
JGN Gas Network
CCP31 Advice to the Australian Energy Regulator
AER Draft Decision (November 2024) and JGN Gas Networks NSW
Revised Access Arrangement Proposal (January 2024)

Consumer Challenge Panel (CCP) Sub-Panel CCP31

Helen Bartley

Mark Henley

14 February 2025

CCP31: Advice to AER Draft Decision and JGN Revised Plan 2025-30

Acknowledgement of Country

We acknowledge the Traditional Custodians of the various lands on which JGN owns and operates its networks and facilities. We honour the customs and traditions and special relationship of those Traditional Custodians with the land as well as those where this report is being prepared. We respect the elders of these nations, past, present and emerging.

Appreciation

We say many times through this advice that substantial uncertainty remains for all aspects of the gas market with many, very different outcomes possible.

Difficult issues in difficult settings can make for difficult working settings for the people involved. This has not been our observation. We sincerely thank the JGN staff, the people with whom they have engaged and AER staff for maintaining the highest standards of professionalism throughout this access arrangement process and for willingness to share information, new information and changing perspectives, where they have occurred.

CCP31 greatly appreciates the willingness of JGN and AER staff to work with us in what we have experienced as a high trust environment, driven by shared values.

Thankyou.

Confidentiality

To the best of our knowledge this report does not present any confidential information.

CCP31: Advice to AER Draft Decision and JGN Revised Plan 2025-30

Table of Contents

1 Summary 4

1.1 Context for JGN’s access arrangement proposal for 2025-30 4

1.2 The AER’s draft decision 5

1.3 JGN’s revised proposal 5

1.4 Summary of CCP31’s advice 6

2 JGN’s recent consumer engagement 7

2.1 Background 7

2.2 JGN’s recent engagement 8

3 Context for CCP advice 9

4 Discussion of issues 12

4.1 Accelerated depreciation 12

4.1.1 The regulatory challenge 12

4.1.2 Overview 13

4.1.3 CCP31’s view 15

4.2 Renewable gas connections 16

4.2.1 Overview 16

4.2.2 CCP31’s view 17

4.3 Opex step changes and Picarro vehicles 19

4.3.1 Overview 19

4.3.2 CCP31’s view 19

4.4 Abolishment tariffs 20

4.4.1 Overview 20

4.4.2 CCP31’s view 20

4.5 Demand forecasts 20

4.5.1 Overview 20

4.5.2 CCP31’s view 21

4.6 Meter replacements 23

4.6.1 Overview 23

4.6.2 CCP31’s view 23

4.7 Replacement of Tempe Pressure Reduction Station 23

4.7.1 Overview 23

4.7.2 CCP31’s view 24

4.8 Revenue and price path 24

4.8.1 Revenue 24

4.8.2 Price path 25

CCP31: Advice to AER Draft Decision and JGN Revised Plan 2025-30

1 Summary

This CCP31 advice responds to the AER's *Draft decision Jemena Gas Networks (NSW) access arrangement 2025 to 2030* (1 July 2025 to 30 June 2030) published on 29 November 2024 and *Jemena Gas Networks (NSW) Access Arrangement, Revised Plan*, in January 2025 in response to the AER's draft decision.

On 29 June 2024 Jemena Gas Networks (NSW) (JGN) lodged its access arrangement proposal for 1st July 2025 to 30th June 2030 with the AER. JGN was the first gas distribution business to participate in the early signal pathway under the AER's *Better Resets Handbook* (the Handbook).

On 23 August 2024 the AER published an *Issues Paper* on JGN's access arrangement proposal and held a related public forum in early September 2024. CCP31 responded to the AER's *Issues Paper* in its advice to the AER on 11 September 2024.

Subsequently, in late November 2024, the AER published its draft decision in relation to JGN's access arrangement 2025 to 2030 (1 July 2025 to 30 June 2030), and JGN responded by lodging its *Revised Plan* with the AER in mid-January 2025.

This advice to the AER is in response to the AER's *Draft Decision* and JGN's *Revised Plan*. We have also considered the issues raised in our response to the AER's *Issues Paper* in preparing this advice and comment on JGN's engagement to inform its *Revised Plan*. Our *Issues Paper* remains relevant, though we have not repeated much content, rather we provide updates on the key themes.

1.1 Context for JGN's access arrangement proposal for 2025-30

CCP31 recognises this access arrangement remains difficult for all parties. The nature and pace of Australia's energy transition remains uncertain. This uncertainty pervades gas and future of gas considerations, including hydrocarbon gas as a transition fuel and renewable gases (hydrogen produced from electrolysis and bio-methane) as potential ongoing energy sources.

NSW Government policy is currently based on the 2021 *Future of Gas Statement*, with a vision to act to:¹

1. *Improve certainty about future gas production and exploration*
2. *Enable downstream users to access gas to unlock economic benefits*
3. *Use gas for firming capacity where it is the most economic option to ensure reliability*
4. *Enable gas-related infrastructure*

This policy does not have the same direct implications as the Victorian Government's 2024 *Gas Substitution Roadmap*² or the ACT Government's 2022 electrification policy³.

Recognising the NSW gas policy settings and general uncertainty about the future of gas, CCP31 acknowledges JGN has a major challenge to strike the right balance between capex expenditure for

¹ NSW Government, 2021, *Future of Gas Statement*, p. 8.

² The State of Victoria Department of Energy, Environment and Climate Action, 2024, *Gas Substitution Roadmap*, Update 2024.

³ ACT Government, 2022, *Powering Canberra: Powering Canberra: Our Pathway to Electrification*.

CCP31: Advice to AER Draft Decision and JGN Revised Plan 2025-30

renewable gas opportunities as well as new connections, demand and accelerated depreciation.

1.2 The AER's draft decision

Key themes, from the AER's *Draft Decision* of particular interest to the CCP and customers more broadly included⁴:

- The AER's in-principle acceptance of JGN's proposed accelerated depreciation, although the AER only supported \$156 million (\$2024-25) compared to JGN's proposed \$300 million (\$2024-25) to in the context of accepted allowances for accelerated depreciation in other access arrangements and to limit the average annual real price increase to 0%.
- A reduction in JGN's proposed small customer abolishment tariffs from \$1,472 to \$1,104 to align with other networks, and socialising the costs and after considering NSW safety regulator views.
- The AER reducing accepting JGN's capex proposal by 20%, including not accepting JGN's capex proposal for renewable gas connections, but allowing a placeholder for renewable gas connections, subject to further information from the business.
- The AER reducing JGN's opex allowance by 5.2% but including an allowance for socialised costs associated with small customer abolishments.
- The AER applying alternative demand forecasts which indicate a lower rate of abolitions and disconnections for residential customers and a slower decline in gas usage than the rates proposed by JGN.

We also note that the AER approved JGN's proposed hybrid tariff mechanism and JGN's proposed changes to its volume customer declining block tariff structure for gas transportation subject to further information from JGN as to how it proposed to 'flatten' its tariff structure for volume and demand customers.

1.3 JGN's revised proposal

The key themes from JGN's *Revised Plan*, that correspond to the key issues raised by the AER and of particular interest to the CCP are⁵:

- **Accelerated depreciation:** JGN is seeking an accelerated depreciation allowance of \$230m, compared to the \$156m allowance in AER's the draft decision. In discussion, JGN staff said that this was the lowest allowance that was workable for the business.
- **Abolishment tariffs:** JGN disagrees with socialisation of abolishment costs but is prepared to accept the AER's Draft Decision for partial socialisation of this charge, with two proposed abolishment categories:
 - Abolishments followed by reconnection, e.g. for a renovation, where cost recovery abolishment costs can be charged

⁴ AER, November 2024, *Overview Draft Decision Jemena Gas Networks access arrangement 2025 to 2030* (1 July 2025 to 30 June 2030).

⁵ Ibid.

