Final decision

Jemena Gas Networks (NSW) access arrangement 2025 to 2030

(1 July 2025 to 30 June 2030)

Attachment 4 – Regulatory depreciation

May 2025

AUSTRALIAN ENERGY REGULATOR

Inquiries about this publication should be addressed to:

Australian Energy Regulator
GPO Box 3131
Canberra ACT 2601
Email: aerinquiry@aer.gov.au
Tel: 1300 585 165

AER reference: AER22005460

Amendment record

Version	Date	Pages
1	14 May 2025	29

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. 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.

This 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

4 Regulatory depreciation

Depreciation is a method used in our determination to allocate the cost of an asset over its useful life. It is the amount provided so capital investors recover their investment over the economic life of the asset (otherwise referred to as 'return of capital'). When determining the total revenue for Jemena Gas Networks' (JGN) distribution network in New South Wales (NSW), we include an amount for the depreciation of the projected capital base.[1] Under the building block framework, regulatory depreciation consists of the net total of the straight-line depreciation less the indexation of the capital base.

This attachment sets out our final decision on JGN's regulatory depreciation amount for the 2025–30 access arrangement period (period). It sets out our final decision on accelerated depreciation relating to uncertainty around the future usage of its gas distribution network and the expected economic lives used for forecasting depreciation.

4.1 Final decision

Our final decision is to determine a regulatory depreciation amount of $518.4 million ($ nominal) for JGN for the 2025–30 period. This represents a reduction of $117.0 million (18.4%) from JGN's proposed regulatory depreciation amount of $635.4 million ($ nominal). This reduction is primarily driven by our final decision on a lower accelerated depreciation amount for the 2025–30 period. This is partly offset by a lower expected inflation rate determined in our final decision, which reduces the adjustment for indexation of the capital base that is deducted from the straight-line depreciation amount in calculating the regulatory depreciation amount.

The regulatory depreciation amount is the net total of the straight-line depreciation less the inflation indexation of the capital base. JGN's straight-line depreciation is impacted by our decision on accelerated depreciation (section 4.4.1), its opening capital base as at 1 July 2025 (Attachment 2), forecast capital expenditure (capex) (Attachment 5) and standard asset lives (section 4.4.2). Our final decision straight-line depreciation for JGN is $136.1 million ($ nominal) lower than JGN's revised proposal. This is largely driven by our decision to reduce the amount of accelerated depreciation.

The indexation of the capital base is impacted by our decision on JGN's accelerated depreciation, its opening capital base (Attachment 2), forecast capex (Attachment 5) and the expected inflation rate (Attachment 3).[2] Our final decision indexation on JGN's projected capital base is $19.1 million lower than proposed by JGN. This is largely because of the lower expected inflation rate of 2.72% per annum for the 2025–30 period compared to 2.80% per annum in JGN's revised proposal.

---

1 NGR, r. 76(b).

2 Capex enters the capital base net of forecast disposals (and capital contributions where relevant). It includes equity raising costs (where relevant) and the half-year weighted average cost of capital (WACC) to account for the timing assumptions in the AER's PTRM. Our final decision on the capital base (Attachment 2) also reflects our updates to the WACC for the 2025–30 period.

The reduction to straight-line depreciation (due to lower accelerated depreciation) has more than offset the reduction in indexation of the capital base, resulting in a lower regulatory depreciation amount compared to the revised proposal.

Table 4.1 sets out our final decision on JGN's regulatory depreciation amount over the 2025–30 period.

Table 4.1 AER's final decision on JGN's regulatory depreciation for the 2025–30 period ($ million, nominal)

	2025–26	2026–27	2027–28	2028–29	2029–30	Total
Straight-line depreciation	188.9	200.7	213.1	224.6	235.7	1,063.0
Less: Inflation on opening capital base	104.6	107.4	109.7	111.1	111.8	544.7
Regulatory depreciation	**84.3**	**93.3**	**103.4**	**113.4**	**123.9**	**518.4**

Source: AER analysis.

4.2 JGN's revised proposal

JGN proposed a total forecast regulatory depreciation amount of $635.4 million ($ nominal) for the 2025–30 period, as set out in Table 4.2.

Table 4.2 JGN's revised proposed regulatory depreciation for the 2025–30 period ($ million, nominal)

	2025–26	2026–27	2027–28	2028–29	2029–30	Total
Straight-line depreciation	215.8	227.3	240.0	252.0	264.1	1199.2
Less: inflation on opening capital base	107.9	110.7	113.6	115.5	116.0	563.8
Regulatory depreciation	**107.9**	**116.6**	**126.3**	**136.4**	**148.0**	**635.4**

Source: JGN, *Att 7.5M – PTRM – Step 2*, January 2025.

To calculate the depreciation amount, JGN used a similar approach to its initial proposal. It adopted the draft decision position in relation to regulatory depreciation, with the exception that it proposed a higher accelerated depreciation of $230 million ($2024–25) compared to the $156 million ($2024–25) in our draft decision.

JGN's revised proposal on accelerated depreciation

JGN did not accept our draft decision accelerated depreciation amount of $156 million, instead proposing $230 million in its revised proposal. It stated that this amount is the bare minimum it would require to manage stranded asset risk and better meets the long-term interests of its customers associated with the uncertainty around the future demand of its gas network arising from the NSW Government's 2050 net zero target.

JGN submitted that our draft decision approach of targeting a real 0% 'base' price increase limit fails to act on the opportunity to apply accelerated depreciation while there is still a large customer base to share the cost recovery of the capital investment, and that our draft

decision was inconsistent with the national gas objective (NGO) and revenue and pricing principles in the National Gas Law (NGL), and the depreciation criteria in the National Gas Rules (NGR) rule 89.[3]

To support its claims, JGN commissioned Houston Kemp to compare our draft decision approach and reasoning for the accelerated depreciation amount with JGN's proposal, and to consider which approach would better align with these elements of the NGL and the NGR. In its report to JGN, Houston Kemp concluded that JGN's approach had better alignment.[4]

4.3 Assessment approach

We have followed our assessment approach for regulatory depreciation from our draft decision. Attachment 4 (section 4.3) of our draft decision details that approach.[5]

4.4 Reasons for Final decision

We accept JGN's proposed straight-line depreciation method for calculating the regulatory depreciation amount as set out in the post-tax revenue model (PTRM) and the year-by-year tracking approach to implement this method. However, we have reduced JGN's revised proposed forecast regulatory depreciation to $518.4 million ($ nominal) for the 2025–30 period, which is $117.0 million (18.4%) lower compared to JGN's revised proposal. This reduction is mainly due to our reduction to accelerated depreciation applied in this final decision. The reduction is partially offset by the lower expected inflation rate we have applied (Attachment 3).

Our assessment of JGN's accelerated depreciation, including the economic asset lives for the 2025–30 period is discussed in the following subsections.

4.4.1 Accelerated depreciation due to stranded asset risk

In this final decision, we maintain our draft decision position to apply a measured start to accelerated depreciation for reducing stranded asset risk associated with long term demand uncertainty. However, we do not accept JGN's revised proposed accelerated depreciation amount of $230 million, and instead determine a reduced amount of $115 million for the 2025–30 period. This amount is calculated by summing up the following two components:

- A baseline accelerated depreciation amount of $77 million. This is calculated by shortening the economic lives of multiple long-lived asset classes for new capex for the 2025–30 period as well as the opening capital base as at 1 July 2025, consistent with NGR rule 89(1)(b) and (c).
- An additional accelerated depreciation amount of $38 million. This is calculated by reducing the capital base of the 'Medium Pressure Services' asset class (as it faces greater stranded asset risk) to set an overall 'base' real price increase limit as a

---

3 JGN, *Revised proposal – Att 7.2 – Depreciation*, January 2025, pp. iii and 1.

4 JGN, *Houston Kemp – RP – Att. 3.1 – Smoothing cost recovery when gas demand is declining*, January 2025, p. iii.

5 AER, *Draft decision - JGN access arrangement 2025–30 - Attachment 4 - Regulatory depreciation,* November 2024, pp. 3–10.

guardrail.[6] This additional accelerated depreciation provides flexibility to promote efficient growth (including negative growth) in the market for reference services, consistent with NGR rule 89(1)(a). For the final decision, we apply an annual 'base' real price increase limit of 0.5% to determine this additional accelerated depreciation amount.

