



Draft decision

Jemena Gas Networks (NSW) Ltd

Access arrangement 2015–20

Attachment 10 – Reference tariff setting

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

Contents

Contents	10-4
Shortened forms	10-5
10 Reference tariff setting – distribution pipelines	10-7
10.1 Draft decision	10-7
10.2 JGN's proposal.....	10-7
10.3 Assessment approach	10-9
10.4 Reasons for draft decision	10-11
10.5 Allocation of revenues and costs to reference tariffs	10-11
10.5.1 Establishment of tariff classes.....	10-11
10.5.2 Other issues raised by retailers.....	10-16
10.5.3 Introduction and withdrawal of reference tariffs	10-18
10.5.4 Prudent discount.....	10-18
10.5.5 Revisions	10-19

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

10 Reference tariff setting – distribution pipelines

This attachment outlines our assessment of the reference tariffs proposed by JGN against the requirements of the NGR. Our assessment focuses on the structure of reference tariffs and takes into account the revenue and pricing principles.¹

10.1 Draft decision

We approve JGN's proposed structure of reference tariffs for the 2015–20 access arrangement period. We are satisfied the proposed structure of the reference tariffs complies with the requirements of the NGR.²

However, we consider that JGN's ability to introduce and withdraw tariffs should be restricted to those we have approved. We also consider that the quantum of the proposed reference tariffs must be amended to reflect the revised revenue allowance based on this draft decision.

10.2 JGN's proposal

JGN proposed to change its reference tariffs for the 2015–20 period by:

- stream lining and consolidating certain charges
- restructuring throughput tariff structures and levels to support gas competitiveness
- streamlining ancillary charges to facilitate customer participation
- adding new classes to support intermediaries wishing to supply or on-sell energy
- publishing a tariff structure statement to provide greater transparency on how it structures and sets network tariffs.³

The reference tariff classes proposed by JGN are outlined in Table 10-1.

JGN proposed to change the structure of its ancillary reference service tariff by removing the temporary disconnections tariff and adding in a disconnections charge for its ancillary reference services (Table 10-2).

Table 10-1 JGN's - Initial Tariff Classes and Tariff Charge components

Customer Type/Category	Tariff Class Haulage	Haulage Reference Service
Volume Tariffs		
Volume Individual	VI-Coastal	Volume Throughput Rate (clause 4.1(h))
	VI- Country	Fixed Charge (clause 4.1(i))
		Ancillary Charges (clause 4.1(j))
Volume Boundary	VB-Coastal	Volume Throughput Rate (clause 4.1(h))

¹ National Gas Law, ss. 24(2) and 24(5).

² NGR, rr. 93 and 94.

³ JGN, *Access Arrangement Information 2015–20*, June 2014, p. 106.

Customer Type/Category	Tariff Class Haulage	Haulage Reference Service
	VB-Country	Fixed Charge (clause 4.1(i)) Ancillary Charges (clause 4.1(j))
Volume Residential Distributed Generation Technology	VRT-03	Demand Capacity Rate (clause 4.1(a))
	VRT-04	Provision of Basic Metering Equipment
	VRT-06	Charge (clause 4.1(g))
	VRT-10	Ancillary Charges (clause 4.1(j))
Demand Tariffs		
Demand Capacity	DC-1 To DC-11	Demand Capacity Rate (clause 4.1(a)) Provision of Basic Metering Equipment Charge (clause 4.1(g)) Ancillary Charges (clause 4.1(j))
	DC Country	<p>Demand Capacity Rate comprised of:</p> <ul style="list-style-type: none"> ▪ Capacity Distance Rate (clause 4.1(b)), and ▪ Pressure Reduction Rate (clause 4.1(c)) ▪ Provision of Basic Metering Equipment Charge (clause 4.1(g)) <p>Ancillary Charges (clause 4.1(j))</p>
Demand Throughput	DT	Demand Throughput Rate (clause 4.1(f)) Provision of Basic Metering Equipment Charge (clause 4.1(g)) Ancillary Charges (clause 4.1(j))
Demand Capacity - 1st Response	DCFR-6	Discounted Demand Capacity Rate (clause 4.1(d)) Provision of Basic Metering Equipment Charge (clause 4.1(g)) Ancillary Charges (clause 4.1(j))
Demand Major End Customer Throughput	DMT-01 To DMT-05	Fixed Charge (clause 4.1(i)) Demand Throughput Rate (clause 4.1(f)) Provision of Basic Metering Equipment Charge (clause 4.1(g)) Ancillary Charges (clause 4.1(j))

