review, we express concerns about its timing with respect to JGN's upcoming 2025-30 Access Arrangement review. In the timeframes permitted, JGN is engaging with key stakeholders, including our Advisory Board. We have also established a Customer Tariff Forum to explore the different forms of price control and tariff structures.

Based on our initial assessment of the AER's Issues Paper, our preliminary preference is to avoid significant changes in risk sharing between networks and customers. We plan to engage with our Advisory Board and Customer Tariff Forum in July and August this year, to gather views and feedback on the matters raised in the AER's Issues Paper. Our response to the AER's Draft Decision will include insights we garner from both our Customer Tariff Forum and Customer Advisory Board.

The energy landscape is still evolving. A prudent and cautious approach is required at this stage. We acknowledge the AER's concerns around forecasting accuracy in

relation to gas demand in such an evolving landscape. Therefore we recommend that the AER consider a hybrid cap and collar approach, which has features of both a price cap and revenue cap. A hybrid cap and collar approach would:

- continue to use the existing price cap form of control, but have a cap and collar on revenue over and under performance
- enable any over/under performance beyond a certain amount (say \$10 million per annum) to be trued-up, similar to revenue cap mechanism.

Such an approach will substantially maintain the current risk sharing but also address the issue of forecasting inaccuracy in an uncertain future.

In relation to tariff blocks, a sudden change could create windfall gains and losses for our customers. We therefore recommend caution in making changes to the tariff block structures, to avoid any unintended consequences. If changes to block structures are to be implemented, it is essential that sufficient time is allowed to facilitate a smooth transition from the current block structure.

We will continue to evaluate the matters raised in the in the AER's Issues Paper, and incorporate any inputs from our Customer Tariff Forum and Customer Advisory Board, to ensure that that customer perspectives are taken into account.

If you have any questions or require further information regarding our response please do not hesitate to contact Andre Kersting, Gas Networks Regulation Manager (████████████████████).

Sincerely,



Ana Dijanosic
General Manager Regulation