In the final decision, we have applied a modified 'base' real price increase limit approach from that applied in our draft decision. We consider this modified approach addresses JGN and Houston Kemp's concerns that the 'base' real price increase limit approach applied in the draft decision is inconsistent with the NGR and NGL.

We are allowing an amount of accelerated depreciation in addition to the baseline amount to provide a more meaningful start of accelerated depreciation to ensure JGN is not deterred from making efficient investments, which is required to maintain safe and reliable services for an ageing network.

The national gas regime is not well equipped to deal with a network in decline and was developed at a time when the gas market was growing and was expected to continue to expand. Since then, the market has begun to evolve in ways unforeseen when the rules were developed. Stakeholders have indicated concerns regarding the current national gas regulatory framework, and the impact that it has in making decisions for the future.

We have been challenged by some stakeholders who submitted that accelerated depreciation should not be allowed at all.[7] For example, Justice and Equity Centre (JEC) submitted that 'we regard use of accelerated depreciation as a measure to mitigate future stranding risk as fundamentally inappropriate and an inherent risk that consumers will pay an unreasonable share of stranding risk mitigation costs'.[8] However, we also recognise the potential stranded asset risk faced by JGN. Making a start on accelerated depreciation is necessary to ensure that JGN is not deterred from making efficient investments required to maintain safe and reliable services for an ageing network in the long-term interest of consumers.

Our final decision is to allow a measured start to accelerated depreciation, rather than none. However, any amount of accelerated depreciation must be balanced against price impacts and affordability. There is a real risk that adopting a policy of accelerating depreciation, without clearly defined limits, would be likely to result in large and repeated increases in future gas prices. This would not align with the long-term interests of customers, as it risks the use of the network (including the number of customers) to decline faster than anticipated, which further increases the risk of asset stranding and of costs being borne by an even

---

6 We calculate the additional accelerated depreciation amount using a 'base' real price increase limit to exclude the impact of incentive schemes, in order to preserve the intended objectives of these schemes. Any rewards from these schemes effectively reduce the accelerated depreciation amount under our price constraint approach, This may create perverse incentives for networks to not pursue efficient expenditure in the current period in return for potential higher accelerated depreciation (if any) in the subsequent regulatory period. After determining the accelerated depreciation amount, we have then added the incentive schemes amounts back to unsmoothed revenues for revenue smoothing to determine an overall real price increase of 1.0% for each year of the 2025–30 period.

7 ECA, *Submission on JGN's 2025–30 revised proposal and draft decision*, February 2025, p. 2; JEC, *Submission on JGN's 2025–30 revised proposal and draft decision*; February 2025, p. 2.

8 JEC, *Submission on JGN 2025−30 revised proposal and draft decision*, February 2025, p. 3.

smaller number of customers in the future. As such, in determining the amount of accelerated depreciation, we have applied a limit on the real price increase as a guardrail.

Compared to the draft decision, the final decision rate of return is higher, and the final decision expected inflation is lower. These updates have led to higher revenues and in turn prices for the final decision. Considering this, our final decision applies a higher 'base' real price increase limit of 0.5% compared to the 0.0% determined at the draft decision. Despite this increased limit, our final decision determines a lower total accelerated depreciation amount of $115 million compared to the $156 million at the draft decision, offsetting some of the impact of increased revenues from changes in the rate of return and expected inflation being borne by JGN's customers. The higher rate of return and lower expected inflation alone has led to a $84 million (2.7%) increase in total revenue compared to the draft decision. We reduced the accelerated depreciation amount to limit the further upward pressure on prices from accelerated depreciation.

We consider the reduced accelerated depreciation amount strikes a balance between the need for a start of accelerated depreciation to promote efficient investment, and the need to limit the impact of accelerated depreciation on consumers, particularly at a time when energy affordability continues to be a key issue during the energy transition. This reduced amount also reflects the outlook and strength of policy signals surrounding the future role of JGN's gas network in NSW at the present time. We note that unlike Victoria[9] and the ACT[10], there is currently no statewide ban on new gas connections or a gas substitution roadmap in NSW. Even after the publication of a roadmap, there may still be a period of uncertainty regarding the speed of electrification and the materialisation of this impact on gas demand. As such, we consider more accelerated depreciation at this stage is not appropriate given the evolving policy environment in NSW.

Our decision to allow accelerated depreciation is also consistent with our decision for a declining demand forecast for the 2025–30 period, and lower alternative forecast capex, which does not contain any significant growth capex. We consider that accelerated depreciation and minimising capex are both necessary to reduce stranded asset risk.

Addressing the broader issues in the gas sector requires a holistic policy response. While accelerated depreciation can be used as a tool for reducing asset stranding risk, it has limitations and on its own cannot resolve the issues faced by the gas networks and customers from anticipated declining demand. Declining demand is ultimately the key driver of rising future network prices. So long as demand continues to decline, no affordable amount of accelerated depreciation will achieve long-term price stability. We continue to encourage an open discussion between consumers, network businesses and governments regarding who should pay for the costs of stranded assets associated with past and future capital investments, and when and how these costs are shared.

---

9 The Victorian Government has banned natural gas connections in all new homes that require a planning permit in the state form 1 January 2024. This policy does not apply to existing homes or new homes that do not require a planning permit. Victorian Government: *Victoria's gas substitution roadmap*, September 2023.

10 The ACT Government has banned new gas network connections in certain circumstances since 8 December 2023; ACT Government: *Canberra's Electrification pathway*, accessed on 6 November 2024.

Our reasons for the final decision on accelerated depreciation are discussed below.

4.4.1.1 Accelerated depreciation as a regulatory tool

In its submissions, Energy Consumers Australia (ECA) and JEC maintained their views that accelerated depreciation is a transfer of stranded asset risk to consumers. They submitted that accelerated depreciation should only be approved until there is a broader policy framework in place to protect consumers from the risk of stranded gas network, and that more clarity on cost and risk sharing arrangements is needed.[11]

The current national gas framework is not well equipped to deal with a network in decline and was developed at a time when the gas market was growing and was expected to continue to expand. Since then, the market has begun to evolve in ways unforeseen when the rules were developed. As outlined in our Information paper on Regulating gas pipelines under uncertainty, '…The regulatory framework does not appear to contemplate a scenario of curtailment or decline in natural gas demand, or that gas networks may have an end-life'.[12] Notwithstanding this, our decision on the issue of accelerated depreciation must abide by the current national gas regulatory framework.

We consider that the regulatory framework is designed to provide appropriate incentives for a regulated business to invest with the expectation it will be provided a reasonable opportunity to recover its efficient investments, including a normal return on the investments. The regulatory framework does not provide compensation for stranded asset risk via the return on capital. Where there is evidence of stranded asset risk, we consider adjusting the depreciation schedule remains the most accessible regulatory tool. This is supported by Consumer Challenge Panel (CCP31). In its submission, CCP31 supports our draft decision in allowing some level of accelerated depreciation and a principles-based approach in determining a prudent and efficient amount of accelerated depreciation.[13]

When there is sufficient evidence of stranded asset risk, this would likely impact on the design of the depreciation schedule having regard to the depreciation criteria in NGR rule 89(1). These criteria proceed on the basis that each group of assets has a specified asset life:

- The first step (for the purposes of NGR rule 89(1)(b) and (c)) is to consider the asset life for each asset class, and to decide whether to adjust (including to reduce) the asset life "as far as reasonably practicable" to reflect any change in the expected economic life for that asset class.
- If the resultant depreciation schedule from the first step results in a depreciation amount that is too low to allow reference tariffs to vary over time in a way that promotes efficient growth (including negative growth) in the market for reference services (NGR rule 89(1)(a)), we may determine an additional amount of depreciation. That is, the design of the depreciation schedule may incorporate additional accelerated depreciation.

