



Draft decision
Jemena Gas Networks (NSW) Ltd
Access arrangement 2015-20

**Attachment 1 - Services covered by the access
arrangement**

November 2014

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Note

This attachment forms part of the AER's draft decision on Jemena Gas Networks' 2015–20 access arrangement. It should be read with other parts of the draft decision.

The draft decision includes the following documents:

Overview

Attachment 1 – services covered by the access arrangement

Attachment 2 – capital base

Attachment 3 – rate of return

Attachment 4 – value of imputation credits

Attachment 5 – regulatory depreciation

Attachment 6 – capital expenditure

Attachment 7 – operating expenditure

Attachment 8 – corporate income tax

Attachment 9 – efficiency carryover mechanism

Attachment 10 – reference tariff setting

Attachment 11 – reference tariff variation mechanism

Attachment 12 – non-tariff components

Attachment 13 – demand

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Shortened forms

Shortened form	Extended form
2010–15 access arrangement	Access arrangement for JGN effective from 1 July 2010 to 30 June 2015 inclusive
2010–15 access arrangement period	1 July 2010 to 30 June 2015 inclusive
2015–20 access arrangement	Access arrangement for JGN effective from 1 July 2015 to 30 June 2020 inclusive
2015–20 access arrangement period	1 July 2015 to 30 June 2020 inclusive
Access arrangement information	Jemena Gas Networks (NSW) Ltd, <i>Access Arrangement Information 2015–20</i> , 30 June 2014
Access arrangement proposal	Jemena Gas Networks (NSW) Ltd, <i>Access arrangement, JGN's NSW gas distribution networks, 1 July 2015 – 30 June 2020</i> , 30 June 2014
AER	Australian Energy Regulator
capex	capital expenditure
CAPM	capital asset pricing model
CCP	Consumer Challenge Panel
Code	National Third Party Access Code for Natural Gas Pipeline Systems
CPI	consumer price index
DRP	debt risk premium
ERP	equity risk premium
JGN	Jemena Gas Networks (NSW) Ltd (CAN 003 004 322)
MRP	market risk premium
NGL	national gas law
NGO	national gas objective
NGR	national gas rules

Shortened form	Extended form
opex	operating expenditure
PPI	partial performance indicators
PTRM	post-tax revenue model
RAB	regulatory asset base
RBA	Reserve Bank of Australia
Reference service agreement proposal	Jemena Gas Networks (NSW) Ltd, <i>Reference Service Agreement, JGN's NSW gas distribution networks</i> , 30 June 2014
RFM	roll forward model
RIN	regulatory information notice
RPP	revenue and pricing principles
SLCAPM	Sharpe-Lintner capital asset pricing model
WACC	weighted average cost of capital

1 Services covered by the access arrangement

The NGR requires the access arrangement to identify:

- the pipeline which the access arrangement relates to, and
- the services which JGN proposes to offer to provide by means of that pipeline.¹

1.1 Draft decision

We approve JGN's proposal.

1.2 Jemena Gas Networks' proposal

JGN's NSW proposes to offer the following services on its network in the next Access Arrangement period:

- the reference service, being the haulage reference service, and
- non-reference services.

The haulage reference service is for:

- the transportation of gas by the service provider through the network to a single eligible delivery point for use and consumption within the premises served by that delivery point,
- meter reading and associated data activities, and the provision and maintenance of a standard metering installation at the delivery point as appropriate for the required capacity and meter reading frequency
- ancillary activities, as may be requested by a user.²

The non-reference service covers:

- the interconnection of embedded network services where JGN establishes a single delivery point on an embedded network connected to the network, and
- a prospective user that has specific needs which differ from those which would be satisfied by the reference service or the interconnection of embedded network service.³

1.3 Assessment approach

JGN is required to specify all reference services in its access arrangement proposal. A reference service is a pipeline service that is likely to be sought by a significant part of the market. A pipeline service is a:

- service provided by means of a pipeline, including a:
 - haulage service

¹ NGR, r. 48(1)(a) and (b).

² JGN, *2015 Access arrangement information*, 30 June 2014, p. 3, paragraph 2.2.

Delivery Point means a point at which Gas is withdrawn from the Network listed from time to time in the Relevant Customer List.

³ JGN, *2015 Access arrangement information*, 30 June 2014, 30 June 2014, p. 4, paragraph 2.4-2.6.

- service facilitating the interconnection of pipelines
- service ancillary to one of these services.

A reference service must also be consistent with the National Gas Objective.⁴

Our approach to assessing these requirements is to identify:

- the covered pipeline under the earlier access arrangement
- any extensions or expansions that were completed during the earlier access arrangement and which are taken to be 'covered' under that access arrangement's extension and expansion requirements.

The next step is to review the service provider's description of the pipeline services and reference service.

