

Final decision

**Jemena Gas Networks (NSW) access
arrangement 2025 to 2030
(1 July 2025 to 30 June 2030)**

**Attachment 10 – Reference tariff variation
mechanism**

May 2025

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List of attachments

This attachment forms part of our final decision on the access arrangement that will apply to Jemena Gas Networks (NSW) for the 2025–30 access arrangement period (2025–30 period). It should be read with all other parts of this Final decision.

For some issues that had draft decision attachments, and which were settled at the draft decision stage or required only minor updates, the reasons in the draft decision attachments and, where relevant, in the final decision Overview set out our reasons for our final decision on the issue. In these circumstances, we have not prepared all attachments, and our draft decision reasons form part of this final decision. The final decision attachments have been numbered consistently with the equivalent attachments to our draft decision.

The Final decision includes the following documents:

Overview

Attachment 2 – Capital base

Attachment 4 – Regulatory depreciation

Attachment 5 – Capital expenditure

Attachment 6 – Operating expenditure

Attachment 7 – Corporate income tax

Attachment 9 – Reference tariff setting

Attachment 10 – Reference tariff variation mechanism

Attachment 12 – Demand

Attachment 13 – Capital expenditure sharing scheme

Contents

List of attachmentsiii

10 Reference tariff variation mechanism1

 10.1 Annual reference tariff variation mechanism..... 1

 10.2 Cost pass through mechanism 5

 10.3 Revisions12

Glossary.....14

10 Reference tariff variation mechanism

This attachment sets out our consideration of the reference tariff variation mechanism and cost pass through mechanism proposed by Jemena Gas Networks (JGN) (NSW). The reference tariff variation mechanism for JGN's gas transportation service:

- permits building block revenues to be recovered smoothly over the access arrangement period subject to any differences between forecast and actual demand
- accounts for actual inflation
- accommodates other reference tariff adjustments that may be required, such as for an approved cost pass through event
- sets administrative procedures for the approval of any proposed changes to reference tariffs – that is, updating tariffs each year.

The reference tariff variation mechanism for JGN's ancillary reference service consists of individual price caps for each element of that service.

The cost pass through mechanism allows us to vary reference tariffs for the occurrence of a specified event which materially increases or decreases the cost of providing the reference service. The inclusion of a pass through mechanism recognises a service provider can face risks beyond its control, which may have a material impact on costs.

10.1 Annual reference tariff variation mechanism

10.1.1 Final decision

We approve JGN's proposed reference tariff variation mechanism for the 2025–30 access arrangement period except for the elements of its proposed mechanism that we consider are not consistent with the National Gas Rules (NGR). In particular:

- the transportation tariff variation mechanism should not include provision for licence fees
- a 10% side constraint is too broad and should be reduced to 2% to align with other gas distributors. However, we consider that JGN should be allowed to use a 10% side constraint for its demand market customer tariffs, to enable it to rebalance its demand customer tariffs via the annual pricing process.

We discuss our reasons for our final decision below.

10.1.2 JGN's proposal

For its gas transportation hybrid tariff variation mechanism, JGN further provided an illustrative pricing model incorporating the hybrid form of control which showed how it would calculate and apply the revenue true-up factor to the overall tariff control formula.¹ JGN also provided its abolishment true up factor to be included in the tariff control formula in its revised proposal.²

However, in its revised proposal JGN maintained its position that the 10% side constraint should be retained. JGN submitted that this is required to enable it to continue rebalancing more revenue towards its demand (large) customers, and that doing so is consistent with the feedback JGN received from customers during its engagement sessions on pricing and tariffs.³

JGN also maintained its proposal to keep the licence fee factor in the tariff control formula, on the basis of its view this is in the long-term interest of its customers, rather than treating licence fees as part of base year operating expenditure.⁴ However, JGN accepted our draft decision to adjust its ancillary reference service tariffs by CPI and not accept its proposed CPI-X mechanism.⁵

10.1.3 Assessment approach

Our assessment approach in relation to the reference tariff variation mechanism is set out in our draft decision.⁶

10.1.4 Interrelationships

The interrelationships relevant to reference tariff variation mechanism are described in our draft decision.⁷

10.1.5 Reasons for Final decision

We approve JGN's revised reference tariff variation mechanisms for the 2025–30 period, except that our final decision requires amendments to:

- the gas transportation tariff variation mechanism to exclude provision for licence fees
- reduce the side constraint from 10% to 2% to align with other gas distributors, while retaining a 10% side constraint for its demand market customer tariffs.