---

11 ECA, *Submission on JGN's 2025–30 revised proposal and draft decision*, February 2025, p. 3; JEC, *Submission on JGN's 2025–30 revised proposal and draft decision*; February 2025, p. 5.

12 AER, *Regulating gas pipelines under uncertainty – Information paper*, November 2021, p. 59.

13 CCP31, *Advice to the AER - JGN 2025–30 revised access arrangement and draft decision*, February 2025, p. 15.

Consistent with NGR rule 89(1), our final decision is to allow accelerated depreciation in recognition that the expected economic life of JGN's capital base has been affected to some extent due to current evidence indicating that demand for natural gas is likely to gradually decline in NSW in the long-term arising from the NSW Government's 2050 net zero target. This is discussed in section 4.4.1.2. Further, we consider that an additional amount of accelerated depreciation is required to provide a more meaningful start of accelerated depreciation. However, we consider that any reasonable amount of accelerated depreciation must be affordable for consumers, and we have therefore decided to apply a 'base' real price increase limit approach as a guardrail. This is discussed in section 4.4.1.4.

We consider allowing a measured start to accelerated depreciation provides the right incentive for JGN to continue making efficient investments to maintain safe and reliable services to an ageing network during the transition to net zero. Taking no action now to reduce stranded asset risk may potentially deter these important investments which is inconsistent with the NGO.

4.4.1.2 Expected economic lives of JGN's assets for the 2025–30 period

In this final decision, we have reduced the standard and remaining asset lives as at 1 July 2025 for several asset classes associated with JGN's high pressure (HP) pipelines[14] and medium pressure (MP) pipelines.[15] Reducing the asset lives provides a baseline accelerated depreciation amount of $77 million. This is the first component of the final decision total amount of accelerated depreciation ($115 million) for the 2025–30 period. Our consideration of an additional amount of accelerated depreciation is discussed in section 4.4.1.3.

JGN's standard asset lives (and remaining asset lives) reflect the period over which the assets are expected to be used until the end of their technically designed lives (technical lives). Instead of their technical lives, we may determine shorter asset lives for assets that are subject to increased stranding risk to reflect the period in which they are expected to be in economic use (expected economic lives).

JGN has about $3.4 billion opening capital base of as at 1 July 2025 associated with its HP and MP pipelines that are most at risk of stranding due to the long-lived nature of these assets.[16] We note that more than $2.0 billion (about 60%) of these assets have a remaining asset life as at 1 July 2025 that extends beyond the NSW Government's 2050 net zero emissions target date.

We consider the expected economic lives of these assets are now shorter than their technical lives based on current evidence of increased stranded asset risk due to demand uncertainty. We consider a reduced expected economic life of 50 years for HP pipelines and 30 years for the MP pipelines are reasonable for the 2025–30 period. These reduced asset lives are consistent with that approved for Evoenergy's 2021–26 access arrangement for

---

14 We determine a reduced 50-year economic life for the 'Trunk Wilton-Sydney', 'Trunk Sydney-Newcastle', 'Trunk Wilton-Wollongong' and 'HP mains' asset class.

15 We determine a reduced 30-year economic life for the 'Fixed-Plant Distribution', 'MP mains' and 'MP Services' asset class.

16 This reflects the combined opening capital base as at 1 July 2025 for the Trunks, HP Mains, MP Mains, MP Services and Fixed Plant distribution asset class.

similar assets.[17] We will reassess these shortened asset lives in future assess arrangement periods if the natural gas substitution pathways or actual demand turn out to be different than expected.

In the draft decision, we acknowledged that the expected economic lives of JGN's capital base have been affected to some extent by NSW Government's 2050 net zero emissions target. However, we considered that a full existing capital base recovery by 2046 reflected in JGN's initial proposal is not justified. JGN's initial proposal noted that fully depreciating its existing capital base by 2046 would require a sustained accelerated depreciation amount of around $300 million per future access arrangement period.[18] We considered that there is still uncertainty regarding the future role of the gas network in NSW during the energy transition and to what extent the economic lives of JGN's assets have been affected.

In its revised proposal, JGN submitted that the time horizon for assessing depreciation recovery should be informed by the 25-year period to the NSW's 2050 net zero emissions reduction target date. Referring to its consultant Houston Kemp's report, JGN stated that its revised proposed $230 million accelerated depreciation for the 2025–30 period is more reflective of the reduced expected economic life of JGN's network, which will likely cease operation by 2050.[19]

We note that a sustained accelerated depreciation of $230 million per future access arrangement period is equivalent to shortening the asset lives of JGN's network assets, such that the existing opening capital base and new capex invested for the 2025–30 is fully recovered by 2049 (assuming no further capex investment beyond 2030). We do not consider that the expected economic lives of its network should be reduced to align with the net zero emission target date. Notwithstanding a legislated target date of 2050 in NSW, there is currently no evidence to suggest that JGN's entire network will be decommissioned or retired completely by 2050. Further, we do not consider it reasonable to assume that all JGN's assets face the same level of stranding risk or to therefore apply the same level of reduction to asset lives, as implied in JGN's revised proposal.

Based on current evidence, we consider that the reasonable approach is to assign asset lives which are longer than the 2050 target but shorter than the technical lives of the assets, which vary between the asset classes associated with MP pipelines and HP pipelines.

JGN's medium pressure pipelines

We consider that the MP pipelines (which predominantly service residential and small business customers) currently face a greater risk of stranding compared to the HP pipelines (which service larger industrial customers). This is because JGN's residential and small business customers are more likely to transition away from gas compared to industrial customers. This is largely consistent with Australian Energy Market Operator (AEMO)'s 2024 Gas Statement of Opportunities (GSOO) which shows that demand for natural gas by

---

17 AER, *Final decision - Evoenergy access arrangement 2021-26 - Attachment 4 - Regulatory depreciation*, April 2021, p. 12.

18 JGN, *Initial proposal: Att 7.3 – Depreciation approach,* June 2024, p. 39; Full recovery of the existing opening capital base as at 1 July 2025 by 2046 does not take into account of ongoing capex investments from 2025 onwards.

19 JGN, *Revised proposal – Att 7.2 – Depreciation*, January 2025, pp. 3 and 12.

residential and commercial customers in NSW is forecast to decline in the medium to long term as the economy transitions to meet net zero emissions by 2050 (as shown in Figure 4.1).

We also consider there is currently stronger evidence for electrification and more limited evidence suggesting the long-term viability of hydrogen and/or renewable gases for residential use during the energy transition to net zero in many jurisdictions in Australia. Specifically, we note:

- The NSW Government has also updated its Building Sustainability Index (BASIX) to support electrification of new developments to support its 2050 target.[20] Strong policy signals such as bans on new gas connections have been proposed or implemented by some local councils within JGN's network area.[21]
- The Australian Government released its Future Gas Strategy in May 2024 which acknowledges that gas will have a limited role in the future and identified that households and small businesses will have largely electrified by 2050 with low emissions gas playing some role in the transition.

As such, we consider a reduced economic life of 30 years for MP pipelines to be reasonable, as it reflects the higher likelihood of electrification as the pathway for residential customers to transition to net zero by 2050.

JGN's high pressure pipelines

The pathway for large industrial customers is less clear. As such, we consider a reduced economic life of 50 years for HP pipelines, which is about the midpoint between 2050 and the 2105 technical life end-date, to be more reasonable.