1.4 Reasons for Draft decision

JGN has complied with the NGR's services requirements as outlined in Table 1-1 and section 1.4.1.

Table 1-1 Assessment of JGN's compliance with NGR

NGR requirements	AER assessment
A full access arrangement must:	
identify the pipeline to which the access arrangement relates and include a reference to a website at which a description of the pipeline can be inspected — NGR clause 48.1(a)	Complies. Clause 1 and schedule 9 of the JGN Access Arrangement proposal.
describe the pipeline services the service provider proposes to offer to provide by means of the pipeline — NGR clause 48.1(b)	Complies. Clause 2 of the JGN Access Arrangement proposal.
specify the reference services — NGR clause 48.1(c)	Complies. Clause 2 of the JGN Access Arrangement proposal.
specify for each reference service: (i) the reference tariff; and (ii) the other terms and conditions on which the reference service will be provided — NGR clause 48.1(d)	Complies. Clause 2 and schedules 2 & 4 of the JGN Access Arrangement proposal.
if the access arrangement is to contain queuing requirements – set out the queuing requirements — NGR clause 48.1(e)	Complies. Clause 7 of the JGN Access Arrangement proposal.
set out the capacity trading requirements — NGR clause 48.1(f)	Complies. Clause 9 of the JGN Access Arrangement proposal.
set out the extension and expansion requirements — NGR clause 48.1(g)	Complies. Clause 8 of the JGN Access Arrangement proposal.

⁴ NGR, r. 100(a).

NGR requirements	AER assessment
state the terms and conditions for changing receipt and delivery points — NGR clause 48.1(h)	Complies. Clause 10 and schedules 4 of the JGN Access Arrangement proposal.
if there is to be a review submission date – state the review submission date and the revision commencement date — NGR clause 48.1(i)	Complies. Clauses 1.3 and 1.4 of the JGN Access Arrangement proposal.
if there is to be an expiry date – state the expiry date — NGR clause 48.1(j)	Not applicable

1.4.1 Reference services

We consider that a significant part of the market is likely to seek services that provide for the transportation of gas, meter reading and associated data activities and ancillary activities. Accordingly, we consider that the reference services proposed by JGN are likely to be sought by a significant part of the market. This means they must be covered by the access arrangement.

Combining meter data services into haulage reference services

We approve JGN's proposal to combine its meter data services into a single reference service for the reasons outlined below.

We received submissions from retailers and the Consumer Challenge Panel requesting careful examination of JGN's proposal.⁵ AGL and EnergyAustralia submitted that absorbing metering services into haulage reference services would be a step backward for transparency of charges and contrary to electricity charges where they are unbundled.⁶

We are not persuaded by the submissions for the following reasons:

- the market to implement gas meter reading contestability in NSW has not changed since 2000 and we have not seen any evidence that it may change in the next Access Arrangement period.
- the provisions to facilitate contestable meter data services were removed from NSW and ACT gas retail market procedures in 2000 the current Retail Service Agreement requires that services be taken as a bundled service (clause 17.1). As a result, in substance they are presently merged.
- one significant driver of electricity metering contestability has been a desire to foster a competitive rollout of time of use tariffs to mass market electricity customers. There is no equivalent gas network or retail imperative for time of use pricing and associated behavioural change.
- JGN's consumer engagement has identified the aggregation of these services as a way to simplify small customer bills – this goal is dependent in part on direct reflection of network charges in retail tariffs.⁷

⁵ The Consumer Challenge Panel submitted that the AER should consider this issue carefully but did not provide reasons for its concerns.

⁶ Energy Australia, *submission on JGN's revised AA proposal*, August 2014, p. 7, AGL, *submission on JGN's revised AA proposal*, August 2014, p. 10, Consumer Challenge Panel, *Advice to AER from Consumer Challenge Panel sub-panel 7*, 3 Sep 2014, pp. 16–17.

⁷ JGN, *Response to proposed tariff changes questions Information request 019*, August 2014, pp. 1-2.

We accept that an aggregated reference service may not be conducive to contestability. However, we consider that this issue can be revisited in subsequent Access Arrangements. The aggregation of the service does not lead to aggregation of the underlying costs. If the market for metering services developments and disaggregation is considered warranted at a future date, this can be proposed and considered at that time.

We found no compelling reasons not to approve JGN's proposal. For these reasons we approve JGN's proposal to merge metering data services into a single reference service.

Nonetheless, if retailers can provide to us compelling reasons not to merge metering data services into a single reference service, we may review our draft decision position when making the final determination.⁸

1.5 Non reference services

Our decision does not extend to non-reference services (negotiated or excluded services) because they are outside the scope of an access arrangement.

⁸ Evidence may include data or submissions from retail customers stating that they do not support JGN's proposal to merge meter data services into haulage reference services.