¹ JGN IR#026, *Revenue true-up factor and annual variation notice*, November 2024.

² JGN, *2025–30 Revised proposal - Attachment 8.1 Pricing*, 15 January 2025, pp. 11-12.

³ JGN, *2025–30 Revised proposal - Attachment 8.1 Pricing*, 15 January 2025, pp. 8-9.

⁴ JGN, *2025–30 Revised proposal - Attachment 8.1 Pricing*, 15 January 2025, pp. 13-14.

⁵ JGN, *2025–30 Revised proposal - Attachment 8.1 Pricing*, 15 January 2025, p v.

⁶ AER, *Draft decision - JGN access arrangement 2025–30 – Attachment 10 – Reference tariff variation mechanism*, November 2024.

⁷ AER, *Draft decision - JGN access arrangement 2025–30 – Attachment 10 – Reference tariff variation mechanism*, November 2024.

10.1.5.1 Gas transportation hybrid tariff variation mechanism

Our draft decision indicated our approval of JGN's proposed hybrid mechanism that blends elements of its existing weighted average price cap with elements of revenue cap regulation, for reasons that remain valid.⁸ JGN further provided an illustrative pricing model incorporating the hybrid form of control which showed how it would calculate and apply the revenue true-up factor to the overall tariff control formula.⁹ The model amendments indicate that if actual volumes are within 5% of forecasts there is no change from the existing approach. Outside that 5% plus or minus boundary, 50% of any volume driven revenue under-recovery (or over-recovery) will be carried by JGN and 50% carried by customers via higher (or lower) future gas transportation tariffs.

We have reviewed this illustrative model and are satisfied with the approach used by JGN in applying the new hybrid approach. Under this approach, a revenue true-up factor amount has been included in the control mechanism for transportation tariffs to account for the hybrid tariff variation mechanism. The revenue true-up factor amount for a financial year $t - 2$ is to be calculated as follows:

$$R = \begin{cases} (1.05 \times R^{Allowed} - R^{Actual}) \times 0.5, & RR > 1.05 \\ 0, & 0.95 \leq RR \leq 1.05 \\ (0.95 \times R^{Allowed} - R^{Actual}) \times 0.5, & RR < 0.95 \end{cases}$$

In respect to stakeholder views, JGN's consultation process suggested that stakeholders support the proposed hybrid approach. In the most recent submissions received in response to our draft decision and JGN's revised proposal, we had one submission and this was from the City of Sydney.

The City of Sydney supports the hybrid mechanism and considers it a welcome approach to more equitable cost sharing.¹⁰ However, it submitted concern about whether it will continue to be fit for purpose as gas volumes decline. It suggested the hybrid pricing mechanism be monitored by the AER to ensure it is delivering equitable outcomes during the gas transition.

10.1.5.2 Licence fee factor

Our final decision maintains our view that the licence fee factor should be excluded from the reference tariff variation mechanism. Our reasons for this are explained in Attachment 6 – Operating expenditure.

The control mechanism for transportation tariffs has been updated to exclude the 'L' licence fee factor as follows:

$$A'_t = \frac{(U_{t-2} + C_{t-2} + T_{t-2} + R_{t-2} + S_{t-2})[(1 + realWACC_{t-1})(1 + realWACC_t)(1 + CPI_{t-1})]}{(1 - X_t) \sum_{x=1}^n \sum_{y=1}^m p_{t-1}^{xy} q_{t-2}^{xy}}$$

⁸ AER, *Draft decision - JGN access arrangement 2025–30 - Attachment 10 - Reference tariff variation mechanism*, November 2024, pp. 5-7.

⁹ JGN IR#026, *Revenue true-up factor and annual variation notice*, November 2024.

¹⁰ *City of Sydney - Submission on JGN's 2025–30 revised proposal and draft decision* - February 2025, p.4.

Note – this formula includes the “S factor” component for the abolishment true up as discussed below.

10.1.5.3 True up and abolishment costs

Our final decision is to socialise a portion of abolishment costs across transportation tariffs as set out in our draft decision, but only for a standard residential abolishment. This is discussed further in Attachment 9 – Reference tariff setting.