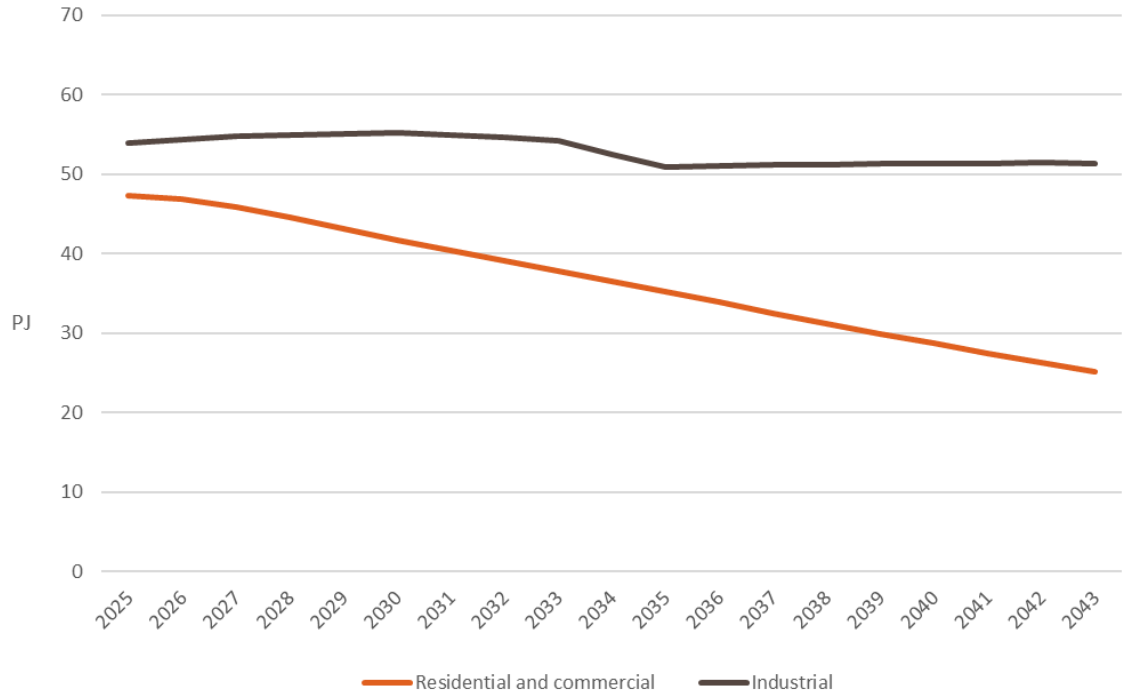
There is currently less evidence of declining demand from large industrial customers. We note that AEMO's long term forecast demand for these customers is expected to remain relatively stable (as shown in Figure 4.1). However, we consider a declining residential customer base would impact the future usage of HP pipelines to some degree. As residential customers disconnect, industrial customers will be required to pay a greater proportion of the network costs and will face higher prices as they may not be able to electrify as easily or unable to substitute gas. As such, we consider the expected economic life of HP pipelines is also reduced to some degree, but not to the extent of the MP pipelines.

---

20 BASIX is part of NSW's development application process. It mandates building standards to achieve reductions in water and energy consumption and greenhouse gas emissions. On 1 October 2023, the thermal and energy BASIX standards were increased which make it easier for electric homes to meet these higher standards.

21 Waverly Council, City of Sydney, Parramatta, Canterbury-Bankstown have all proposed or implemented bans on new gas connections. See JGN, *JGN 2025 Plan*, June 2024, p. 51.

Figure 4.1 NSW total gas throughput outlook for residential and industrial customers: AEMO progressive change scenario (PJ)



Source: AEMO, *GSOO 2024: Gas forecasting data portal*, March 2024.
Note: AEMO 2024 GSOO only provides data for a 20-year outlook period for natural gas demand and is inclusive of gas throughput in the ACT.

Table 4.3 sets out our final decision on the reduced economic lives for JGN's long-lived asset classes for the final decision. This is further discussed in section 4.4.2.

Table 4.3 Economic lives for long-lived assets (years)

Asset class	Technical life (years)	Economic lives (years)– Final decision[b]
Trunks[a]	80	50 (Reduced)
HP mains	80	50 (Reduced)
HP services	50	50 (Unchanged)
MP mains	50	30 (Reduced)
MP services	50	30 (Reduced)
Fixed Plant distribution	50	30 (Reduced)

Source: AER analysis.
(a) Trunks includes the 'Trunk Wilton-Sydney', 'Trunk Sydney-Newcastle' and 'Trunk Wilton-Wollongong' asset classes.
(b) The reduced economic lives in our final decision applies to each asset class's standard asset lives and remaining asset lives as at 1 July 2025.

4.4.1.3 Additional accelerated depreciation

As a starting point, reducing the economic lives for the long-lived asset classes results in a baseline accelerated depreciation of $77 million. The baseline accelerated depreciation amount reflects a small portion of about 2.0% of JGN's opening capital base that are facing increased stranding risk, which is much lower than the 4.1% provided in the draft decision and the aggregated proportion of 6.4% approved for the Victorian distributors.

We consider the baseline amount is too low to allow reference tariffs to vary over time in a way that promotes efficient growth (including negative growth) in the market for reference services. As such, we consider that additional accelerated depreciation is required to provide a more meaningful start of accelerated depreciation so that JGN is not deterred from making efficient investments required to maintain safe and reliable services for an ageing network in the long-term interest of consumers. This is because JGN's pipeline assets will remain in use and continue incurring ongoing maintenance and replacement costs which are necessary to maintain safe and reliable network services for the remaining customers on an ageing network. Taking no action to reduce asset stranding risk now may potentially deter these important investments which would not be in the long-term interests of consumers.[22] The way in which we have determined this additional accelerated depreciation amount ($38 million) is discussed further in section 4.4.1.4.

We have allowed this additional accelerated depreciation for the 'Medium Pressure Services' asset class as we consider this asset class faces greater stranded asset risk, which JGN has identified to service predominately residential customers compared to the high-pressure pipelines that service large industrial customers.[23] We have amended the final year asset adjustment capital base reallocation amount for this asset class in the roll forward model (RFM) to $45.3 million ($ nominal) as at 1 July 2025, to target an accelerated depreciation amount of $38 million.[24]

Together with the baseline accelerated depreciation, our final decision determines a total accelerated depreciation of $115 million for the 2025–30 period, which is about 3.0% of JGN's opening capital base.

4.4.1.4 The 'base' real price increase limit approach as a guardrail

Consistent with our draft decision, we apply a limit on the real price increase in determining the amount of accelerated depreciation for the final decision as a guardrail. We apply this approach to allow the depreciation schedule (and in turn prices) to be adjusted in a way that better promotes efficient growth (including negative growth) in the market for reference services, consistent with NGR rule 89(1)(a).

JGN submitted that the 0% 'base' real price increase limit in our draft decision is arbitrary, unfair and has no economic basis. Energy Networks Australia and JEC submitted that where

---

22 NGL, s. 23.

23 JGN, *Initial proposal Att 7.3 – Depreciation approach*, June 2024, p. 4.

24 This is a capital base reallocation and does not affect the total value of the opening capital asset base at 1 July 2025. Note the asset adjustment value of $45.3 million will not match the target accelerated depreciation amount of $38 million over the 2025–30 period due to asset adjustment offsets in the RFM depreciation tracking module.

regulatory judgement and discretion has been applied, further explanation needs to be provided on how the price increase limit approach satisfies the NGR and NGL.[25]

There are different ways that a depreciation schedule can be adjusted to achieve accelerated depreciation. Some common methods include:

- **Shortening asset lives** – The asset lives used to calculate the straight-line depreciation can be reduced to reflect the shorter expected economic lives of the assets. We have applied this approach in our 2021–26 decision for Evoenergy and our 2023–27 decision for APA Victorian Transmission System.
- **Front-loading depreciation method** – Using methods like the sum-of-the-years' digits (SYD) or the diminishing value method instead of straight-line depreciation result in higher depreciation being calculated in earlier years of the asset's life. We note that unlike the National Electricity Rules, the NGR does not specify a particular depreciation method to be applied for regulatory depreciation purposes. However, our gas regulatory models adopt straight-line depreciation as the default method. We have not departed from the straight-line method in our past decisions.