CCP31: Advice to AER Draft Decision and JGN Revised Plan 2025-30

- Permanent abolishments where there is a safety risk if the cost to a customer to permanently disconnect from the network is too high for appropriate action to be taken, which will be partially socialised.
- **Capex:** JGN has increased the capex sought to \$835.6m compared with \$813.9 in its initial access arrangement proposal and the AER's draft decision of \$651.5m.
- **Opex:** JGN has proposed only minor variations in total opex, \$1,148.5m compared to \$1,155.2m in the initial access arrangement proposal and the AER's draft decision of \$1,161.7m. This includes a reduction in the number of Picarro, gas leak detection vehicles from eight to six, and AER's draft decision based on three vehicles.
- **Demand forecasts:** JGN has proposed a revised volume market forecast. For residential demand, the revised plan forecasts for the residential sector (commercial sector in brackets) a reduction of 3.6% (12.1%) compared to the initial plan reduction of 8.2% (15.2%) and a draft decision reduction of 3.3% (7.6%).

1.4 Summary of CCP31's advice

We recognise various considerations need to be balanced for the JGN's access arrangement 2025-30, in the context of policy uncertainty and potential changes when the NSW Government delivers its gas decarbonisation roadmap by late 2026.⁶ These considerations include:

- Substantial uncertainty about future of gas, including the suitability of renewable gases for households, small to medium enterprises, larger commercial and industrial customers and electricity generation.
- A requirement for JGN to connect customers to the gas network where a connection is requested.
- Forecasting gas use, overall and for different customer groups, both for the coming access arrangement period and beyond to the next two periods (2030-35 and 2035-40), which we call the medium-term outlook. This leads to uncertainty in:
 - Augex, particularly connections, both demand and supply side
 - Repex, for capacity to connect and to maintain safety of the gas system.

The key challenge for JGN and now the AER is to be confident that the final decision is internally consistent with respect to forecasts, customer connections, any augmentation capex (and opex) increases, and accelerated depreciation. (For example, declining demand with new augmentation and extended accelerated depreciation would not be internally consistent.)

CCP31 has considered the matters in the AER's *Draft Decision* and JGN's response in its *Revised Plan* and we remain unconvinced that JGN's revised proposal has the right balance between its capex and accelerated depreciation proposal, leaning too heavily in the direction of accelerated depreciation. We further discuss our thoughts on accelerated depreciation in Section 4.1.

⁶ NSW Government, 2025, *Delivering a Gas Decarbonisation Roadmap*, viewed on 13 February 2025, <https://www.energy.nsw.gov.au/nsw-plans-and-progress/regulation-and-policy/delivering-gas-decarbonisation-roadmap>

CCP31: Advice to AER Draft Decision and JGN Revised Plan 2025-30

2 JGN's recent consumer engagement

2.1 Background

This access arrangement is one of the more difficult resets over recent years in Australia because of the uncertainties of the future of gas. The transition to net zero is underway, meaning that the long term (2050) future for hydrocarbon gas is limited. While the future for renewable gas, particularly hydrogen has potential, but is not yet economically viable at scale and meanwhile JGN is required to act in the best (financial) interests of its shareholders and must continue to serve its customers. To this end we note JGN's substantial efforts to engage with customers on both the vexed question of long-term consumer preferences regarding gas and to reflect consumer interests over the next five years in its 2025-30 access arrangement proposal.

We commend JGN in establishing a variety of broad and deep engagement forums to inform its access arrangement proposal. These included:

- Engaging an expert panel of industry and energy experts to develop long term scenarios for the future of gas.
- Appointing an Advisory Board of customer advocates and industry specialists as a critical friend to collaborate with JGN, challenge the business and strengthen and shape JGN's broader consumer engagement. This included collaborating on the range of initiatives that JGN should consider for the 2025-20 regulatory period and determining which of those would be appropriate to test with consumers more broadly.
- Establishing an independently facilitated Customer Forum of around 40 "randomly" selected customers, a Youth Steering Group, a CALD Steering Group, and a Tariff Structures Customer Forum (Tariff Forum) to deliberate on specific aspects of its proposal as identified by the Advisory Board.

In our earlier advice to the AER, we commended JGN on specific aspects of its engagement and commented on areas where we considered JGN could have enhanced its engagement. Interested readers are referred to our August 2024 response to the AER's *Issues Paper*, and specifically Section 3.1 for more detailed background information.⁷

In summary we consider that JGN has actively sought to include consumer feedback in its access arrangement proposal. We are cognisant of the difficulties in reconciling disparate consumer views, particularly in the face of substantial uncertainty. Given the uncertainty and complexity of this access arrangement, CCP31 encouraged JGN to continue to engage with customers as it prepared its *Revised Plan* and specifically:

- Make greater use of the expertise of the Advisory Board to independently validate what it heard from the Customer Forum.

⁷ CCP31, August 2024, *CCP31 Advice to the Australian Energy Regulator Issues Paper: JGN Gas Networks NSW Access Arrangement Proposal*, (Early Signal Pathway).

CCP31: Advice to AER Draft Decision and JGN Revised Plan 2025-30

- In line with *Better Resets Handbook* expectations that the AER “expects networks to engage with consumers beyond those they engaged with in preparing their draft proposal”⁸, test the Customer Forum findings among an independent sample of customers.

We also noted that aside from the *Handbook*'s requirements, given the challenges and uncertainty JGN could also draw on other evidence such as any business-as-usual research, peer gas networks and consumer-oriented studies to support its proposal.

2.2 JGN's recent engagement

This section of our advice focuses on our consideration of JGN's engagement beyond our commentary in our response to the AER's *Issues Paper*.

Given the short time between the AER's draft decision and JGN lodging its *Revised Plan* we commend JGN for its further engagement with consumers and spelling out the process in its *Revised Plan*.

We commend JGN for the following:

- JGN meeting with the Advisory Board in September 2024 to inform members of the AER's *Issues Paper*, discuss the implications for JGN and seek the Advisory Board's input on the next steps to inform its *Revised Plan* (CCP31 observed this session). A key outcome of this meeting was the Advisory Board's recommendation to JGN to undertake an independent quantitative survey to test and validate customer support for JGN's accelerated depreciation proposal.
- Initiating the quantitative survey recommended by the Advisory Board to test and validate customer support for JGN's accelerated depreciation proposal.

However, as detailed in Section 4.1 of this advice we have several concerns over the survey scope, methodology and interpretation of results that limit the value of this work as evidence of consumer preferences, in our opinion.

Finally, we thank JGN for its willingness to meet with us, so that we could seek clarification around some aspects of the survey to better inform this advice.

⁸ AER, *Better Resets Handbook*, July 2024, p. 16.

CCP31: Advice to AER Draft Decision and JGN Revised Plan 2025-30

3 Context for CCP advice

As CCP31 has considered JGN's *Draft Plan*, its *Proposal* and most recent *Revised Plan*, CCP31 has continued to consider the uncertain future of gas and other issues impacting JGN and the resulting challenges for JGN in preparing its Proposal. Details were included in our *Issues Paper Advice* while a summary of key points is presented here as a reminder of those key considerations.

1. **The AER's Better Resets Handbook expectations for a gas access arrangement**, which:
 - a. Aims to encourage networks to "develop high quality proposals through genuine engagement with consumers"⁹ in line with AER expectations which should lead to regulatory outcomes that better reflect the long-term interests of consumers.
 - b. Specifically in relation to the early signal pathway process, allows networks to engage with the AER to get "earlier formal feedback on aspects of their regulatory proposal – such as at the issues paper stage, in exchange for certain commitments."¹⁰ JGN was the first gas business to apply for and be accepted to participate in the early signal pathway process.
 - c. Acknowledges the short time frames for a gas access arrangement from the time a gas business submits its regulatory proposal to the AER, the AER publishes its draft decision, and the gas business responds with a revised proposal.
 - d. Establishes the CCP's role in an early signal pathway, pre-lodgement, and has led to CCP31's progress reports in March 2023 and October 2023, our *Conclusions Report* in May 2024 and our response to the AER's *Issues Paper* in September 2024. Our earlier advice provides important context for this final advice to the AER.