We accept JGN’s proposed “S factor” which has been incorporated into the transportation reference service tariff control formula as the socialised abolishment true-up factor amount. It is calculated as follows:

$$S_{t-2} = (P_{t-2}^C - P_{t-2}^N) \times (V_{t-2}^A - V_{t-2}^F)$$

This is a “true-up mechanism” in the control mechanism for transportation tariffs, and is required in order to respond to differences between forecast and actual abolishment costs. The true-up will be for both quantity and price to accommodate existing uncertainty of the abolishment forecast volumes and costs.

It is the sum of:

- the difference between the abolishment for standard residential connections forecast (incorporated in the opex allowance) for year t-1 and estimated costs (submitted to the AER ahead of year t) for year t-1
- the difference between abolishment for standard residential connections estimates (submitted to AER ahead of year t-1) for year t-2 and the actual volume (submitted to the AER ahead of year t) for year t-2.

10.1.5.4 Ancillary reference service tariff variation mechanism

We did not accept JGN’s proposal to adjust its ancillary reference service tariff by CPI-X in our draft decision. Our draft decision instead required JGN to adjust its ancillary reference service tariffs by CPI only. This is consistent with other regulated gas distributors and is also simpler and less prone to error. JGN accepted our draft decision. From 1 July 2025, JGN will adjust its ancillary reference service tariffs by CPI.

JGN’s tariff control formula for the annual ancillary reference tariff variation mechanism will now exclude the x-factor from 1 July 2025 and be calculated as:

$$ART_t^i \leq ART_{t-1}^i \times (1 + CPI_t) + PT_t^i$$

10.1.5.5 Side constraints

The draft decision also required further consultation by JGN with stakeholders about whether a 10% side constraint is too broad and whether it would be appropriate for JGN to amend the side constraint to 2% to align with other gas distributors. JGN currently applies a 10% side constraint in its control mechanism for its reference services..

After further discussion with us, JGN proposed amending its side constraint by reducing it to a base level of 2% but applying an extra 8% to the demand tariffs to rebalance revenue over to the demand customers. JGN also proposed corresponding amendments to its access arrangement, tariff assignment policy and Reference Service Agreement (RSA).

The proposed amendments include:

- applying the side constraint to tariff classes rather than individual reference tariffs
- clarification of associated definitions
- setting the base side constraint at 2% for both volume and demand tariff classes
- adding an additional side constraint of 8% to the base constraint for the demand market tariff class only.

We accept this proposal from JGN in our final decision. We are satisfied that this approach provides consistency with other gas networks while; allowing JGN to rebalance tariffs across demand customers. We accept this proposed balancing for demand customers for the reasons set out in Attachment 9. The side constraint formula that will apply for the 2025–30 regulatory period will be updated as follows:

$$(1 + CPI_t)(1 - X_t)(1 + A_t)(1 + PT_t)(1 + 0.2 + S) \geq \frac{\sum_{x=1}^n \sum_{y=1}^m p_t^{xy} q_{t-2}^{xy}}{\sum_{x=1}^n \sum_{y=1}^m p_{t-1}^{xy} q_{t-2}^{xy}}$$

Note: 'S' being the side constraint increment applicable to each tariff class, being 0% for the volume tariff class and 8% for the demand tariff class.

10.2 Cost pass through mechanism

10.2.1 Final Decision

Our final decision is to:

- approve cost pass throughs for the following events:
 - terrorism event
 - natural disaster event
 - insurer credit risk event
 - regulatory change event
 - insurance coverage event
 - service standard event
 - tax change event
- accept JGN's revised proposal for the definitions of the insurer credit risk, and terrorism events, in line with our draft decision.
- not accept JGN's proposed changes to the definitions of the insurance coverage, regulatory change, service standard, tax change and natural disaster events.

Our final decision is consistent with the draft decision,¹¹ in that we are accepting the cost pass through events proposed for the 2025–30 access arrangement period, subject to some amendments for drafting consistency with our recent determinations.

The reasoning behind our final decision is outlined in section 10.2.3.