While these methods allow depreciation schedule to be adjusted for reduced economic lives, they do not dynamically link the level of accelerated depreciation with revenue and price outcomes. Shortening the asset lives (if straight-line depreciation is applied), may not generate sufficient accelerated depreciation to meaningfully reduce stranded asset risk. On the other hand, front-loading depreciation (such as SYD) could accelerate cost recovery too aggressively, leading to increased risk of stranded assets if the resulting price increase is significant. In addition, once a front-loading depreciation method is implemented, it can be difficult to reverse, leading to more permanent impact on price trajectory. Table 4.4 compares the level of accelerated depreciation under the straight-line and the SYD methods.

Table 4.4 Accelerated depreciation under straight-line and SYD methods

Depreciation method	Reduced economic lives	Accelerated depreciation 2025–30 ($m, 2024–25)	AD as a proportion of opening capital base	Resulting real price increase including incentive schemes
Straight-line	Yes	$77m	2.0%	0.5% p.a.
SYD	Yes	$547m	14.2%	6.2% p.a.

Source: AER analysis.
Note: AD = Accelerated depreciation.

Compared to these methods, our 'base' real price increase limit approach offers more flexibility, allowing the depreciation schedule (and in turn prices) to be adjusted in a way that better promotes efficient growth (including negative growth) in the market for reference services, consistent with NGR rule 89(1)(a). Under this approach, the immediate price impact of accelerated depreciation is limited when other costs are high (such as high interest rates). This ensures better stability of prices over time, promoting efficient use of reference services.

[25] JEC, *Submission on JGN's 2025–30 revised proposal and draft decision*, February 2025, p. 4; ENA, *Submission and attachment on JGN's 2025–30 revised proposal and draft decision*, February 2025, pp. 3–4.

Conversely, more accelerated depreciation can be applied when other costs are low (such as low interest rates), which would help offset some of the price impact from accelerated depreciation. This increases the likelihood of cost recovery, providing incentive for efficient investment.

The 0.5% 'base' real price limit for the final decision

In arriving at our draft decision, the 0% limit was not the sole factor we considered when determining the amount of accelerated depreciation. Rather we applied it as a constraint so that the depreciation schedule would be adjusted consistent with NGR rule 89(1)(a). In our draft decision, we noted that there may be scope to choose a different 'base' real price increase limit at the final decision if there is sufficient evidence to justify a different limit.

Compared to the draft decision, the final decision rate of return is higher and the final decision expected inflation is lower. These updates have led to higher revenues and in turn prices for the final decision. The higher rate of return and lower expected inflation alone has led to a $84 million (2.7%) increase in total revenue compared to the draft decision. Maintaining the 0% base increase limit would not provide any additional accelerated depreciation above the baseline amount of $77 million. As discussed above, we consider this baseline amount is too low to provide a meaningful start of accelerated depreciation to ensure JGN is not deterred from making efficient investments required to maintain safe and reliable services for an ageing network.

In light of this, we consider that a higher 'base' real price increase limit of 0.5%, compared to the 0% in the draft decision, is more appropriate for the final decision. Despite this increased limit, our final decision determines a lower total accelerated depreciation amount of $115 million compared to the $156 million at the draft decision. This reduction offsets some of the impact of increased revenues from changes in rate of return and expected inflation, thereby limiting further upward pressure on revenue (and, in turn, on prices) caused by accelerated depreciation.

Table 4.5 demonstrates the price impact of accelerated depreciation in our final decision. Our final decision results in a real price increase of 1.0%, after adding back the incentive scheme amounts. This translates to an increase in the average residential bill of $12 per annum for the 2025–30 period. Had we accepted JGN's proposed $230 million of accelerated depreciation in our final decision, the real price increases would be materially higher at 2.5% per annum. This translates to a higher average residential bill increase of $18 per annum.

Table 4.5 Price impact of accelerated depreciation for the 2025–30 period

Scenario	AD amount over 2025–30 period ($2024–25, million)	Real price increase including incentive schemes (%, p.a.)	Nominal residential average annual bill impact ($, p.a.)[b]	AD as a proportion of opening capital base
JGN's revised proposed AD	**$230 million**	**2.5%**	**$18 (2.2%)**	**6.0%**
AER draft decision AD	**$156 million**	**1.5%**	**$14 (1.8%)**	**4.1%**
AER final decision – Baseline AD plus additional AD	**$115 million**	**1.0%[a]**	**$12 (1.5%)**	**3.0%**

Scenario	AD amount over 2025–30 period ($2024–25, million)	Real price increase including incentive schemes (%, p.a.)	Nominal residential average annual bill impact ($, p.a.)[b]	AD as a proportion of opening capital base
Baseline $77 million AD only from shortened economic lives	**$77 million**	**0.5%**	**$11 (1.3%)**	**2.0%**

Source: AER analysis.
Note: AD = Accelerated depreciation.
(a) Our final decision applies a 'base' real price increase limit of 0.5% per annum before incentive schemes.
(b) Based on typical gas consumption of 15 GJ for a residential customer. Bill impact is compared to a nominal annual residential gas bill of $771 for 2024–25.

We consider that the reduced accelerated depreciation amount strikes a balance between the need for a start of accelerated depreciation, to promote efficient investment, and the need to limit the price impact of accelerated depreciation on consumers, particularly at a time when energy affordability continues to be a key issue during the energy transition. This reduced amount also reflects the outlook and strength of policy signals surrounding the future role of Jemena's gas network in NSW at the present time. We note that unlike Victoria[26] and the ACT[27], there is currently no statewide ban on new gas connections or a gas substitution roadmap in NSW. As such, we consider more accelerated depreciation at this stage is not appropriate given the evolving policy environment in NSW.

Further, we do not agree with JGN's revised proposal for a higher accelerated depreciation amount compared to the draft decision. We also do not agree with its revised proposal for a 'base' price increase limit of 1.5% or a 'remittal adjusted' base price increase limit of 0% for determining accelerated depreciation amount. In the sections below, we discuss our consideration of the key issues raised by JGN and Houston Kemp, including:

- Accelerated depreciation's role in promoting the NGO and moderating long-term price increases (section 4.4.1.5).
- Reasonable opportunity to recover at least efficient costs (section 4.4.1.6).
- JGN's additional customer consultation on accelerated depreciation (section 4.4.1.7).
- The impact of jurisdictional government policies on the future of gas and a 1.5% base price increase limit (section 4.4.1.8).
- JGN's revised proposed adjustment to the 'base' real price increase limit approach to account for the 2015–20 remittal decision (section 4.4.1.9).

[26] The Victorian government has banned natural gas connections in all new homes that require a planning permit in the state form 1 January 2024. This policy does not apply to existing homes or new homes that do not require a planning permit. Victorian Government: *Victoria's gas substitution roadmap*, September 2023.

[27] The ACT government has banned new gas network connections in certain circumstances since 8 December 2023; ACT Government: *Canberra's Electrification pathway*, accessed on 6 November 2024.

4.4.1.5 The NGO and long-term interests of consumers

JGN submitted that a higher accelerated depreciation is more consistent with the NGO, on the basis that it would improve intergenerational equity by reducing the burden of higher long-term prices to future customers.[28] Houston Kemp considered that the lower accelerated depreciation determined in the draft decision would compound higher price increases in the long-term leading to price instability.[29]

We do not agree with JGN and Houston Kemp that higher accelerated depreciation will moderate and reduce long-term price increases. Our long-term modelling demonstrates that a higher accelerated depreciation of $230 million or $300 million in JGN's revised and initial proposal respectively would not meaningfully reduce or moderate long-term price increases.