Customer Type/Category	Tariff Class Haulage	Haulage Reference Service
Demand Major End Customer	DMTFR-3	Discounted Fixed Charge (clause 4.1(e))
Throughput		Discounted Demand Throughput Rate (clause 4.1(e))
- 1st response		Provision of Basic Metering Equipment Charge (clause 4.1(g))
		Ancillary Charges (clause 4.1(j))

Source: JGN, *Access Arrangement 2015–20*: Schedule 2, June 2014, pp. 44–46.

Table 10-2 JGN's—ancillary reference service tariff structure

2010–15 access arrangement period (Current)	2015–2020 access arrangement period (Proposed)	Charge
Request for service	Hourly Charge – non-standard User initiated requests and queries	Fixed
Temporary disconnection	Disconnection (small and large customers)	Fixed
Permanent disconnection	Temporary disconnection for large customers	Fixed
Decommissioning and meter removal	Decommissioning and meter removal	Fixed
Special meter read	Special Meter Reads	Fixed

Source: JGN, *Access Arrangement 2015–20*: Schedule 2, June 2014, pp. 54–55.

10.3 Assessment approach

In a full access arrangement, a service provider is required to specify for each reference service the reference tariff and the proposed approach to the setting reference tariffs.⁴ This is done by:

- explaining how revenues and costs are allocated, including the relationship between costs and tariffs⁵
- defining the tariff classes⁶
- comparing the revenue to be raised by each reference tariff with the cost of providing each individual reference service⁷
- explaining and describing any pricing principles it employed^{8,9}

⁴ NGR, r. 48(1)(d)(i); 72(1)(j)(i); 72(1)(j)(ii).
⁵ NGR, r. 93(1)–(2).
⁶ NGR r. 94(1)–(2).
⁷ NGR, r. 94(3).
⁸ NGR, r. 94(3)–(4).
⁹ NGR, rr. 48(1)(d)(i); 72(1)(j)(i); 72(1)(j)(ii).

We are required to assess JGN's proposed reference tariffs. Where we do not accept JGN's proposal, we must determine the initial reference tariffs.

In our assessment of the proposed reference tariff, we reviewed JGN's:

- access arrangement information¹⁰
- access arrangement proposal¹¹
- tariff structure statement¹²
- explanation of proposed revisions to the 2010 access arrangement¹³
- additional information provided in response to our information requests.¹⁴

We also had regard to submissions received in the course of consulting on the access arrangement proposal.¹⁵

Identifying the reference service

JGN is required by the NGR to specify a reference tariff for each reference service. We first considered what is (or are) the reference service(s) for the purpose of the NGR when undertaking our review.¹⁶ Our decision on what constitutes the reference service is set out in the services attachment .

Assessing the tariff setting methodology for the reference service

The reference tariffs for a full access arrangement must be designed to meet the requirements of the NGR. Our discretion on tariff design is limited.¹⁷

Consequently, we have considered how JGN intends to charge for reference services by:

1. assessing how JGN intends to allocate costs and revenues between reference service and other services. It must demonstrate that total revenue is allocated between reference and other services in the ratio in which costs are allocated between reference and other services. Costs must also be allocated to the reference service and other services to which the cost is directly attributable.¹⁸
2. assessing how JGN grouped its customers into tariff classes. JGN is required to group together customers for reference services on an economically efficient basis and to avoid unnecessary transaction costs. We consider volume and demand tariff classes are consistent with the need to group customers for reference services together on an economically efficient basis and avoid unnecessary transaction costs.¹⁹
3. assessing how:

¹⁰ JGN, *2015–20 Access Arrangement Information*, 30 June 2014, chapter 13 and Appendix 13.