10.2.2 JGN's revised proposal

In its revised proposal, JGN accepted our draft determination amendments, except the following.¹²

- **Insurance Coverage event:** JGN accepted our amendments other than wording related to materiality and minor updates for consistency with language proposed by us for other definitions.
- **Natural disaster event:** JGN accepted our amendments but noted that the drafting of limb (a) of our definition may not reflect the intended meaning and may have little if any application. This is on the basis that it would be difficult to imagine a scenario where a service provider might cause a natural disaster such as a cyclone.
- **Regulatory change event:** JGN accepted our amendments other than a change to a defined term and wording related to materiality.
- **Tax change event:** JGN accepted our proposed wording other than minor changes for clarity and consistency.
- **Service standard event:** JGN accepted our amendments other than wording related to materiality.

10.2.3 Reasons for Final decision

In this final decision, we accept the drafting changes included in JGN's revised proposal for the definitions of the insurer credit risk event and the terrorism event. JGN's revised definitions are consistent with our recent determinations, including our draft decision for JGN.

However, we do not accept JGN's proposed changes for the insurance coverage, regulatory change, service standard and natural disaster events, in order to maintain drafting consistency with our recent determinations. We do not agree with JGN's reasoning behind the proposed changes. Additionally, we do not accept JGN's proposed minor changes for the tax change event.

10.2.3.1 Insurance coverage, regulatory change, service standard and natural disaster events

In our draft decision, we did not accept JGN's proposed definitions of cost pass through events where they differed from those we have approved in our recent determinations.¹³ We considered that maintaining consistent definitions of cost pass through events across

¹¹ AER, *Draft decision - JGN access arrangement 2025–30 - Attachment 10 - Reference tariff variation mechanism*, November 2024, p. 13.

¹² JGN, *Revised 2025 Plan*, January 2025, p. 66.

¹³ AER, *AusNet 2023–28 – Final decision – Attachment 10 Reference tariff variation mechanism*, June 2023; AER, *AGN 2023–28 – Final decision – Attachment 10 Reference tariff variation mechanism*, June 2023; AER, *MGN 2023–28 – Final decision – Attachment 10 Reference tariff variation mechanism*, June 2023.

network service providers and sectors (e.g. electricity and gas) allows for the efficient implementation of the cost pass through framework. Our view on this matter has not changed.

In its revised proposal, JGN did not accept our inclusion of a reference to materiality in the definition of insurance coverage, regulatory change, and service standard events.¹⁴ JGN submitted that adding “materially” is unnecessary and introduces ambiguity in the access arrangement document as it is unclear how to assess what might be considered material under this additional reference and whether it is a different threshold to the one expressly set out.¹⁵

JGN also did not accept our wording in limb (a) of the definition for natural disaster event, stating that changing the defined term may have unintended consequences for other provisions unless consequential changes were made throughout JGN’s access arrangement document suite.¹⁶ Further, JGN noted, in regard to the natural disaster event, that the drafting of limb (a) of our definition of natural disaster event may not reflect the intended meaning because it would be difficult to imagine a scenario where a service provider might cause a natural disaster such as a cyclone.

We do not agree with JGN for the following reasons.

- Regarding the reference to ‘materiality’ in the definition of insurance coverage, regulatory change, and service standard events,¹⁷ our recent gas access arrangement determinations, including JGN’s draft determination, have adopted these events as defined in the National Electricity Rules (NER) as relevant.¹⁸ Consequently, we have maintained the definition for these cost pass through events as set out in our draft determination. However, to address JGN’s concern, we have also proposed additional wording in the access arrangement to clarify the meaning of the word ‘materially’ in the context of these event definitions.
- Regarding the natural disaster event, the wording in limb (a) of our definition states:

Natural Disaster Event means any natural disaster including, but not limited to cyclone, fire, flood, or earthquake that occurs during the Access Arrangement Period that changes the costs to the Service Provider in providing the Reference Services, provided the cyclone, fire, flood, earthquake or other event was:

a) a consequence of an act or omission that was necessary for the Service Provider to comply with a regulatory obligation or requirement or with an applicable regulatory instrument...

We consider that JGN has misinterpreted the purpose of limb (a) of our definition. We included this wording in our standard natural disaster event definition following consultation

¹⁴ JGN, *Revised 2025 Plan*, January 2025, pp. 65–66.

¹⁵ JGN, *Revised 2025 Plan*, January 2025, p. 66.

¹⁶ JGN, *Revised 2025 Plan*, January 2025, p. 66.