Figure 4.2 shows our long-term modelling of network prices and customer bills over 2025 to 2050 assuming demand declines to 21% of the current levels by 2050 following AEMO's 2024 GSOO declining trend. The depreciation profiles modelled include a sustained $115 million accelerated depreciation provided per future access arrangement period (red line) compared to $230 million sustained accelerated depreciation (blue line). It demonstrates that a higher amount of sustained accelerated depreciation up to $230 million over multiple periods has the opposite effect to that claimed by JGN – rather than moderating and reducing long-term price increases, it instead compounds the price increases in the long-term due to declining demand. This is depicted by the blue line being above the red line over 2025 to 2050. This shows that higher sustained accelerated depreciation of $230 million (blue line) will lead to higher prices (from declining demand) compared to a sustained accelerated depreciation of $115 million (red line).

It also demonstrates that declining demand is ultimately the key driver of rising prices. So long as demand continues to decline, no affordable amount of accelerated depreciation will achieve long-term price stability. Higher accelerated depreciation in an environment of declining demand will exacerbate upward pressure on prices, potentially triggering an unintended increase in disconnections. This is also noted by JGN in its revised proposal, which stated that the key task is ensuring that the increased pace of capital recovery due to accelerated depreciation does not prematurely accelerate the pace of demand reduction.[30] This simply highlights the limitations of accelerated depreciation as a tool to meaningfully moderate and reduce long-term price increases.

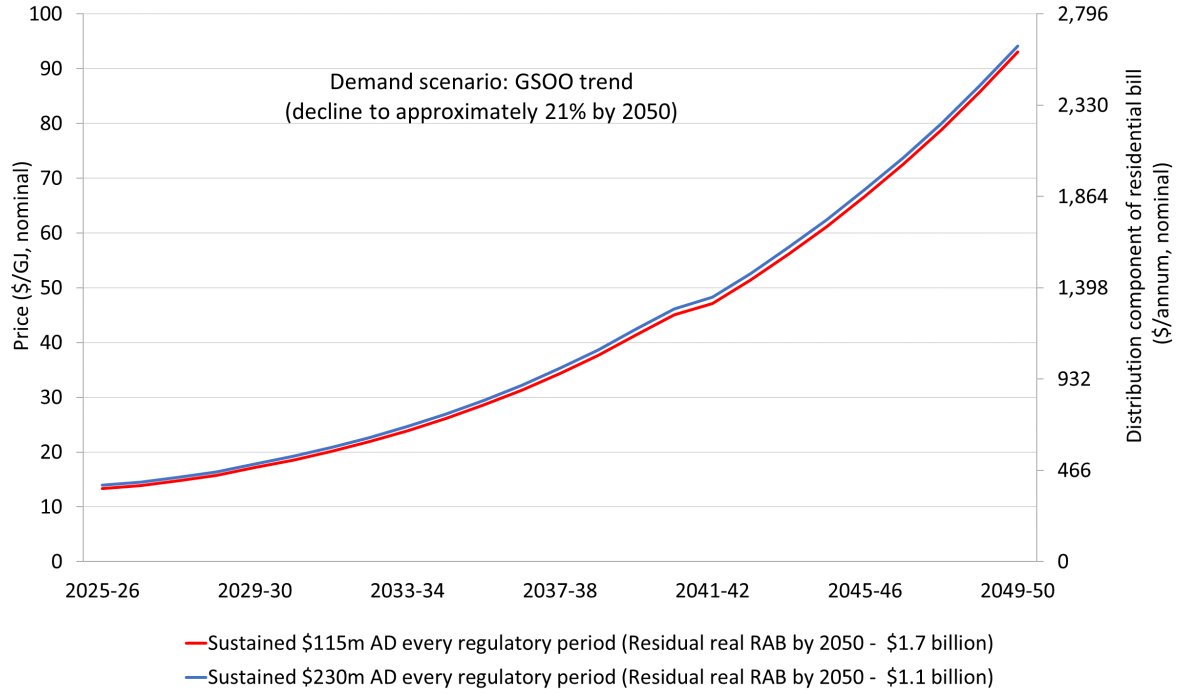
---

28 JGN, *Revised proposal – Att 7.2 – Depreciation*, January 2025, pp. 1–3.

29 JGN, *Houston Kemp – RP – Att. 3.1 – Smoothing cost recovery when gas demand is declining*, January 2025, pp. 20–21.

30 JGN, *Revised proposal – Att 7.2 – Depreciation*, January 2025, p. 2.

Figure 4.2 JGN NSW distribution network prices and residential customer bills ($ nominal)



Source: AER Analysis.

4.4.1.6 Reasonable opportunity to recover at least the efficient costs

JGN submitted that the AER must provide a reasonable opportunity for it to recover its efficient costs. It considered that the draft decision would not sufficiently act upon the opportunity to reduce stranded asset risk whilst there remains a large customer base.[31] Its consultant Houston Kemp stated that delaying action to address JGN's asset stranding risks will reduce the opportunity to recover its efficient costs.[32]

As discussed above, adopting a policy of accelerating depreciation, without clearly defined limits, would not align with the NGO in the long-term interests of customers. Section 24(2) of the NGL sets out a principle, for the AER to take into account, that networks should be provided a '… reasonable opportunity to recover at least the efficient costs the service provider incurs…'. However, this principle does not mean that gas consumers must guarantee that the regulated businesses recover these costs, without considering price affordability and stability.

Therefore, we consider that the accelerated depreciation cannot be provided without constraint to guarantee cost recovery for the regulated businesses. This is because allowing accelerated depreciation without any consideration of price impact would potentially

---

31 JGN, *Revised proposal – Att 7.2 – Depreciation*, January 2025, p. 8; JGN, *Revised 2025 plan*, January 2025, p.15.

32 JGN, *Houston Kemp – RP – Att. 3.1 – Smoothing cost recovery when gas demand is declining*, January 2025, p. 31.

accelerate the pace of demand reduction and may therefore reduce JGN's ability to recover its costs in the longer term.

4.4.1.7 JGN's additional customer consultation

To support its revised proposal accelerated depreciation of $230 million, JGN conducted further customer consultation on the bill impacts of accelerated depreciation via an online survey with approximately 70% of survey respondents supporting an accelerated depreciation amount of $300 million to $400 million. In explaining the concept of accelerated depreciation, JGN emphasised to consumers that higher bills in the short-term due to accelerated depreciation will result in lower or more stable bills in the long-term.[33]

JGN's bill impact analysis assumes accelerated depreciation is only applied for a single regulatory period for 2025–30 and that no further accelerated depreciation is applied in future periods.[34] Declining demand is a long-term issue and JGN has not presented to customers the impact of further accelerated depreciation in future periods on bills. Should JGN seek further accelerated depreciation in future periods, the price reductions presented in JGN's long-term modelling and survey options to customers may not be realised (see our long-term modelling in Figure 4.2 above).

In addition, JGN's long-term bill impact ends in 2045 failing to show the exponential increase in prices and bills during the later years of the energy transition (from 2045 to 2050) due to declining demand and the limitations of accelerated depreciation as a tool for moderating and reducing long-term price increases.[35]

We consider JGN's explanation and simplified nature of the information presented does not provide consumers a full understanding of the combined issue of the impact declining demand and accelerated depreciation have on prices and customer bills. We consider consumers who participated in the survey may not be fully aware of the limitations of accelerated depreciation for reducing long-term bills. Therefore, we do not consider the survey results provide sufficient evidence of customer support for JGN's revised proposed accelerated depreciation of $230 million.