¹¹ JGN, *2015–20 Access Arrangement Information*, 30 June 2014, section, schedules 2 and 3.

¹² JGN, *2015–20 Access Arrangement Information*, 30 June 2014, Appendix 1.8.

¹³ JGN, *2015–20 Access Arrangement Information*, 30 June 2014, Appendix 1.1.

¹⁴ JGN's, *Response to AER's information requests no. 14, 19, 25a and 25b*.

¹⁵ NGR, r. 59.

¹⁶ JGN, *Access arrangement 2015–20*, 30 June 2014, p. 3.

¹⁷ NGR, rr. 93 and 94.

¹⁸ NGR, r. 93.

¹⁹ NGR, r. 94(1)-(2).

- the expected average revenue of a tariff class compares with the stand alone cost and avoidable cost of providing the reference service to that tariff class
- whether the tariff takes into account transaction costs associated with the tariff
- whether the tariffs take into account the long run marginal costs of reference services
- whether customers belonging to the relevant tariff class are able or likely to respond to price signals.²⁰

10.4 Reasons for draft decision

We approve JGN's proposed reference tariffs structure because we are satisfied that it complies with the NGR requirements.²¹ However, we consider that the proposed reference tariffs must be amended as set out in the revenue and demand chapter of our draft decision. This revision is required to reflect the changes to forecast total revenue and forecast demand.

This section sets out the reasons our decision under the following headings:

- the allocation of revenues and costs to reference tariffs
- the establishment of tariffs classes
- tariff classes and revenue limits.

10.5 Allocation of revenues and costs to reference tariffs

We are satisfied that JGN's approach to allocating revenue and costs between reference service and non-reference services complies with the NGR²² for the following reasons:

- JGN's cost allocation method takes the required cost of service, deducts revenues associated with non-reference services (including negotiated revenues) and from non-pipeline services and then allocates the residual costs to the haulage reference service.
- JGN calculates the revenue for other non-reference services based on the forecast level of activity for those services and their prices. JGN does not allocate this revenue to a reference service as the underlying costs are excluded from JGN's building block revenues. Deducting these revenues from the building block revenues ensures costs are not duplicated by allocations to reference services. In other words costs are not counted twice.
- JGN's submission included information outlining its stand-alone costs, long run marginal costs and incremental costs which we have no objection to.²³

10.5.1 Establishment of tariff classes

JGN groups its customers into volume or demand tariff categories and classifies them by location (coastal, country etc). We consider that these characteristics are likely to drive costs within JGN's gas distribution network. Therefore, using them to group customers into tariff class is appropriate.

²⁰ NGR, r. 94(3)-(4).

²¹ NGR, rr. 93 and 94.

²² NGR, r. 93(1) (2).

²³ JGN, *2015–20 Access Arrangement Information*, 30 June 2014, p. 118.

Based on the above reason, we are satisfied that the proposed tariff classes are consistent with the requirements of the NGR.²⁴

Efficient pricing

We are satisfied that JGN's proposed reference tariffs are consistent with the NGR requirements because the expected revenue to be recovered lie on or between:

- an upper bound representing the stand-alone cost of providing the reference service to customers who belong to that tariff class
- a lower bound representing the avoidable cost of not providing the reference service to those customers.²⁵

We reviewed JGN's definitions of avoidable and standalone costs for the volume and demand tariff classes and consider that these definitions are acceptable for assessing compliance the NGR.²⁶ We have also reviewed the methodology applied by JGN to demonstrate that for each tariff, the expected tariff revenue lies on or between the avoidable and standalone costs. This is comparable to the analysis we have undertaken for other energy businesses over a number of years, and the outcome is consistent.