2. Implications of the AER's gas distribution network tariffs review 2023

- a. The AER will make case-by-case decisions on gas distribution pipeline tariff variation mechanisms or tariff structures.
- b. The form of regulation, price cap or revenue cap, will be determined case-by-case, with a hybrid tariff variation mechanism worthy of consideration.
- c. The AER expects substantive stakeholder consultation regarding tariff variation mechanisms.
- d. The AER will retain declining block tariffs on the basis they are economically efficient.

3. Key issues associated with the future of gas questions

The uncertain future of gas has been a constant theme before and throughout JGN's preparation of its access 2025-31 access arrangement and is likely to continue for some time. As we have discussed in our earlier advice to the AER this uncertainty has significant implications for gas network businesses Australia wide and creates various tensions.

- a. Balancing the needs and aspirations of current consumers compared with those of future consumers.

⁹ Ibid, p. 3.

¹⁰ Ibid, p. 5.

CCP31: Advice to AER Draft Decision and JGN Revised Plan 2025-30

- b. Ensuring affordability for consumers and reliability in supply while reducing carbon emissions.
- c. Uncertainty about the future of Australia's gas industry beyond about 2050 when net zero carbon emissions policies are likely to apply, and noting the NSW government gas decarbonisation roadmap is not yet finalised.¹¹ If there is a future, what form will it take and what is the viability of different forms of renewable gas for different consumer groups?
- d. Ensuring shareholder returns in a declining volume market.
- e. Balancing the diversity of stakeholder interests into a single access arrangement proposal.

4. Implications of other recent AER gas access arrangement decisions

In the AER's *Final Decision for JGN's 2020-25 Access Arrangement*,¹² while recognising the uncertain future of gas, the AER did not accept JGN's accelerated depreciation proposal as JGN had not provided sufficient supporting evidence. However, the AER indicated it was open to considering proposals for accelerated depreciation case-by-case.

Since that decision, the AER has published final decisions for Evoenergy in the ACT, AGN in South Australia, and the Victorian gas distribution businesses including AGN, Multinet and AusNet. In each case the AER's decision on accelerated depreciation was different, reflecting the individual network's circumstances:

- The AER allowed some accelerated depreciation of network assets for Evoenergy's, 2021-26 access arrangement, given the ACT government's clear policy which will result in significantly reduced gas use.
- In South Australia, AGN's engagement to inform its 2021-26 access arrangement proposal presented (green) hydrogen as a future renewable gas and with the gas network having a continuing and likely expanding future. Accordingly, AGN did not seek an allowance for accelerated depreciation. In contrast, given consumer support for AGN to further develop renewable gas options, and AGN's operational demonstration site, the AER accepted AGN's proposal to continue to explore hydrogen as a future gas and AGN's view that accelerated depreciation was largely irrelevant at that time.
- AER in its final decision for the AusNet Services gas access arrangement (and similarly for AGN Victoria and Multinet), while commending the networks on the quality of engagement and noting uncertainty about the Victorian Government's view on the future of gas at the time ultimately allowed a modest amount of accelerated depreciation.

In 2024 AusNet sought a revision to its 2023-2028 gas access arrangement due to significant Victorian Government policy changes that ban new residential connections where a planning permit is required for gas installation and full upfront connection charges will be imposed on new connections. AusNet argued these factors have resulted in materially lower gas demand forecasts

¹¹ We note the NSW Government is consulting with stakeholders throughout 2025 with a view to committing to deliver a NSW gas decarbonisation roadmap by late 2026, providing little certainty to JGN as it prepares this access arrangement. See <https://www.energy.nsw.gov.au/nsw-plans-and-progress/regulation-and-policy/delivering-gas-decarbonisation-roadmap>. Viewed on 1 February 2024.

¹² AER, June 2020, *Final Decision JGN Gas Networks (NSW) Ltd Access Arrangement 2020 to 2025 Overview*.

CCP31: Advice to AER Draft Decision and JGN Revised Plan 2025-30

and correspondingly sought to increase its accelerated depreciation it could recover from customers from \$105m (\$2022–23) to \$175m (\$2022–23).¹³

In its *Draft Decision* on 31 January 2025,¹⁴ the AER did not accept AusNet’s proposal to increase its accelerated depreciation. The AER submitted that AusNet did not provide sufficient justification for the proposal, the pace of the transition is uncertain but likely to be slower than AusNet proposes, the impact on consumers would be disproportionate given cost of living pressures and it was not widely supported by stakeholders. Regardless the AER anticipates the issues raised by AusNet can be better assessed in its 2028-33 access arrangement.

These recent access arrangement decisions and the AusNet reopener reflect the uncertainty and changing focus that gas businesses, their customers and the regulator are facing. We reiterate the following:

1. The future of gas across jurisdictions is not consistent, nor is it clear and the future of renewable gases also remains uncertain.
2. Forecasting gas demand, particularly for households and smaller businesses remains fraught.
3. Accelerated depreciation is a recurring theme, with the AER applying bespoke decisions in response to the different circumstances of businesses and their varying jurisdictional policy settings and having to respond to network requests to review their current access arrangements as circumstances change.
4. Affordability concerns remain, with the potential for lower income households, including renters, being left to pay higher network fixed costs as those more able to afford a transition to electricity do so – the ‘death spiral’.
5. The questions remains of who pays for the transition from gas costs, including permanent disconnections?

These themes remain live dilemmas for JGN even after it has lodged its revised access arrangement proposal and for the AER as it makes its final determination.

¹³ AusNet, September 2024, *Access arrangement information gas access arrangement review 2024 - Variation proposal*.

¹⁴ AER, January 2025, *Draft decision AusNet Gas Services (Victoria) 2023–28 access arrangement variation proposal*.

CCP31: Advice to AER Draft Decision and JGN Revised Plan 2025-30

4 Discussion of issues

4.1 Accelerated depreciation

4.1.1 The regulatory challenge

Central to the JGN access arrangement for 2025-30, from the outset, has been the matter of accelerated depreciation and the associated questions including:

- Who bears the risk, and who should bear the risk of stranded assets?
- What cover does a regulatory setting provide for consumers?
- How is risk between current (2025-30) and future (2030-50) consumers and shareholders most responsibly shared, and what is the role of other parties?
- How much accelerated depreciation is appropriate for 2025-30, in the context of uncertainty and balancing the risks?
- What are the implications for new capex, particularly augmentation capex (augex)?

An extensive literature dating back over a century considers this ‘stranded assets’ question. Harold Hotelling an American economist (and statistician), still quoted today was one of the early academics who considered this question. When considering who pays for inactive railway lines, largely resulting from the rise of the automobile, Hotelling said, to paraphrase, let dead men bury dead assets. That is, the investor bears the risk of sunk assets, not the customer. North American railways of late 1800s and early 1900s were purely privately owned and so it is more evident why the investor would carry all the risk and could charge customers to cover that risk.

However, this argument, cannot be applied directly to gas pipelines in Australia today. The natural monopolies of gas networks in Australia operate in a different setting. While the investor, JGN in this instance is privately owned, the prices JGN can charge customers are regulated. The AER regulates the prices in the long-term interests of consumers. This allows the owner of the natural monopoly to argue that they have been unable to choose the price they charge to recoup more investment risk earlier.

Since the regulator is required to set a prudent and efficient price, in the long-term interest of customers, a key question emerges whether the regulator’s pricing decisions remove all risk for the investor, and so guarantee full cost recovery for any asset, including long term assets. We suggest that this question is central, yet implicit, in much of the accelerated depreciation for gas networks debates, including the JGN access arrangement determination.

JGN has answered the question, “Is full cost recovery guaranteed in a regulated setting?”, with a clarion “yes”. This is evidenced by their engagement, in which customers were asked *how much* of the accelerated depreciation they should pay in the 2025-30 period. JGN did not ask, *who* should pay or how much of the stranded asset cost risk should customers pay? Instead, customers were asked to provide their views on questions about timing and intergenerational equity, with JGN expecting that customers would pay for all the capital expenditure cost.