Stakeholder submissions from CCP31, ECA and JEC hold similar views that the survey results cannot be relied on as validation for customer support. CCP31 commented specifically on the survey scope, methodology and interpretation of the results as support for accelerated depreciation. It noted that educated and relatively affluent customers are overrepresented in the sample relative to JGN's customer base, constituting sample bias towards people with greater capacity to pay higher bills. In contrast, CCP31 considered low-income households, including renters, would likely opt for lower rates of accelerated depreciation. CCP31 confirmed with JGN that this overrepresentation of higher income customers was not accounted for during the sample size weighting process.[36] ECA and JEC consider survey participants were not provided with a sufficient knowledge to make a

---

33 JGN, *Sagacity – RP – Att. 2.1 – Accelerated Depreciation Research Report*, January 2025, pp. 8 and 11.

34 JGN, *Response to IR#027*, 12 February 2025.

35 JGN, *Revised 2025 plan*, January 2025, p.9.

36 CCP31, *Advice to the AER - JGN 2025–30 revised access arrangement and draft decision*, February 2025, p. 15.

meaningful decision for a complex topic. This included concerns that the agenda and options presented to consumers was largely set by JGN itself with little to no input from consumer stakeholders on the design, delivery and assessment of the survey results.[37]

Consumer engagement on accelerated depreciation

We provide the following high-level guidance around what key issues we expect network businesses should engage on with its consumers, on the topic of accelerated depreciation and stranded asset risk due to declining demand, to achieve more meaningful engagement.

We expect gas networks to engage on the following key issues with their customers:

- Declining demand and the impact on prices and customer bills. We expect that different declining demand scenarios should be presented to consumers to ensure consumers are provided with a comprehensive understanding of how long-term future gas prices are dependent on the trajectory and pace of declining demand.
- The role and limitations of accelerated depreciation:
  - at a time of significant increase in medium to long term prices due declining demand and cycle of rising gas prices and further customer disconnections
  - in moderating and reducing long-term price increases under different long-term declining demand scenarios. This must include explaining to consumers the price impact of applying accelerated depreciation in multiple access arrangement periods. Given declining gas demand, the issue of stranded asset risk is an ongoing long-term issue that cannot be resolved within a single access arrangement period.
- Consistency between key components of the access arrangement proposal such as demand and expenditure forecasts and the proposal for accelerated depreciation. This includes minimising capex to ensure only prudent and efficient investments are made, which are necessary to maintain the safety and reliability of an ageing network, rather than grow it during a time of uncertainty. We expect that any proposal for accelerated depreciation must be paired with minimising capex to ensure consumers are not paying for two distinct future of gas scenarios.

4.4.1.8 Jurisdictional government policies on the future of gas

JGN submitted that the draft decision 0% 'base' real price increase limit is inconsistent with the 1.5% allowed in our 2023–28 final decisions for the Victorian gas distributors. It submitted that the lack of a state-wide gas connection ban in NSW increases the magnitude of its stranded asset risk and it should therefore be allowed more accelerated depreciation equivalent of up to a price increase limit of 1.5%. JGN also quoted its consultant Houston Kemp's report findings that AEMO's 2024 GSOO projects similar declining in demand in Victoria and NSW, suggesting the differences in policy settings for NSW and Victoria do not have a material impact on demand trajectory.[38]

We note that JGN is still obligated to continue investing and connecting new customers to its network as there is currently no legislation to ban new gas connections in NSW. We agree

---

37 ECA, *Submission on JGN's 2025–30 revised proposal and draft decision*, February 2025, p. 6; JEC, *Submission on JGN's 2025–30 revised proposal and draft decision*; February 2025, pp. 3 and 5–6.

38 JGN, *Revised proposal – Att 7.2 – Depreciation*, January 2025, pp. 4, 5, 16 and 19.

with stakeholders that managing the issue of stranded asset risk needs to be approached holistically. As discussed in the draft decision, we agree with stakeholders' submissions that minimising new capex is also an important tool for reducing stranded asset risk. Together, accelerated depreciation and minimising capex will reduce the capital base over time. We consider that accelerated depreciation and minimising new capex, together, are necessary in order to respond to stranded asset risk.[39] In the absence of a holistic policy response involving consumers, network and government on how to manage the issue of stranded asset risk, it would not be appropriate to allow a greater amount of accelerated depreciation in the 2025–30 period, given the limitations of accelerated depreciation as a tool to reduce stranding risk.

As discussed in our draft decision, we consider that government policies and roadmaps play a crucial role in establishing the pace and future role of gas networks and may give rise to a faster decline in gas usage during the energy transition to net zero by 2050. However, the NSW policy environment is still evolving. Unlike Victoria[40] and the ACT[41], there is currently no statewide ban on new gas connections or a gas substitution roadmap in NSW. We consider the amount of accelerated depreciation should reflect the outlook and strength of policy signals surrounding the future role of JGN in NSW at the present time. As such, we consider higher accelerated depreciation at this stage is not appropriate given the evolving policy environment in NSW.

4.4.1.9 JGN's proposed remittal adjustment

In its revised proposal, JGN submitted that the one-off negative $203 million revenue adjustment from the 2015–20 remittal decision understates the 2024–25 price starting point for the 'base' real price increase limit approach, and therefore should be excluded. Its revised proposal targeted a 0% 'remittal adjusted base' real price increase limit to determine an accelerated depreciation amount of $230 million. To achieve this, it has recalculated a higher hypothetical 2024–25 price, which effectively requires a corresponding increase to the building block revenues for the 2025–30 period to maintain an artificial 0% real price change.[42]

We do not consider JGN's revised proposal to exclude the $203 million remittal handback to be reasonable. The remittal revenue handback was a result of JGN's over-recovery during the 2015–20 period. To maintain price stability and affordability for consumers over the 2025–30 period, we consider that the appropriate starting point for the real price increase limit approach must be based on the actual prices paid by consumers rather than a higher hypothetical 2024–25 price.

Consistent with our draft decision, we exclude the impact of incentive schemes when implementing the 'base' real price increase limit approach to preserve the intended

---

39 AER, *Draft decision - JGN access arrangement 2025–30 - Attachment 4 - Regulatory depreciation*, November 2024, p. 22.

40 The Victorian government has banned natural gas connections in all new homes that require a planning permit in the state form 1 January 2024. This policy does not apply to existing homes or new homes that do not require a planning permit. Victorian Government: *Victoria's gas substitution roadmap*, September 2023

41 The ACT government has banned new gas network connections in certain circumstances since 8 December 2023; ACT Government: *Canberra's Electrification pathway*, accessed on 6 November 2024.

42 JGN, *Revised proposal – Att 7.2 – Depreciation*, January 2025, pp. 14–18.

objectives of the capital expenditure incentive scheme (CESS) and efficiency carryover mechanism (ECM). After determining the accelerated depreciation amount, the incentive schemes amounts are added back to the unsmoothed revenue for revenue smoothing to determine an overall annual real price increase. Any rewards from the CESS and ECM schemes effectively reduce the accelerated depreciation allowance which may create perverse incentives for networks to not pursue efficient expenditure in the current period in return for potential higher accelerated depreciation (if any) in the subsequent regulatory period. However, unlike the incentive schemes, the inclusion of the remittal handback will not create any perverse incentives for networks to not pursue any efficiency gains in the current period. Accordingly, we will not apply an adjustment to account for the remittal handback in this final decision.

4.4.2 Standard and remaining asset lives

4.4.2.1 Reduced standard and remaining asset lives due to accelerated depreciation

As discussed in section 4.4.1.2, we consider the expected economic lives for multiple long-lived asset classes associated with JGN's MP pipelines and HP pipelines are now shorter than their designed technical lives. We consider an economic life of 30 years (reduced from the current 50 years) should apply for the MP pipeline asset classes and 50 years (reduced from the current 80 years) should apply for the HP pipeline asset classes for the 2025–30 period. These reduced economic lives for these assets will apply to:

- the standard asset life used for depreciating new assets associated with forecast capex for the 2025–30 period
- the remaining asset life as at 1 July 2025 for depreciating the opening capital base as at 1 July 2025.

Reduced standard asset lives for MP and HP pipeline assets

Table 4.6 sets out the standard asset life for depreciating the forecast capex over the 2025–30 period for the relevant asset classes associated with the MP and HP pipelines.