Tariff setting for large users

We received submissions from the EMRF, Qenos, Orica, Delta Electricity and the Consumer Challenge Panel outlining their concerns about JGN's proposal to increase tariff prices for large gas users. We also received a submission from PIAC supporting JGN's changes to its tariffs for large gas users.²⁷

We approve JGN's proposal to rebalance tariffs for large users in the 2015–20 access arrangement period to bring them back to a cost-reflective revenue share for their network utilisation. In the current access arrangement period, large users enjoyed relatively stable prices because JGN altered its pricing strategy to reduce price shocks for its large users from:

- the carbon tax – JGN applied the carbon pass through directly to all users thereby reducing the price shocks that would have otherwise been subject to large users
- due to the delay of the recovery of JGN allowed revenues (associated with the 2010 access arrangement merits review)–JGN limited the annual price increases for large users to around 2.5 per cent real.²⁸

As such, revenue recovered from large users will reduce from around 10.5 per cent to 8.5 per cent over 2009–14. To re-establish cost reflective and efficient tariffs, JGN proposed to continue with its long term strategy of stable and predictable but small increases into the 2015 access arrangement

²⁴ JGN, *2015–20 Access Arrangement Information*, 30 June 2014, Chapter 13 and Appendix 13.1 (confidential).

²⁵ JGN, *2015–20 Access Arrangement Information*, 30 June 2014, Appendix 13.1 (confidential).

²⁶ NGR, r. 94(3).

²⁷ Consumer Challenge Panel, *Advice to AER from Consumer Challenge Panel sub-panel 7*, 3 Sep 2014; Delta Electricity, *Submission on JGN's revised AA proposal*, 25 August 2014; EMRF, *Submission on JGN's revised AA proposal*, 1 Sept 2014, pp. 100–103; Orica, *Submission on JGN's revised AA proposal*, 19 August 2014; PIAC, *Submission on JGN's revised AA proposal*, 25 August 2014, pp. 4–5; Qenos, *Submission on JGN's revised AA proposal*, 12 August 2014.

²⁸ JGN, *Response to proposed tariff changes questions Information request 019*, August 2014, pp. 4–6.

period. JGN stated that it wished to restore the proportion of revenues closer to historical levels which were in accordance with network utilisation.²⁹

We understand that the price increases outlined in the Qenos, Orica and Delta Electricity submissions included charges for carbon. However the carbon tax is no longer in place and JGN has advised that large users will face a price increase of around 13 per cent (or close to CPI annually) for the 2015–20 access arrangement period.³⁰ This draft decision will further reduce price increases faced by large users because we have amended JGN's opex and capex forecasts.

We also reviewed JGN's stand alone and avoidable costs and are satisfied that its tariffs lie within these efficient bounds of expected revenue.³¹ Consequently, we approve JGN's proposal to move back to cost reflective pricing given the relatively limited impact on large users.

Removal of temporary disconnection service for small customers

We approve JGN's proposal to combine temporary disconnections and permanent disconnections into a single disconnection charge because we consider that it is consistent with the NGO and the NGR.³² The JGN access arrangement proposed to change disconnections for small customers by consolidating the existing two charges of 'temporary disconnection' and 'permanent disconnection' to a single 'disconnection' charge.³³

Origin submitted that the removal of temporary disconnections may be contrary to the NGO because it would be more administratively complex to reconnect a customer. EnergyAustralia requested JGN to provide further information on disconnections services and temporary disconnections for large customers. Lumo Energy, Origin, and EnergyAustralia submitted that JGN's disconnection service should be unbundled into a connection and disconnection service.³⁴

We have considered stakeholders submissions but are not persuaded by the propositions put forward because:

- We consider that removing temporary disconnection would not inhibit Origin's ability to request JGN to re-energise disconnected sites in the future (where physical connection remains intact).
- Additionally, merging temporary disconnection and permanent disconnection will lower the charges for consumers wishing to permanently disconnect. Combining temporary disconnections and permanent disconnections will send a price signal that encourages efficient behaviour from retail customers and will eventually lead to more cost reflective pricing. That is, customers are incentivised to keep the physical connection because of the lower cost.
- We consider further information regarding disconnections, temporary disconnections for large customers and meter decommissioning to be process matters that should be dealt with by JGN and retailers.

²⁹ JGN, *Response to proposed tariff changes questions Information request 019*, August 2014, p. 4.

³⁰ JGN, *Information request 25a - follow-up AA questions*, September 2014, pp. 2–5; JGN, *Letter to Orica KI - submission on JGN AA proposal (confidential)*, September 2014, pp. 3–4.