While we have not explicitly asked JGN if they agree with our observation that the business expects customers to bear all stranded asset risk; we think that the evidence is clear. Nor do we think JGN’s

CCP31: Advice to AER Draft Decision and JGN Revised Plan 2025-30

likely expectation is unreasonable. Shareholders expect their investment to be repaid, with a dividend. Hence many tortured debates about the appropriate weighted average cost of capital have occurred in past resets.

CCP31 considers that while JGN is a *regulated* business this does not transfer all risk to consumers. The regulator's role is to protect consumers from monopolistic excessively high charges (compared to an unfettered market) and to assess the prudence and efficiency of proposed investments in market and investment settings when making regulatory decisions. The regulator does not determine the investments *per se*, but the regulatory system does provide incentives for networks to improve their returns by gaining efficiencies.

Importantly, the regulator does not guarantee full investment repayment for network business capital expenditure; the regulatory bargain is that regulation provides higher, but not absolute, predictability for both network businesses and consumers.

The other important variable, particularly in uncertain times, is the role of governments. Governments have some overarching responsibility for ensuring the provision of crucial infrastructure services for the public. Particularly since the advent of competition policy reform in Australia in the 1990s¹⁵, and early into this century,¹⁶ governments have increasingly allowed private companies to provide this infrastructure, with regulation.

CCP31 expects the NSW Government and/or the Commonwealth government will set policy for gas supply and transition to electrification in the foreseeable future, likely with grants and subsidies to assist with the transition. At this time neither the AER, nor JGN, let alone the CCP, can be clear about future gas policy and financial assistance. The difficult challenge is not to impose costs on customers now that will later be socialised.

This thinking has guided our advice to the AER about accelerated depreciation, specifically that the regulatory setting does not guarantee that all investment risk is borne by consumers, and the business also needs to share some of the risk.

4.1.2 Overview

In its regulatory proposal, JGN included \$300 million for accelerated depreciation which JGN's Customer Forum supported. The AER in its *Issues Paper* sought stakeholder feedback on JGN's accelerated depreciation proposal including its engagement with customers. In our advice to the AER in response to the issues paper, CCP31 made the following points:

- We were not confident JGN's proposal for accelerated depreciation appropriately aligns with its demand forecasting and associated capex increases, including the capex proposal for biomethane connections.
- We expressed ongoing concern around JGN's engagement on accelerated depreciation, particularly as customer support for the proposal had not been independently tested beyond the Customer Forum.

¹⁵ Hilmer, F.G., 1993, *National Competition Policy*. Australian Government Publishing Service, Canberra.

¹⁶ Parer, W.R., 2002, *Towards a truly national and efficient energy market*. Commonwealth of Australia, Canberra.

CCP31: Advice to AER Draft Decision and JGN Revised Plan 2025-30

- We encouraged JGN to independently test residential customer support for its accelerated depreciation proposal and to explore customers’ views on a broader range of “who pays?” options.

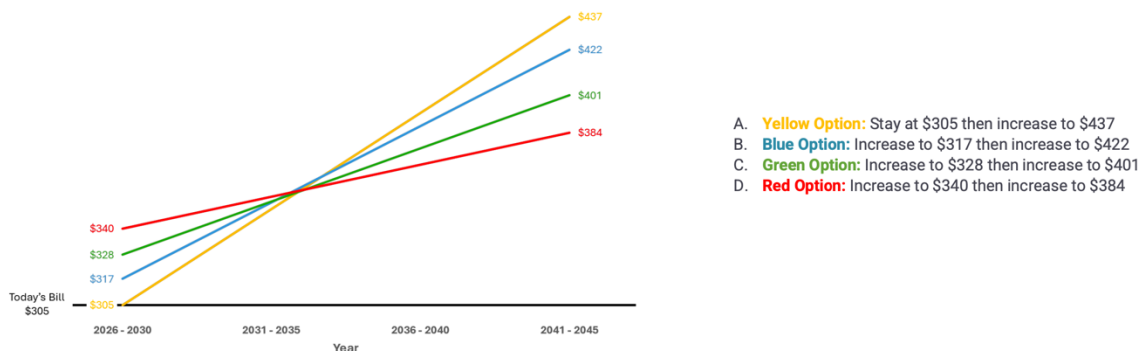
We indicated that we were not confident that JGN’s proposal for \$300m accelerated depreciation was reasonable for small-use customers, due to lack of independent testing, uncertainty regarding the large-scale economic viability of biogas and limited consideration of customers’ views on “who should pay?” questions.

While the AER in-principle supported a proposal for accelerated depreciation in its *Draft Decision*, it only allowed \$156m. The AER’s draft decision was based on 0% real price path increase and considered the NSW context for the future of gas compared to other states.

Given concerns raised in the AER’s *Issues Paper*, CCP31’s advice and following JGN’s Advisory Board recommendation to undertake a quantitative survey, JGN commissioned Sagacity and JD Insights to survey an independent sample of its customers to test its proposal.

Sagacity and JD Insights conducted an online survey of a “statistically representative”¹⁷ sample of 1,000 customers to test customer preferences for four alternative long term price scenarios, based on recovery \$100m, \$200m, \$300m and \$400m over five years, as shown in the following image:

Figure 4-1: Accelerated depreciation options tested in the customer survey¹⁸



JGN notes from the survey that:

*“over 70% of customers surveyed ranked the two highest price levels of accelerated depreciation—which correspond to \$400 million and \$300 million over the 2025-30 period—as their first preference”.*¹⁹

These amounts are in line with the \$300m proposal supported by the Customer Forum.

Subsequently, JGN proposed \$230m in its *Revised Plan* on the basis that this amount is “the bare minimum amount required”.²⁰

¹⁷ Sagacity Research & Jackie Duke Insights, *Accelerated Depreciation Research, Research Report*, December 2024, p. 4.

¹⁸ *Ibid*, p. 9.

¹⁹ *Ibid*, p. vi.

²⁰ JGN, *Revised 2025 Plan, January 2025*, p. ix.

CCP31: Advice to AER Draft Decision and JGN Revised Plan 2025-30

4.1.3 CCP31's view

CCP31 accepts and supports the AER's principles based approach to determining a prudent and efficient amount of accelerated depreciation. We commend JGN for acting on the recommendation from its Advisory Board to gather quantitative evidence of customer support for its proposal. We also appreciate that JGN has published the Sagacity survey report and included it as an attachment to its *Revised Plan*. However, we are concerned about the constrained testing of customer support and unclear about aspects of the survey approach and how JGN arrived at a proposed amount of \$230m for accelerated depreciation as the bare minimum required.

CCP31 has reviewed the Sagacity report, and we have met with JGN to discuss our concerns and ensure we have the correct information to inform this advice. We thank JGN for meeting with us to discuss the survey and other issues. We remain sceptical over JGN's survey evidence to support its accelerated depreciation proposal. The key points are listed below:

- It is not clear from the report which customers the survey sample intended to represent. We appreciate the consultant has since confirmed the survey was limited to residential customers only. However as evidenced in the supplementary information provided to us the sample over-represents educated customers who are proficient in English.
- We understand the sample was selected from online panels, and it is not evident in the published report that the sample is representative across JGN's five service regions. The consultant has since provided an analysis of the sample into statistical areas and reports that 246 of the 228 JGN postcodes were included in the sample. Whilst we appreciate this detail, we are not clear as to which customers (by post code or statistical local area) were excluded and whether their exclusion constitutes a bias in the sample.
- Educated and relatively affluent customers are overrepresented in the sample relative to our crude assessment of JGN's customer base. These are people with greater capacity to pay higher bills. Lower income households, including many renters, we argue, would be more likely to opt for lower rates of accelerated depreciation. The consultant has confirmed that it did not account for this overrepresentation in the weighting process, and it only adjusted for age and gender biases to "match ABS statistics"²¹. We remain unclear which ABS statistics were used to inform the weighting, aside from receiving advice that the sample was weighted to 2021 Census data. We also noting the 2021 Census is relatively dated, particularly in areas of rapid growth or decline, but accept it is the most recent population data available.
- In JGN's June 2024 *Access Arrangement Proposal*, the Advisory Board describes accelerated depreciation as "complex subject matter"²² and CCP31 agrees. A wholesome and objective discussion of the subject needs to consider whether customers consider they should pay, the alternatives and the implications in the context of the overall bill impact. We question whether simplifying the description of accelerated depreciation (as it relates to a regulated monopoly asset required to deliver an essential service) to a vendor deciding how to recover the cost of a discretionary purchase of a coffee machine provides an accurate description of the subject matter. This was a very useful analogy, but lacked some the necessary nuance.