Table 4.6 Standard asset lives by asset class – MP pipeline and HP pipeline assets

Asset Class	Current standard asset life (years)	Standard asset life (years) – AER final decision
Trunk Wilton-Sydney	80	50 (Reduced)
Trunk Sydney-Newcastle	80	50 (Reduced)
Trunk Wilton-Wollongong	80	50 (Reduced)
Fixed plant – distribution	50	30 (Reduced)
HP mains	80	50 (Reduced)
HP services	50	50 (Unchanged)
MP mains	50	30 (Reduced)
MP services	50	30 (Reduced)

Source: AER analysis.

Reduced remaining asset life as at 1 July 2025 for MP pipeline and HP pipeline assets

To give effect to the reduced remaining asset lives, we have firstly applied a final year asset adjustment in the RFM to reallocate the capital base as at 1 July 2025 from the existing 'Trunks', 'HP mains', 'MP mains', 'MP services' and 'Fixed Plant distribution' asset classes into 13 new asset classes for the final decision. For each new asset class, with the exception of the 'Fixed Plant distribution' asset class, we created two new corresponding 'pre-2015 capital base' and 'pre-2025 capital base – reduced life' categories:

- **'pre-2015 capital base'** – this category is for the portion of the opening capital base as at 1 July 2025 that is not subject to accelerated depreciation and therefore does not require an adjustment to the existing remaining life. This is because the past capex investments prior to 2015 have a weighted average remaining life (WARL) below the reduced economic life determined in Table 4.6.
- **'pre-2025 capital base – reduced life'** – this category is for the portion of the opening capital base as at 1 July 2025 that is subject to accelerated depreciation. The past capex investments between 2015-25 capex have a WARL, and therefore a depreciation schedule, that extends beyond the reduced economic life set out in Table 4.6. As such, our final decision determines a reduced remaining asset life equivalent to the reduced economic life in Table 4.6.

Our final decision for the 'Fixed Plant – distribution' asset class determines only a corresponding 'pre-2025 capital base – reduced life' category with a reduced remaining life of 30 years. This is because the entire opening capital base for this asset class is subject to accelerated depreciation, as the depreciation schedule for all capex investments prior to 1 July 2025 extend beyond the reduced 30-year economic life as at 1 July 2025.

All 13 of these new asset classes are for accelerated depreciation purposes for the opening capital base as at 1 July 2025 only. As such, there is no forecast capex allocated to these new asset classes, and in turn, no standard asset lives are required for depreciation purposes. We therefore have not assigned a standard life to any of these 13 asset classes.

Future of gas MP Services asset class

As discussed in section 4.4.1.3, our final decision is to provide an additional accelerated depreciation amount of $38 million for the 'MP services pre-2025 capital base - reduced life' asset class. We have implemented this by reallocating a fixed portion of the existing 'MP services pre-2025 capital base - reduced life' asset class into a dedicated 5-year 'Future of gas MP Services' asset class as a final year asset adjustment, with a remaining asset life of 5 years.

In our final decision, we do not assign a standard asset life for JGN's proposed new 'Future of gas MP Services' asset class as it is not used for allocating capex (i.e. has zero forecast capex for the 2025–30 period).

Table 4.7 below sets out the opening capital base as at 1 July 2025 and the corresponding reduced remaining asset life for each of the new asset classes and the remaining asset life for the 'Future of gas MP Services' asset class.

Table 4.7 Opening capital base and remaining asset lives as at 1 July 2025 by asset class - MP pipeline and HP pipeline assets

Asset Class[a]	Opening capital base as at 1 July 2025 ($million)	Current remaining asset life (years)	Remaining asset life (years) – Final decision
Future of Gas MP Services[b]	45.3[c]	5.0	5.0 (Unchanged)
Trunk Wilton-Sydney - pre-2025 capital base - reduced life	1.5	74.7	50 (Reduced)
Trunk Sydney-Newcastle - pre-2025 capital base - reduced life	3.4	75.6	50 (Reduced)
Trunk Wilton-Wollongong - pre-2025 capital base - reduced life	0.8	80.0	50 (Reduced)
Fixed Plant - Distribution - pre-2025 capital base - reduced life	205.0	47.6	30 (Reduced)
HP mains - pre-2025 capital base - reduced life	116.3	75.5	50 (Reduced)
MP mains - pre-2025 capital base - reduced life	308.7	45.5	30 (Reduced)
MP services - pre-2025 capital base - reduced life	535.1	45.5	30 (Reduced)
Trunk Wilton-Sydney - pre-2015 capital base	50.5	28.1	28.1 (Unchanged)
Trunk Sydney-Newcastle - pre-2015 capital base	78.8	36.2	36.2 (Unchanged)
Trunk Wilton-Wollongong - pre-2015 capital base	8.1	27.9	27.9 (Unchanged)
HP Mains - pre-2015 capital base	432.1	48.5	48.5 (Unchanged)
MP Mains - pre-2015 capital base	881.5	16.2	16.2 (Unchanged)
MP Services - pre-2015 capital base	715.2	26.9	26.9 (Unchanged)

Source: AER analysis.

(a) All asset classes in this table (except for the 'Future of Gas MP services' asset class) are newly created in this final decision to implement our approach on accelerated depreciation.

(b) Consistent with our draft decision, we accept the 'Future of Gas MP services' asset class in this final decision, and the 5 years remaining asset life as at 1 July 2025, for accelerated depreciation purposes.
(c) This value is reallocated from the opening capital base as at 1 July 2025 from the 'MP services pre-2025 capital base - reduced life' asset class.

4.4.2.2 Standard asset lives for other asset classes

In our final decision, we have retained the standard asset lives for asset classes other than MP and HP pipeline assets that were set out in the draft decision and included by JGN in is its revised proposal. Table 4.8 sets out our final decision on JGN's standard asset lives and remaining asset lives as at 1 July 2025 for these asset classes.

We are satisfied the standard asset lives (as set out in Table 4.6 and Table 4.8) and the remaining asset lives as at 1 July 2025 (as set out in Table 4.7) approved in this final decision will result in a depreciation schedule that reflects the depreciation criteria in the NGR.[43]

Table 4.8 AER's final decision on JGN's standard asset lives (years) – Non pipeline assets

Asset class	Standard asset life (years)
Contract Meters	15.0
Meter Reading Devices	15.0
Country POTS	50.0[a]
Tariff Meters	15.0
Computers - IT Infrastructure	5.0
Fixed Plant	10.0
Furniture	10.0
Land	n/a
Low value assets	10.0
Mobile Plant	10.0
Vehicles	6.0
Leasehold Improvements (SL)	10.0
Buildings (SL)	48.0[b]
Software – Inhouse (SL)	5.0
Equity raising costs[c]	n/a

Source: AER analysis.
n/a not applicable. We have not assigned a standard asset life to some asset classes because the assets allocated to them are not subject to depreciation or they have no forecast capex.

[43] NGR, r. 89(1).

(a) We have kept the standard asset life for 'Country POTS' asset class unchanged for the 2025–30 period as there is no forecast capex allocated to this asset class.
(b) We have kept the standard asset life for 'Buildings (SL)' asset class unchanged for the 2025–30 period because this asset class is required as long as JGN is in operation.
(c) For this Final decision, the forecast capex determined for JGN does not meet a level to trigger any benchmark equity raising costs.

4.5 Revisions

We have proposed the following revisions to the access arrangement as set out in Table 4.9.

Table 4.9 Regulatory depreciation revisions

Revision	Amendment
Revision 4.1	Make all necessary amendments to reflect this final decision on the regulatory depreciation amounts for the 2025–30 access arrangement period.

Glossary

Term	Definition
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
capex	capital expenditure
CESS	capital expenditure incentive scheme
ECM	efficiency carryover mechanism
GSOO	Gas Statement of Opportunities
JGN	Jemena Gas Networks
NGL	National Gas Law
NSW	New South Wales
NGO	National Gas Objective
NGR	National Gas Rules
PTRM	Post-tax revenue model
RFM	Roll forward model
WACC	weighted average cost of capital