³¹ JGN, *Response to proposed tariff changes questions Information request 019*, August 2014, p. 4.

³² NGR, rr. 93 and 94.

³³ JGN, *Access arrangement information 2015–20*, 30 June 2014, clause 113.

³⁴ AGL, *Submission on JGN's revised AA proposal*, 27 August 2014, p. 9; Energy Australia, *Submission on JGN's revised AA proposal*, 25 August 2014, p. 7; Lumo Energy, *Submission on JGN's revised AA proposal*, 28 August 2014, p. 6; Origin, *Submission on JGN's revised AA proposal*, 25 August 2014, pp. 10–11.

We agree with JGN that disconnection should not be unbundled because of the benefits it brings being:

- it provides choice and clear price differentiation between the different scope of disconnection and decommissioning activities
- it reflects the relativity of JGN's costs in the respective charges
- it removes financial barriers to customers reconnecting to the network to avoid a smaller customer base putting upward pressure on its network prices
- it provides stronger encouragement for retailers to search for alternatives for debt management before considering physical disconnection
- it better serves the long term interests of customers than any benefits to retailers' cost of debt management that may flow from the unbundling of JGN's disconnection charge.³⁵

This section should be read in conjunction with our attachment on JGN's non-tariff components where temporary disconnection is also discussed.

Modify the block sizes and charge levels for capacity charges

We approve JGN's proposal to modify block sizes and charge level for capacity charges because we consider that it is consistent with the NGO and the NGR.³⁶

Submissions from Delta Electricity and Orica sought clarification on JGN's proposal to split the first block of its demand capacity rates.³⁷

We have sought clarification from JGN and accept its advice that splitting block sizes and charge levels for capacity charges is warranted. We consider that a pricing strategy should ensure that similar types of customers pay similar prices and support efficient utilisation of the network. JGN stated that a large volume customer with an annual consumption of 9.5 TJ pays around \$60,000 per annum in network charges; by contrast a small demand customer 10.5 TJ pa pays as low as \$20,000 annually in network charges. As such, a small demand customer who invests in plant efficiency to reduce energy consumption may face a material increases in their gas charges when transitioning to become a large volume customer. The materiality of this step increase (up to \$4/GJ) is considered too high by JGN and creates incentives for inefficient network utilisation. Adding in an additional first block will progressively address this discrepancy over the long term through a stable and predictable pricing path.³⁸

First Response category

We approve JGN's proposal close the first response tariff classes DCFR1 to DCFR11 and DMTR1 to DMTR5 to new customers, grandfather DCFR6 and DMTR3 which have eligible customers and remove the first response tariffs which have no customers assigned to them.³⁹

³⁵ JGN, *JGN response to AER's information request No. 25a*, September 2014, p. 2.

³⁶ NGR, rr. 93 and 94).

³⁷ Delta Electricity, *Submission on JGN's revised AA proposal*, August 2014, p. 2; Orica, *Submission on JGN's revised AA proposal*, 19 August 2014, p. 1.

³⁸ JGN, *JGN response to AER's information request No. 19*, September 2014, p. 3.

³⁹ JGN, *2015–20 Access arrangement information*, 30 June 2014, p. 108.

Qenos and the EMRF submitted that the first response category should not be grandfathered and that the terms many need review, to enable more large customers to respond to the incentive to curtail demand.⁴⁰

We consider that it is up to JGN to decide on the terms and conditions of its first response category. In our discussions with JGN, it stated it was in discussions with Qenos to develop a curtailment plan that would allow Qenos to be assigned to the DMTFR tariff.⁴¹

Disconnection and decommissioning rates

We are satisfied that JGN's proposed charge for large customer temporary disconnection and decommissioning are consistent with the NGR requirements.⁴²

Lumo believes that the \$150 charge for large customer temporary disconnection is excessive and is not reflective of the charges of other network businesses. Similarly Mr Peter Kardashinsky's submission commented that the proposed meter decommissioning charge was excessive, not justified by the work involved and should be reduced, not increased.⁴³

We consider that when comparing JGN's proposed ancillary charges with those of other distributors it is important to recognise differences in:

- the scope of individual activities, despite a charge having a similar name
- the pricing objectives of distributors, which influences whether the costs of the activity are recovered in a user-pays manner
- the price level of the activity.