¹⁷ JGN, *Revised 2025 Plan*, January 2025, p. 66.

¹⁸ NER, Chapter 10 Glossary.

as part of our 2020–25 final determination for SA Power Networks.¹⁹ At the time, SA Power Networks submitted that there may be situations where a natural disaster (such as a fire) arises as a consequence of it acting (or not being able to act) in accordance with the regulatory requirements governing its actions and omissions. In turn, SA Power Networks' compliance with these regulations could prevent it from meeting pass through requirements. SA Power Networks, therefore, submitted that it is both reasonable and necessary that the 'acts or omissions' of SA Power Networks, that are excluded from triggering the pass through event, be qualified so that such lawful acts (and omissions) do not unfairly disadvantage SA Power Networks. It provided an example, in the context of vegetation clearance, to illustrate that there may be circumstances in which SA Power Networks is prohibited from clearing vegetation, even though contact between that vegetation and the distribution infrastructure could provide a source of ignition for a bushfire start.²⁰

While the above specific example may not be directly applicable in the context of gas distribution network service providers, in our view, the rationale for including the wording in limb (a) of the definition of natural disaster event remains pertinent. It also maintains consistency in the definition of natural disaster event across electricity and gas network service providers.

10.2.3.2 Tax change event

In our draft decision we inadvertently omitted a word in our definition for the tax change event.²¹ Our draft decision stated:

Tax Change Event occurs if:

(a) any of the following during the course of the Access Arrangement Period...

This text should have read:

Tax Change Event occurs if:

(a) any of the following **occur** during the course of the Access Arrangement Period...

In its revised proposal, JGN included the missing word but it also applied other minor changes. While we accept JGN's inclusion of the missing word, we do not accept the other minor wording changes. As stated earlier, for the efficient implementation of the cost pass through framework it is important to maintain consistent definitions of cost pass through events across network service providers and sectors (e.g. electricity and gas).

¹⁹ AER, *Final decision SA Power Networks distribution determination 2020–25 - Attachment 14: Pass through events*, June 2020, pp. 10-11.

²⁰ SA Power Networks, *2020–25 Revised proposal - Attachment 13 Pass through events*, December 2019, pp. 19-21.

²¹ AER, *Draft decision - JGN access arrangement 2025–30 - Attachment 10 - Reference tariff variation mechanism*, November 2024, p. 21.

Table 10.1 sets out our final decision on the definitions for cost pass through events while Table 10.2 outlines the amendments we have proposed to make JGN's definitions of pass through event acceptable.

Table 10.1 AER's definitions of cost pass through events

Event	Definition
Terrorism Event	<p>Terrorism Event means an act (including, but not limited to, the use of force or violence or the threat of force or violence) of any person or group of persons (whether acting alone or on behalf of or in connection with any organisation or government), which:</p> <ol style="list-style-type: none"> 1. from its nature or context is done for, or in connection with, political, religious, ideological, ethnic or similar purposes or reasons (including the intention to influence or intimidate any government and/or put the public, or any section of the public, in fear); and 2. changes the costs to the Service Provider in providing Reference Services: <p>Note: In assessing a Terrorism Event pass through application, the AER will have regard to, amongst other things:</p> <ol style="list-style-type: none"> i) whether the Service Provider has insurance against the event ii) the level of insurance that an efficient and prudent service provider would obtain in respect of the event; and iii) whether a declaration has been made by a relevant government authority that a terrorism event has occurred.
Natural Disaster Event	<p>Natural Disaster Event means any natural disaster including, but not limited to cyclone, fire, flood, or earthquake that occurs during the Access Arrangement Period that changes the costs to the Service Provider in providing the Reference Services, provided the cyclone, fire, flood, earthquake or other event was:</p> <ol style="list-style-type: none"> a) a consequence of an act or omission that was necessary for the Service Provider to comply with a regulatory obligation or requirement or with an applicable regulatory instrument; or b) not a consequence of any other act or omission of the Service Provider. <p>Note: In assessing a Natural Disaster Event pass through application, the AER will have regard to, amongst other things:</p> <ol style="list-style-type: none"> i) whether the Service Provider has insurance against the event; ii) the level of insurance that an efficient and prudent service provider would obtain in respect of the event.
Insurer Credit Risk Event	<p>An Insurer Credit Risk Event occurs if an insurer of the Service Provider becomes insolvent, and as a result, in respect of an existing, or potential, claim for a risk that was insured by the insolvent insurer, the Service Provider:</p>