²¹ Sagacity Research and Jackie Duke Insights, December 2024, *Accelerated Depreciation Research, Research Report*, p. 17.

²² JGN, June 2024, *Jemena Gas Networks 2025 Plan*, p. 19.

CCP31: Advice to AER Draft Decision and JGN Revised Plan 2025-30

We consider the video to explain accelerated depreciation presented in the customer survey is clear and easy to understand, and we appreciate the efforts to cognitively test and refine the video and imagery with a small number of customers. However, we are concerned that in the survey, customers' understanding of the information presented to them was only established through their self-assessment. Significantly, there is considerable published evidence²³ that unknowledgeable people can have the propensity to overrate their knowledge and understanding when presented with a subject for the first time. We would have more confidence in the results if participants' understanding was more adequately tested.²⁴

A separate but related matter is how accelerated depreciation should be applied to new capex. CCP31 has maintained the view that any new augmentation capex should not be subject to accelerated depreciation neither now nor in the future. JGN is making any decision to invest in augmentation capex now, with a clear and full understanding of the stranded asset risk and so should not be able to invest now and expect accelerated depreciation now or in the future.

Arguably, the same approach should apply to augex from the current 2020-25 access arrangement, but we recognise that the time to apply this has passed.

JGN's revised proposal seeks \$14.9m augex.²⁵ We consider:

- Current depreciation rates should apply to all these assets.
- There should be no accelerated depreciation applied to augex from 1 July 2025.
- Records of these new, accelerated depreciation-free assets will need to be maintained by JGN, which should be straightforward within existing asset management records.

We accept that JGN will require replacement capex while the network is operational and maybe beyond that time. We do not expect much repex would be long term assets, so we support the application of existing depreciation policy to repex.

4.2 Renewable gas connections

4.2.1 Overview

Alongside its proposal for accelerated depreciation, JGN proposed \$80.8m (\$2024-25) (supply side) connections expenditure for eight projects to supply biomethane and renewable gas blends. The AER noted in its *Issues Paper*, that capex to connect renewable gas was a new area of expenditure and as a result would be reviewing this aspect of JGN's proposal.

In its *Draft Decision*, the AER did not accept JGN's proposed \$80.8m (\$2024-25), as it was concerned about the risk that the projects would not be completed and JGN had not sufficiently justified the benefit of these projects. It also expressed concerns that if it approves capex expenditure on an ex-

²³ This is known as the Dunning-Kruger effect, and was reported as early as 1999 Kruger, J., & Dunning, D. (1999). Unskilled and unaware of it: How difficulties in recognizing one's own incompetence lead to inflated self-assessments. *Journal of Personality and Social Psychology*, 77(6), pp. 1121–1134. There is no shortage of literature on the subject.

²⁴ For example, by including some short quiz questions that more objectively assess participants' comprehension than a self-rating question.

²⁵ JGN, January 2025, *Revised 2025 Plan*, p. 22.

CCP31: Advice to AER Draft Decision and JGN Revised Plan 2025-30

ante basis, customers may end up paying for renewable gas connection projects that do not proceed. The AER also suggested JGN should consider including these projects in a speculative capex account given the uncertainty as to whether the projects would proceed in the 2025-30 regulatory period.

In its *Revised Plan*, JGN reinstated its renewable gas connections proposal and proposed a fixed principle as an alternative to the AER's suggested speculative capex approach. JGN suggests the fixed principle would require it to adjust its building block revenue in the 2030-25 period to return any 2025-30 building block revenue approved for renewable gas connections if the capex related to these projects was not spent.

JGN argues that its alternative fixed-principle approach is preferable to the AER's suggested speculative capex account as the latter provides "little regulatory certainty" because the AER would not assess the capex until the next price review.²⁶

JGN also provided further supporting documentation in its *Revised Proposal*²⁷ in which it considers the rapidly changing landscape and policy settings in which it operates and responds to the AER's issues. For example, JGN considers that most existing commercial gas demand could be met by biomethane in the foreseeable future. JGN also suggests there is a real potential for methane currently escaping directly into the atmosphere to be captured and used for energy before the carbon is discharged into the atmosphere, reducing the need to "mine" lessening emissions in the shorter term.²⁸ However, this is not a longer-term net-zero solution.

4.2.2 CCP31's view

CCP31 supported the AER's targeted review of JGN's proposal. We also note that there is still no firm policy around the future of gas for NSW and JGN it is still obliged to connect customers to the existing gas network. We also appreciate JGN's efforts to expand on its proposal and support approaches that address the risk to consumers of paying upfront for projects that may not proceed.

JGN presents evidence that its customers support a choice to be able to connect to renewable gas and CCP31 saw evidence of this in its observation of JGN's customer forums, although in our earlier advice we raised some issues as to how customer support was tested. Regardless, CCP31 remains concerned over some aspects of JGN's renewable gas connection proposals, particularly given all customers would be paying, but the likelihood that most could benefit in the short or even-medium term is uncertain.

For example, we understand from our discussions with JGN on this topic that while supply of biomethane gas is not an issue, demand forecasts are still emerging and so its uptake remains unclear. However, in the next five years, JGN considers that the focus would be on industrial, hard to abate customers, while demand from medium to small [business] hard to electrify customers is more likely to grow beyond the next five years. JGN also anticipates that in the longer term there may be certain segments of domestic customers who cannot electrify.

²⁶ JGN, January 2025, *Revised 2025 Plan*, p. 3.

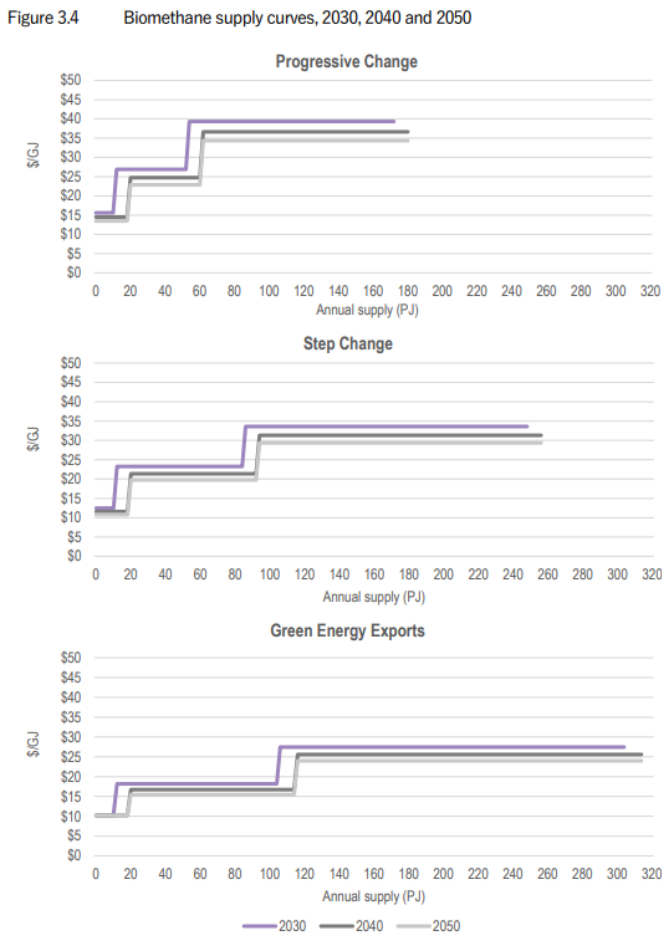
²⁷ JGN, January 2025, *Revised 2025-30 Access Arrangement Proposal Attachment 4.2, Renewable gas expenditure*.