Temporary disconnection for large customers covers disconnections, reconnection and permanent disconnections services. Taking into account the above principles and the wide scope of work conducted by JGN we do not believe the charge to be excessive.

We do not consider JGN's charge for decommissioning excessive because of the above principles. We also reviewed the decommissioning prices from a number of has business and found that:

- the charges for Multinet⁴⁴ and Envestra appear to apply only for meter removal, which is not the same scope as JGN's charge.
- the charge for SP AusNet's appears to use a number of separate activities to achieve the same scope. But, each separate activity is treated as a "non-reference service charged at recoverable rates".

Hence it is not possible to compare JGN's charge with approved charges of other distributors. We have also reviewed JGN's cost build up for decommissioning and found that the charge levied by JGN

⁴⁰ EMRF, *submission on JGN's revised AA proposal*, 1 Sept 2014, pp. 103–104; Qenos, *Submission on JGN's revised AA proposal*, 12 August 2014, p. 3.

⁴¹ JGN, *JGN response to AER's information request No. 25*, September 2014, pp. 4–5.

⁴² NGR, rr. 93 and 94.

⁴³ Peter Kardashinsky, *Submission on JGN's revised AA proposal*, 25 August 2014; Lumo Energy, *Submission on JGN's revised AA proposal*, 28 August 2014, p. 6.

⁴⁴ Multinet indicated to the AER that the charge levied will depend on the supply arrangements and the work conducted.

does not cover JGN's costs.⁴⁵ Consequently, we do not consider JGN's decommissioning charge to be excessive when taking the above principles into account.

Long run marginal cost

We consider that JGN has taken into account the long run marginal cost when setting tariffs.⁴⁶ We also consider that JGN's charging parameters reflects the economic principle that prices should reflect the underlying costs of providing the service.

In its analysis of avoidable and standalone costs, JGN used the Average Incremental Cost approach to calculate the long run marginal cost (LRMC). JGN has calculated LRMC for each of its volume tariff classes using the average incremental approach.⁴⁷ JGN's model has produced LRMC values of zero for the demand market as there is no growth in this market during the forecast horizon.⁴⁸ We reviewed the assumptions that JGN made to derive the LRMC. We consider that the approach to derive the LRMC and the underlying assumptions are acceptable based on our review of the access arrangement information in chapter 13 and appendix 13.1. JGN stated that the calculated values of LRMC are sensitive to the assumptions that it made around a number of different variables. As such, these should only be used as a guide when assessing price levels and structures.⁴⁹

The NGR requires that a tariff, if it consists of two or more charging parameters, be determined having regard to transaction costs and whether customers are able to or likely to respond to price signals.⁵⁰ JGN stated that its current tariffs are structured provide the correct balance between minimising transaction costs and ensuring that customers have incentives to respond to pricing signals. We consider that JGN has complied with the NGR because it has taken into account the charging parameters.⁵¹

10.5.2 Other issues raised by retailers

Expressing all network tariffs on a daily basis

AGL, Lumo, Origin Energy and EnergyAustralia submitted that JGN should review its tariff component with a view to expressing some of them on a daily rather than a quarterly basis.⁵²

We accept that moving network tariffs to a daily basis may be beneficial to retailers' commercial interests. But we are not satisfied that it would be in the long term interests of consumers in this instance. JGN expresses its charges in different formats because of IT systems design. Changing these systems to take into account daily charges would require changes to charge algorithms and subsequent system and code changes. We do not see any net benefit for customers from the additional costs that would be incurred to make these fundamental changes to JGN's IT system.

⁴⁵ The principal activities performed in relation to the decommissioning and meter removal charge and estimated for a typical customer are:

- contractor costs and materials to disconnect the customer service at the gas main and remove the meter from the customer's premises, including traffic control, temporary and permanent restorations of roads, footpaths
- support activities to manage retailer requests, contractor and customer issues, field audits, stores, and supporting systems and enterprise functions.