Event	Definition
	<p>a) is subject to a higher or lower claim limit or a higher or lower deductible than would have otherwise applied under the insolvent insurer's policy; or</p> <p>b) incurs additional costs associated with funding an insurance claim, which would otherwise have been covered by the insolvent insurer.</p> <p>Note: in assessing an Insurer Credit Risk Event pass through application, the AER will have regard to, amongst other things:</p> <p>i) the Service Provider's attempts to mitigate and prevent the event from occurring by reviewing and considering the insurer's track record, size, credit rating and reputation; and</p> <p>ii) in the event that a claim would have been covered by the insolvent insurer's policy, whether the Service Provider had reasonable opportunity to insure the risk with a different provider.</p>
Regulatory Change Event	<p>Regulatory Change Event means a change in a regulatory obligation or requirement that:</p> <p>a) falls within no other category of Cost Pass Through Event; and</p> <p>b) occurs during the course of an Access Arrangement Period; and</p> <p>c) substantially affects the manner in which the Service Provider provides Reference Services; and</p> <p>d) materially increases or materially decreases the costs of providing Reference Services.</p>
Insurance Coverage Event	<p>An Insurance Coverage Event means an event where:</p> <p>1. the Service Provider:</p> <p>a) makes a claim or claims and receives the benefit of a payment or payments under a relevant insurance policy or set of insurance policies; or</p> <p>b) would have been able to make a claim or claims under a relevant insurance policy or set of insurance policies but for changed circumstances; and</p> <p>2. the Service Provider incurs costs:</p> <p>a) beyond the relevant policy limit for that policy or set of insurance policies; or</p> <p>b) that are unrecoverable under a policy or set of insurance policies due to changed circumstances; and</p> <p>3. the costs referred to in paragraph 2 above materially increase the costs to the Service Provider of providing Reference Services.</p> <p>For the purposes of this Insurance Coverage Event:</p> <ul style="list-style-type: none"> 'changed circumstances' means movements in the relevant insurance liability market that are beyond the control of the Service Provider, where those movements mean that it is no longer possible for the Service Provider to take out an insurance

Event	Definition
	<p>policy or set of insurance policies at all or on reasonable commercial terms that include some or all of the costs referred to in paragraph 2 above within the scope of that insurance policy or set of insurance policies.</p> <ul style="list-style-type: none"> • 'costs' means the costs that would have been recovered under the insurance policy or set of insurance policies had: <ul style="list-style-type: none"> – the limit not been exhausted; or – those costs not been unrecoverable due to changed circumstances. • a relevant insurance policy is an insurance policy or set of insurance policies held during the Access Arrangement Period or a previous access arrangement period in which the Service Provider was regulated; and • the Service Provider will be deemed to have made a claim on a relevant insurance policy or set of insurance policies if the claim is made by a related party of the Service Provider in relation to any aspect of the Service Provider's Network or business; and • the Service Provider will be deemed to have been able to make a claim on a relevant insurance policy or set of insurance policies if, but for changed circumstances, the claim could have been made by a related party of the Service Provider in relation to any aspect of the Service Provider's Network or business. <p>Note for the avoidance of doubt, in assessing an Insurance Coverage Event through application under clause 3.5(i), the AER will have regard to:</p> <ul style="list-style-type: none"> i) the relevant insurance policy or set of insurance policies for the event; ii) the level of insurance that an efficient and prudent service provider would obtain, or would have sought to obtain, in respect of the event; iii) any information provided by the Service Provider to the AER about the Service Provider's actions and processes; and iv) any guidance published by the AER on the matters the AER will likely have regard to in assessing any Insurance Coverage Event that occurs.
Service Standard Event	<p>Service Standard Event means a legislative or administrative act or decision that:</p> <ul style="list-style-type: none"> a) has the effect of: <ul style="list-style-type: none"> (1) substantially varying, during the course of an Access Arrangement Period, the manner in which the Service Provider provides a Reference Service; (2) imposing, removing or varying, during the course of an Access Arrangement Period, minimum service standards applicable to Reference Services; or