²⁸ Ibid.

CCP31: Advice to AER Draft Decision and JGN Revised Plan 2025-30

CCP31 is also concerned about the volume of biogas that can be produced, and the cost of biomethane. AEMO’s *Draft 2025 Inputs, Assumptions and Scenarios Report*²⁹ includes an appendix prepared by ACIL Allen which contains gas, liquid fuel, coal and renewable gas projections,³⁰. This report provides estimates for biomethane supply curves, to 2050 for the three scenarios used for the Integrated System Plan (ISP), as shown in the following figure:

Figure 4-2: Biomethane supply curves, 2030, 2040, 2050



We note that *progressive change* and *step change* scenarios were regarded as the most likely future scenarios for the 2024 ISP. The ACIL Allen projections referenced in the report show that the price for biomethane rises with volume produced. Excluding the less likely Green Energy Exports scenario, biogas is forecast to cost between \$35 and \$40 per giga joule at volume, compared to \$14-\$16 per giga joule for natural gas.

Much higher costs of biomethane would significantly reduce demand. We do not know the prices for biomethane that JGN has factored in to create demand for biomethane connections to the network. However, undoubtably biomethane costs that are much higher than natural gas costs would reduce

²⁹ AEMO’s, December 2024, *Draft 2025 Inputs, Assumptions and Scenarios Report*. Draft report. For use in Forecasting and Planning studies and analysis.
³⁰ ACIL Allen, December 2024, *Gas, liquid fuel, coal and renewable gas projections. Final report, p. 28*

CCP31: Advice to AER Draft Decision and JGN Revised Plan 2025-30

the demand for biomethane connections. Hence CCP31 remains concerned that most customers who would be paying for this proposal may not benefit directly.

We also remain concerned that at the same time JGN is seeking a significant amount of capex to support renewable gas connections, JGN is also seeking a significant amount of accelerated depreciation in its access arrangement proposal and consumers have not been directly engaged in discussion on this important and seemingly conflicting trade-off.

4.3 Opex step changes and Picarro vehicles

4.3.1 Overview

JGN included five step changes in its proposal, totalling \$70.3 million over five years³¹ including an opex step change of \$20.8 million for gas leak detection using Picarro vehicles, and \$28.1 million for a pipeline integrity management program. The AER noted in its *Issues Paper* that:

“Our expectation in the Handbook is that step changes be limited to a few well justified ones, or none at all, and be explored with consumers.”³²

While JGN engaged with consumers on its leak detection proposal, it did not engage on the pipeline integrity management, on the basis that customers prioritised safety and the program was necessary to maintain network safety. As a result, the AER prioritised these two step changes for review and in its draft decision reduced JGN’s step change amount by \$14.5 million over concerns about the efficiency of JGN’s proposals, as well as corrections to remove double counting and reclassifying some step changes as business-as-usual costs. This included a reduction from JGN’s proposed eight Picarro vehicles to 6 supported by enhanced evidence of the benefits of Picarro vehicles for leak detection.

In relation to JGN’s proposed step changes, JGN accepted most aspects of the AER’s draft decision. However, JGN did not accept the AER’s draft decision and instead proposed a further reduction in Picarro vehicles to 4 and a modified inspection schedule and provided additional supporting evidence.

4.3.2 CCP31’s view

CCP31 accepts that the Picarro vehicle option improves safety of the gas system and reduces fugitive greenhouse gas emissions, although there are discrepancies between the AER’s estimates and those of JGN as to the actual emissions reduction. Regardless, JGN engaged with customers on its proposal to invest in Picarro technology and customers strongly supported the proposal on the basis that it would enable JGN “to reduce carbon emissions rather than rely on the purchase of carbon credits”.³³

While we acknowledge consumers prioritise safety and reliability and the potential role that Picarro vehicles can play in detecting leaks, and at the same time enabling JGN to reduce its carbon

³¹ AER, August 2024, *Issues paper on the early signal pathway expectations, Jemena Gas Networks (NSW) access arrangement*, 1 July 2025 to 30 June 2030, p. 29

³² Ibid, p. 31

³³ JGN, June 2024, *Jemena Gas Networks 2025 Plan*, p. 36

CCP31: Advice to AER Draft Decision and JGN Revised Plan 2025-30

emissions, it is the AER's role to establish the prudence and efficiency of JGN's revised proposal. We are generally accepting of the 6 vehicle option proposed in the revised plan.

4.4 Abolishment tariffs

4.4.1 Overview

An abolishment tariff helps socialise the costs of disconnecting from the gas networks. However, if a tariff is too high it may create a safety issue if it disincentivises customers from disconnecting their gas supply. After engaging on this issue with the Customer Forum, JGN proposed to retain its existing abolishment tariff of \$1,472 for small customers. The Customer Forum supported the retention of this tariff based on fairness. After considering the NSW safety regulator's view and other network decisions, the AER reduced JGN's proposed volume (small) customer abolishment cost from \$1,472 to \$1,104 socialising most of the abolishment costs, leading to a \$250 abolishment tariff and sought more information on JGN's proposal.

Although JGN does not agree with the AER's rationale in the Draft Decision for partially socialising small connection abolishment costs, JGN agreed to implement a new abolishment charge for small customers from 1 July 2026 but proposes to maintain the \$1,472 cost reflective tariff for reconnecting small volume customers in its *Revised Plan*.

4.4.2 CCP31's view

CCP31 considers JGN's revised plan for abolishment tariffs strikes a balance between ensuring the abolishment tariff is fair and is not a barrier to disconnect for safety reasons, including consideration of any IPART views. Equally if small customers disconnect with a view to remaining on the gas network, they must bear the costs.

The issue of the size of the abolition tariff and who should pay is more complex for non-residential customers, including demand customers. Any disincentives to safely permanently disconnect from the gas network are potentially magnified for non-residential customers as the disconnection processes may be more complex and the safety issues could be at least as significant. If the costs are at least partially socialised, then the NSW safety regulator's concerns may be reduced to some extent. However, this has implications for residential customers' bills, at a time when many are already struggling to pay their bills, and we therefore support JGN's revised proposal with some socialisation of abolishment costs.

4.5 Demand forecasts

4.5.1 Overview

To inform its June 2024 proposal, JGN engaged an independent expert to help develop gas demand and new connections forecasts. Those forecasts indicated reductions in new connections and demand per annum for the 2025-30 period and were compatible with AEMO's scenarios 2024 GSOO.

CCP31: Advice to AER Draft Decision and JGN Revised Plan 2025-30

The AER, in its *Issues Paper* emphasised a need for consistency between demand forecasts and any proposal for accelerated depreciation where possible, including a consistent application of assumptions.³⁴

In its *Draft Decision*, the AER, based on analysis by ACIL Allen did not accept JGN’s demand forecasts. ACIL Allen forecast, an expected slower rate of disconnections and decline in gas usage per customer.³⁵

A consistent theme throughout this access arrangement has been the uncertainty of the future of gas, including the pace of the transition and the viability of renewable gas. This uncertainty means forecasting demand for gas is fraught. In our response to the AER’s *Issues Paper*, we indicated we were not confident that JGN’s accelerated depreciation appropriately aligned with its demand forecasting and associated capex increases.

In its *Revised Plan*, JGN did not accept the ACIL Allen forecasts and challenged the AER’s assumptions that informed the modelling. JGN considered the ACIL analysis could “mute the level of reduction in average volume market consumption over the 2025-30 period.”³⁶ JGN revised its demand forecasts based on updated information as shown below.