⁴⁶ NGR, r 94(4).

⁴⁷ JGN, *2015–20 Access Arrangement Information*, 30 June 2014, appendix 13.1 (confidential), pp. 6–8.

⁴⁸ JGN, *2015–20 Access Arrangement Information*, 30 June 2014, pp.118–119.

⁴⁹ JGN, *2015–20 Access Arrangement Information*, 30 June 2014, Appendix 13.1 (confidential), pp. 7–8.

⁵⁰ NGR, r 94(4)(b).

⁵¹ JGN, *2015–20 Access Arrangement Information*, 30 June 2014, appendix 13.1 (confidential), p. 8.

⁵² AGL, *Submission on JGN's revised AA proposal*, 27 August 2014, p. 9; Energy Australia, *Submission on JGN's revised AA proposal*, 25 August 2014, p. 7; Lumo Energy, *Submission on JGN's revised AA proposal*, 28 August 2014, p. 6; Origin, *Submission on JGN's revised AA proposal*, 25 August 2014, pp. 10–11.

Whether charges are expressed as daily rates, quarterly or annual rates, the charges will still be pro-rated in billing systems to the appropriate number of days relevant to each actual charge calculation and any methods will give a correct calculated result. We acknowledge that other distributors express their tariffs as daily charges and that retailers consider that a daily format makes it easier to them to make their own calculations. However it is equally true that retailers are familiar and successfully working with JGN's existing charge structures and calculations.⁵³

Additionally, any changes should be considered in light of the current discussions between JGN, retailers and AEMO regarding JGN's business systems and processes as part of potential B2B harmonisation initiatives.⁵⁴

Charging for special meter reads on a per visit rather than a per meter basis

Lumo Energy noted that other gas distributors charge for special meter reads on a per visit basis while JGN does not. Lumo Energy also questioned the efficient pricing of JGN's special meter reads being on a per meter basis.⁵⁵

On balance we consider that JGN has correctly applied the NGR in establishing its charges for special meter reads. We consider that a charge should be cost reflective, that is, if additional time and work are required, then the charge should reflect this.⁵⁶

Importantly, we note that special meter reads are charged on a per meter basis in the current access arrangement and that no submissions were made on this issue in our last determination. JGN proposed to reduce the charge for special meter reads from \$40 to \$14.80 in 2015–20 and any change to JGN's charge structure would have flow on effects on the charge for special meter reads. We do not have any evidence of a net benefit resulting from such a change. Therefore, we are not convinced that it would be efficient to make Lumo's amendment.

Other issues

We note the following issues raised by EnergyAustralia.⁵⁷

JGN should not restrict who can initiate special meter reads. We consider that improvements in retail customer transfers are best addressed in retail market procedures, not in access arrangements.

JGN has increased the notice period required for special meter reads from 2 days to 5 days. We are not aware of any practical change to special meter reads from the current access arrangement period, that is, the existing notice period in the description of special meter reads is 5 days.⁵⁸

EnergyAustralia would like to see an AM/PM appointment service for special meter reads. JGN has already planned to explore changes to business processes to make this improvement in customer service. A contingency amount to reflect this potential has been included in the proposed special meter read charge. Our view is that this arrangement should be addressed in operational guidelines and manuals for business to business systems rather than in the access arrangement.⁵⁹

⁵³ JGN, *JGN response to AER's information request No. 25a*, September 2014, p. 10.

⁵⁴ JGN, *JGN response to AER's information request No. 25a*, September 2014, p. 10.

⁵⁵ Lumo Energy, *Submission on JGN's revised AA proposal*, 28 August 2014, p. 6.

⁵⁶ JGN, *JGN response to AER's information request No. 25a*, September 2014, p. 10.

⁵⁷ Energy Australia, *Submission on JGN's revised AA proposal*, 25 August 2014, pp. 6–14.

⁵⁸ JGN, *NSW Gas Network Schedule of reference tariffs and charges effective 1 July 2014*, p. 18.

⁵⁹ JGN, *JGN response to AER's information request No. 25a*, September 2014, p. 11.