Event	Definition
	<p>(3) altering, during the course of an Access Arrangement Period, the nature or scope of the Reference Services provided by the Service Provider; and</p> <p>b) materially increases or materially decreases the costs to the Service Provider of providing Reference Services.</p>
Tax Change Event	<p>Tax Change Event occurs if:</p> <p>(a) any of the following occur during the course of the Access Arrangement Period:</p> <p>(1) a change in a Relevant Tax, in the application or official interpretation of a Relevant Tax, in the rate of a Relevant Tax, or in the way a relevant Tax is calculated;</p> <p>(2) the removal of a Relevant Tax;</p> <p>(3) the imposition of a Relevant Tax; and</p> <p>(b) as a consequence, the costs to the Service Provider of providing Reference Services are materially increased or decreased.</p>

Source: AER analysis

10.3 Revisions

We propose the following revisions to the access arrangement as set out in Table 10.2.

Table 10.2: JGN's reference tariff variation mechanism and cost pass through events revisions

Revisions	Column heading
Revision 10.1	<p>Amend the rebalancing side constraint by;</p> <ul style="list-style-type: none"> • applying it to tariff classes rather than individual reference tariffs • clarifying associated definitions • setting the base side constraint at 2% for both volume and demand tariff classes • adding an additional side constraint of 8% to the base constraint for the demand market tariff class only
Revision 10.2	<p>Amend the control mechanism for transportation tariffs to include an automatic adjustment and true-up factor for socialisation of for standard residential connection abolishments.</p>
Revision 10.3	<p>Remove licence fee adjustments from the annual tariff variation mechanism.</p>
Revision 10.4	<p>Add the following paragraph after the list of Cost Pass Through Events in clause 3.5(a) of the access arrangement:</p> <p>For the purpose of any Cost Pass Through Event that includes a reference to materiality, an event is considered to materially increase or materially decrease costs where the change in costs (as opposed to the revenue</p>

Revisions	Column heading
	impact) that the Service Provider has incurred or is likely to incur in any Financial Year of the Access Arrangement Period exceeds one per cent of the Total Transportation Reference Service Revenue for that year approved by the AER in the JGN Revenue Model.
Revision 10.5	<p>Remove the word unsmoothed before Total Transportation Reference Service Revenue in clause 3.5(b) of the access arrangement, it should read:</p> <p>The Service Provider may seek the approval of the AER to pass through costs where as a result of a Cost Pass Through Event, the Service Provider has incurred, or is likely to incur, higher costs in providing the Reference Services than it would have incurred but for that event and the change in costs (as opposed to the revenue impact) that the Service Provider has incurred or is likely to incur in any Financial Year of the Access Arrangement Period, as a result of that event, exceeds one per cent of the Total Transportation Reference Service Revenue for that Financial Year approved by the AER.</p>
Revision 10.6	<p>Remove the word unsmoothed before Total Transportation Reference Service Revenue in clause 3.5(c) of the access arrangement, it should read:</p> <p>The AER may require the Service Provider to pass through costs where, as a result of a Cost Pass Through Event, the Service Provider has incurred, or is likely to incur, lower costs in providing the Reference Services than it would have incurred but for that event and the change in costs (as opposed to the revenue impact) that the Service Provider has incurred or is likely to incur in any Financial Year of the Access Arrangement Period, as a result of that event, is or is reasonably estimated to exceed one per cent of the Total Transportation Reference Service Revenue for that Financial Year approved by the AER.</p>
Revision 10.7	<p>Amend Schedule 1 – Definitions of the access arrangement to reflect the definitions of the following pass through events as specified in Table 10.1.</p> <p>Tax Change Event</p> <p>Natural Disaster Event</p> <p>Insurance Coverage Event</p> <p>Regulatory Change Event</p> <p>Service Standard Event</p>

Source: AER's analysis

Glossary

Term	Definition
AEMC	Australian Energy Market Commission
AER	Australian Energy Regulator
Ancillary RS	Ancillary Reference Service
Capex	capital expenditure
JGN	Jemena Gas Networks
NER	National Electricity Rules
NGL	National Gas Law
NSW	New South Wales
NGO	National Gas Objective
NGR	National Gas Rules
Opex	operating expenditure
RPP	Revenue and pricing principles
Transportation RS	Transportation Reference Service