Table 4-1: Demand forecast comparisons 2025-30³⁷

| | JGN’s proposal June 2024 | AER’s Draft Decision November 2024 | JGN’s revised proposal January 2025 |
|----------------------------|-----------------------------|---------------------------------------|---|
| Volume (Tariff V) market | | | |
| Residential connections | -1.6% | +0.4% | -0.6% |
| Residential average demand | -6.6% | -3.7% | -3.0% |
| Residential demand | -8.2% | -3.3% | -3.6% |
| Commercial connections | -2.0% | -2.0% | -4.9% |
| Commercial average demand | -13.5% | -5.8% | -3.0% |

The differences in forecasts over a relatively short period reflect the uncertain future for gas and the challenge in forecasting demand in an uncertain future. This has been a consistent theme in our advice to the AER related to this access arrangement and we have encouraged JGN to revise its forecasts as close to the AER making its final decision.

Likewise, as AEMO is anticipated to publish the 2025 Gas Statement of Opportunities (GSOO) in March 2025, the AER has an opportunity to consider the GSOO’s forecasts making its determination for JGN’s access arrangement in May 2025.

4.5.2 CCP31’s view

Forecasts for volume of gas delivered are central to decisions about a majority of JGN cost items and closely related with the accelerated depreciation proposal. The reality is that forecasting gas

³⁴ AER, August 2024, *Issues paper on the early signal pathway expectations Jemena Gas Networks (NSW) access arrangement*, 1 July 2025 to 30 June 2030, p. 16

³⁵ AER, November 2024, *Jemena Gas Networks (NSW) access arrangement 2025 to 2030 (1 July 2025 to 30 June 2030)*

³⁶ JGN, January 2025, *Jemena Gas Networks Revised 2025 Plan, Response to the AER’s draft decision*, p. 38.

³⁷ Ibid, derived from Table 6.2.

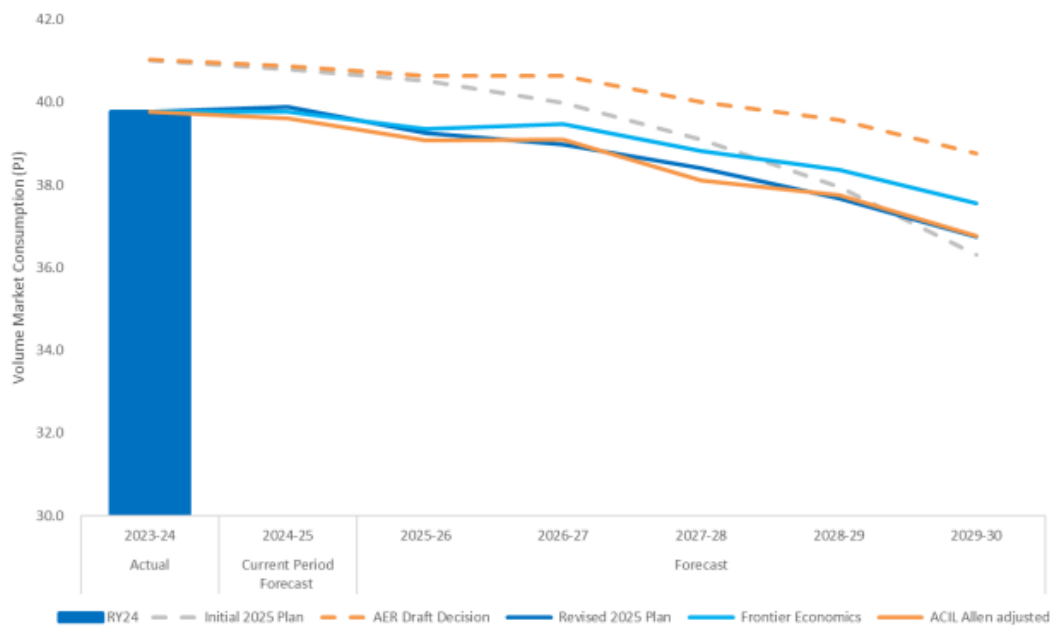
CCP31: Advice to AER Draft Decision and JGN Revised Plan 2025-30

demand is currently highly fraught with policy uncertainty as well as the rate the customers electrify being highly uncertain.

Deciding on a ‘best’ forecast has become akin to a duel between three consultants: JGN engaged CORE and Frontier Economics, while the AER engaged ACIL Allen. In the *Revised Plan*, JGN compares the forecasts as follows:³⁸

Figure 4-3: Comparison of demand forecasts

Figure 6.1: Comparison of JGN's Volume Market forecasts with the AER's and Frontier Economics alternative forecasts



41 JGN - Frontier Economics - RP - Att 6.6 - Demand technical note – 20250109, section 2.7.

42 JGN - Frontier Economics - RP - Att 6.6 - Demand technical note – 20250109, section 3.7.

We note that actual 2023-24 demand was lower than JGN forecast, which explains why they propose lowering of the projection curves, to start with actual 2023-24 demand. While this seems reasonable, we are unsure of the likelihood that the 2023-24 demand results reflect trend decrease in demand or one-off factors.

The projections from ACIL Allen and Frontier using most recent data are more closely aligned than earlier projections. This gives some confidence that the various forecasts are converging. The AER will be able to test forecasts one more time before the final decision with AEMO’s publication of the 2025 GSOO in March 2025. We understand that ACIL Allen will undertake key aspects of the GSOO modelling and so there is a reasonable chance that the GSOO will be consistent with the most recent ACIL Allen forecasts that the AER has used.

The convergence of gas demand as the final decision nears should providing some reassurance to JGN, their customers and the AER.

³⁸ Ibid, p. 40.

CCP31: Advice to AER Draft Decision and JGN Revised Plan 2025-30

4.6 Meter replacements

4.6.1 Overview

In its access arrangement proposal JGN, proposed \$158.6 million capex (\$2025) to replace 8,000 ageing, defective and hard-to-reach meters with digital meters. The Customer Forum supported the proposal on the basis that it would help improve customer experience, although members were not unanimous on the extent of the roll out³⁹. The AER noted in its *Issues Paper* that JGN's meter replacement proposal was a 49% increase on JGN's actual and forecast 2020-25 meter-replacement capex and accounted for 20% of JGN's net capex in its access arrangement proposal and flagged this item for review.⁴⁰

Subsequently, the AER in its *Draft Decision* reduced JGN's proposed capex by \$47.8 million as it did not consider JGN had sufficiently demonstrated the forecast rate of depreciation of its existing fleet with the reduced amount more in line with historical expenditure.⁴¹

JGN rejected the AER's draft decision in its *Revised Plan* on the basis it did not consider the age profile and other characteristics of JGN's meters and good practise and other recent gas network decisions. JGN provided updated information in support of its proposal including evidence of meter failure at 30 years (compared to its previous assumption of 35 years) and increased its proposed meter replacement capex to \$171.1 million.

4.6.2 CCP31's view

CCP31 did not specifically comment on JGN's meter replacement proposal in our response to the AER's *Issues Paper*. We note JGN has provided further information to support its metering proposal, and we consider that the updated data provided by JGN is reasonable and justifies an increase in the meter replacement allowance, from the draft decision alternative forecast based on historical averages. However, we leave it to the AER's technical experts to determine the prudent allowance for meter replacements, balancing safety and accuracy of existing meters with replacement requirements.

4.7 Replacement of Tempe Pressure Reduction Station

4.7.1 Overview

As a result of its review of JGN's capex proposal, the AER rejected JGN's proposal to replace end-of-life and obsolete mechanical and electrical instrumentation and control equipment at the Tempe Pressure Reduction Station (PRS). JGN reinstated this capex in its revised proposal on the basis that is required to maintain the functionality, safety, integrity and reliability of the network and conforms with capex criteria.

³⁹ Bd Infrastructure, 2024, *Initial Recommendations*, report presented to JGN's Customer Forum #7, 23 September 2023.

⁴⁰ AER, August 2024, *Issues paper on the early signal pathway expectations, Jemena Gas Networks (NSW) access arrangement*, 1 July 2025 to 30 June 2030, p. 24

⁴¹ AER, November 2024, *Overview Draft Decision Jemena Gas Networks access arrangement 2025 to 2030* (1 July 2025 to 30 June 2030), p. 20

CCP31: Advice to AER Draft Decision and JGN Revised Plan 2025-30

4.7.2 CCP31's view

CCP31 did not specifically comment on this proposal in its *Issues Paper Advice*, but supported the scope of the AER's review to inform the AER's *Draft Decision*. CCP31 notes that JGN did not specifically or directly engage with consumers on this aspect of its access arrangement proposal. However, we acknowledge more broadly that safety is a key concern for consumers.