EnergyAustralia recommended additional prescription to clauses 4.1 and 4.2 of the access arrangement to include timeframes for notification of tariff assignments. We do not consider it necessary to include more prescription to the access arrangement because we are not aware of any substantive past problems occurring due to inadequate notifications of tariff assignment. As such we are not convinced that adding additional procedures to the access arrangement will provide any tangible customer benefits.

Regarding tariff assignment disputes, we consider that there are sufficient mechanisms which would apply to access arrangement disputes under the NGL and NGR, or those mechanisms that apply to payment disputes under the Retail Service Agreement or the NGR.⁶⁰

10.5.3 Introduction and withdrawal of reference tariffs

We do not approve the introduction or withdrawal of haulage reference tariffs through the tariff variation mechanism because we are not satisfied that it is in accordance with NGR.⁶¹ We consider that the introduction or withdrawal of haulage reference tariffs should be conducted via r. 65 of the NGR.

Reference tariffs—what customers actually pay— are a fundamental feature of any access arrangement. Therefore, any and changes to these over the access arrangement period warrant our further consideration and review. Foremost any new reference tariffs proposed must comply with the requirements of the NGR. These rules requires that the total revenue calculated using the building blocks equals the present value of expected revenue over the terms of the access arrangement period.⁶² We have approved somewhat similar clauses for Victorian services providers. However, we consider that the level of discretion afforded to Victorian services providers is not as extensive as JGN's proposal.

Consequently, we consider that the impact of the removal or inclusion of reference tariffs on expected revenue needs to be reviewed. Additionally, JGN has not demonstrated that the tariff structure (due to the inclusion or withdrawal of tariffs) will result in an efficient tariff structure. Therefore, we consider that the proposed ability for JGN to introduce and withdraw tariffs must be limited – see revision 10.1 below.

10.5.4 Prudent discount

We consider that the prudent discount⁶³ JGN currently offers is necessary to respond to competition from other providers of pipeline services or alternative energy sources and to ensure the ongoing efficient use of its pipeline. Further, JGN has demonstrated that the negotiated revenue from each prudent discount services exceeds the estimate of the avoidable costs. Without a prudent discount a customer may by-pass the network with the consequence that tariffs would be higher for *all* remaining users. Therefore we are satisfied that the proposed prudent discounts are consistent with of the NGR.⁶⁴

JGN wants to continue with the three pre-existing prudent discounts during the next access arrangement. For each current prudent discount JGN provided justification, and why the discount is

⁶⁰ NGR, r 510.

⁶¹ NGR, rr. 92(2), 94, 97(3) and 97(4).

⁶² NGR, r 92.

⁶³ Service providers offer prudent discount to users in order to respond to competition from other providers of pipeline services or other services of energy. Alternatively, the service provider may offer prudent discounts in order to maintain the efficient use of the pipeline.

⁶⁴ NGR, r. 96(2)(b).

necessary to respond to competition or maintain efficient use of the pipeline.⁶⁵ We approve JGN's proposal to continue with the existing discounts.

10.5.5 Revisions

We require the following revisions to make the access arrangement proposal acceptable:

Revision 10.1: Section 3.1 (b) of the assess arrangement proposal:

Delete clause 3.1(b) and replace it with:

Clause 3.1(b)(v): The Service Provider may vary an existing Reference Tariff for application to Users at any time during the Access Arrangement period in accordance with clause 3 and the approval of the AER. Such Variation may be affected to:

- (i) Reference Tariff components, elements or variables comprised within any Reference Tariff;
- (ii) The introduction of a new Reference Tariff (to apply in place of any pre-existing Reference Tariff);
- (iii) The withdrawal of any Reference Tariff; or
- (iv) Any combination of these changes.

Revision 10.2: Schedule 2 of the Assess arrangement proposal:

Amend Schedule 2 section 4 of the Access Arrangement proposal as indicated in revision 11.9 of the tariff variation mechanism attachment.

⁶⁵ JGN, 2015–20 Access arrangement information, 30 June 2014, Appendix 13.1 (confidential), p. 9.