CCP31 recognises that before it makes its final determination the AER will consider JGN's further supporting evidence for this proposal and establish whether it is prudent and efficient.

4.8 Revenue and price path

4.8.1 Revenue

JGN's access arrangement process is focussed on the regulated price and associated price path, and this is where customer impacts are most evident. JGN summarises the revised price path, in the *Revised Plan* saying:⁴²

Our Revised 2025 Plan smoothed revenue is \$152 million higher than the AER's draft decision because we have a different view to the AER on some key elements of our Initial 2025 Plan, which we explain in this document and its associated attachments. The key drivers for this difference are:

- Our proposal to include \$230 million accelerated depreciation instead of \$156 million allowed by the AER in its draft decision.*
- Updates to the return on capital, to reflect changes in market conditions which have increased our financing costs*
- An updated forecast inflation, reflecting the RBA's most recent (November) policy statement*
- Our revised opex (including reduced socialised abolishment costs) and capex forecasts*

An important aspect of our CCP role is to challenge both the AER and JGN, in this instance whether JGN's revised access arrangement proposal serves the best interests of consumers. This is largely reflected by final prices that customers pay (noting that customers pay in nominal dollars); so, the key question we ask is whether the revised plan revenue can be lower?

CCP31 accepts that the economic parameters to be updated: return on capital and forecast inflation will both be adjusted for the AER's final decision based on prevailing conditions, and these are some of the mechanics of regulation. For example, CPI may be lower when the AER makes its final determination and that capital market conditions may reflect higher levels of market volatility, which cancels out any CPI advantage for customers, but this is speculation.

We support JGN's revised opex costs to partially socialise abolishment costs, even though there was strong support for leavers to pay full costs, from engagement sessions. We find the safety risk concerns from IPART compelling.

⁴² JGN, January 2025, *Jemena Gas Networks Revised 2025 Plan, Response to the AER's draft decision*, pp. x-xi.

CCP31: Advice to AER Draft Decision and JGN Revised Plan 2025-30

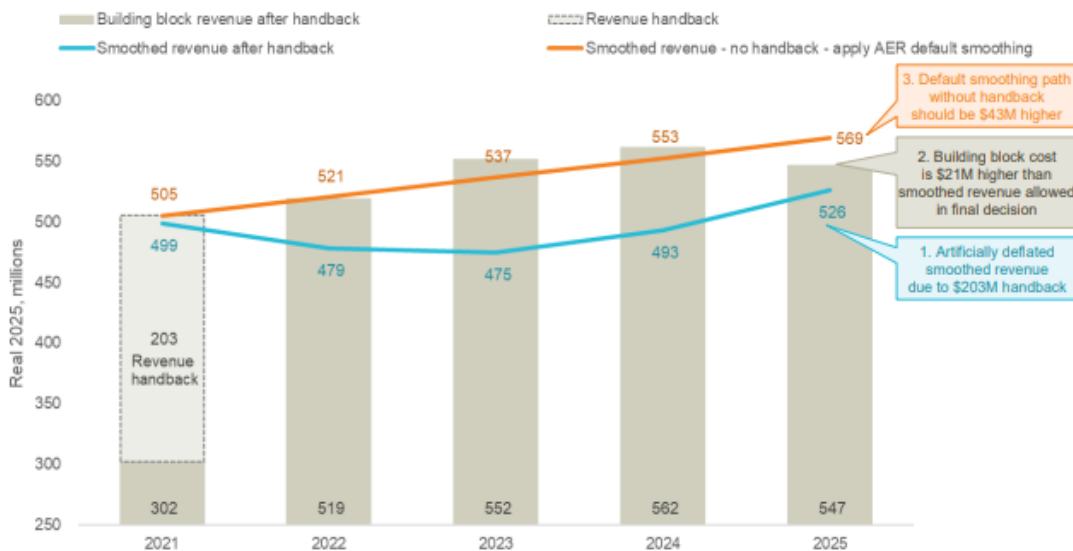
We retain the perspective that accelerated depreciation costs are to be shared by customers and shareholders and so we believe that a final decision for an accelerated depreciation allowance to be below the \$230m sought is reasonable and would provide some reduction in costs for customers.

We also consider there some capacity for savings from reduced capital expenditure costs, particularly for augex, including connection costs, we question whether these are additional costs or an aspect of business as usual for a network business.

4.8.2 Price path

The main question associated with JGN’s *Revised Plan* price path relates to the base price with 2021 being the year that JGN returned \$203m of revenue to customers as a rebalancing from the remitted decision of 2015-20. JGN is arguing that the AER’s draft decision AER artificially deflated smoothed revenue due to the \$203m handback. In response, JGN presented a revised, higher price path in Attachment 7.2 of the 2025-20,⁴³ reproduced here.

Figure 4-4: JGN’s Revised Plan price path



JGN states that they consider 2024-25 revenues to be deflated from efficient building block costs by \$43m as shown in the following figure.⁴⁴ This means that the base year for projecting current and hence next period revenues is too low. The price path for 2025-30 should start \$43m higher.

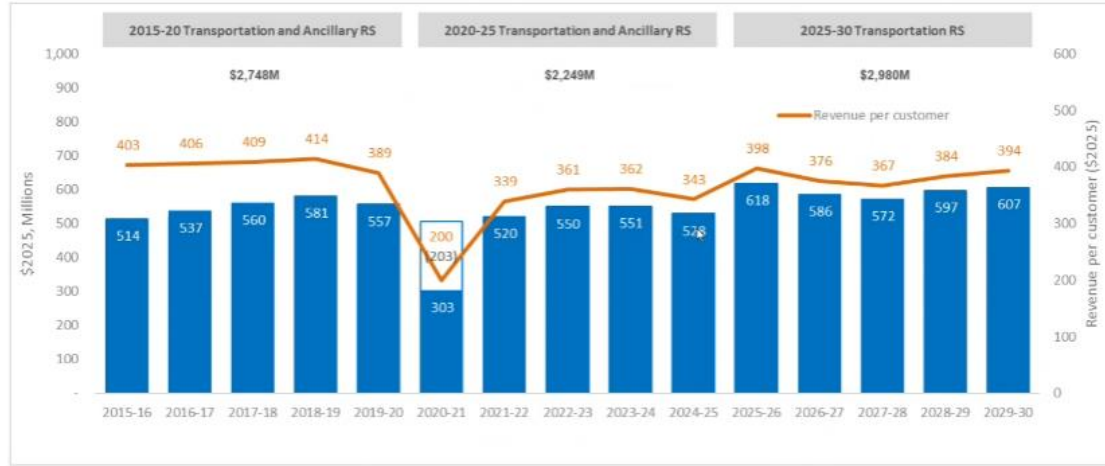
⁴³ JGN, January 2025, *Revised 2025-30 Access Arrangement Proposal Attachment 7.2, Depreciation*, p. 15.

⁴⁴ JGN, January 2025, *Revised 2025-30 Access Arrangement Proposal*, p. xi.

CCP31: Advice to AER Draft Decision and JGN Revised Plan 2025-30

Figure 4-5: JGN’s building block revenue requirement 2015-30

Figure OV.3: Our building block revenue requirement over the 2015-2030 period



CCP31 appreciates JGN’s argument and recognises the dilemmas of the remitted decision on 2020 - 2025 revenue. However, we ask whether JGN is overstating the impact of one year (2021) when a more reasonable approach would look at setting a basis for 2025-30 price path based on averaged revenue for the previous and current period, smoothing out the outlier year of 2021 to reflect a more realistic revenue requirement.

We expect that this would result in a better outcome for customers with a price path between JGN’s *Revised Plan* proposal and the AER’s *Draft Decision*.