



FINAL DECISION
Jemena Gas Networks (NSW)
Ltd
Access Arrangement

2020 to 2025

Attachment 1
Services covered by the access
arrangement

June 2020

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Note

This attachment forms part of the AER's final decision on the access arrangement that will apply to Jemena Gas Networks (NSW) Ltd ('JGN') for the 2020–25 access arrangement period. It should be read with all other parts of our final decision.

As a number of issues were settled at the draft decision stage or required only minor updates, we have not prepared all attachments. The final decision attachments have been numbered consistently with the equivalent attachments to our draft decision. In these circumstances, our draft decision reasons form part of this final decision.

Our final decision includes the following attachments:

Overview

Attachment 1 – Services covered by the access arrangement

Attachment 2 – Capital base

Attachment 3 – Rate of return

Attachment 4 – Regulatory depreciation

Attachment 5 – Capital expenditure

Attachment 7 – Corporate income tax

Attachment 11 – Non-tariff components

Attachment 12 – Demand

Attachment 13 – Capital expenditure sharing scheme

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Shortened forms

Shortened form	Extended form
AEMC	Australian Energy Market Commission
AER	Australian Energy Regulator
CCP/CCP19	Consumer Challenge Panel, sub-panel 19
JGN	Jemena Gas Networks (NSW) Ltd
NGL	National Gas Law
NGO	National Gas Objective
NGR	National Gas Rules

1 Services covered by the access arrangement

The National Gas Rules (NGR) require a network service provider's access arrangement to:

- identify the pipeline to which the access arrangement relates,¹
- describe all of the pipeline services the network service provider can reasonably provide on the pipeline, having regard to the characteristics of different pipeline services,² and
- from the pipeline services identified above, specify the services the network service provider proposes to specify as reference services having regard to the reference service factors.³

1.1 Final decision

We approve JGN's proposed reference service for the 2020–25 access arrangement, with the exception of its bundled disconnection/reconnection ancillary service. As we discuss in section 1.4.1, we require JGN to separate its disconnection and reconnection ancillary service from 2021–22 onward. As a transitional measure, JGN will continue to offer the bundled disconnection/reconnection service in 2020–21 only.

As with the 2015–20 period, JGN proposed to offer a single reference service in the 2020–25 period, which includes:

- receipt of and transportation of gas from an upstream pipeline or other gas facility through the JGN network to each customer's premises for use and consumption within the premises
- providing gas metering equipment at customers' premises and associated services to read the quantity of gas flowing through the gas meters
- ancillary services.⁴

With one exception noted below, we approve the ancillary services JGN proposed for the 2020–25 access arrangement as part of its reference service, which are:⁵

- hourly charge—non-standard user initiated requests and queries
- disconnection (and reconnection)—volume customer delivery points
 - The bundled disconnection/reconnection ancillary reference service is to be offered in the 2020–21 year only.

¹ NGR, modified r. 48(1)(a). Modified r. 48 is referred to in NGR, schedule 1, part 12, r. 62(5).

² NGR, modified r. 48(1)(b).

³ NGR, modified r. 48(1)(c) and r. 47A(15).

⁴ JGN, *Access arrangement: JGN's NSW gas distribution network 1 July 2020 – 30 June 2025*, January 2020, p. 2.

⁵ *Ibid*, pp. 53–54.

- From 2021–22, JGN is to offer separate ancillary reference services for disconnections and reconnections.
- abolishment
- special meter reads
- expedited reconnections.

These services will be offered to residential and non-residential customers.

1.2 JGN's revised proposal

In its revised proposal, JGN proposed to retain the following high-level service classification:

- A reference service, comprising:
 - Haulage (including metering)
 - Ancillary services
- Non-reference services.

JGN's revised proposal is largely consistent with its initial proposal except to incorporate the draft decision, in which we required JGN to:

- continue to offer the individual hot water metering service to new high rises with a central hot water unit (this relates to the haulage component of JGN's reference service)⁶
- provide further clarification and parameters around the application of the wasted visit charge for certain services (this relates to the ancillary services component of JGN's reference service).⁷

Accordingly, JGN's revised proposal contained the following changes:

- JGN removed a note included in its access arrangement at the initial proposal stage that individual volume tariffs (VI) would apply only to new high rises with a centralised hot water system whose construction certificates were issued before 1 July 2020.⁸ Removal of this note will provide new high rises the option of taking up the individual hot water metering service, consistent with our draft decision.⁹

⁶ JGN, *Revised 2020 plan*, January 2020, pp. 8 and 64–65; AER, *Draft decision: Jemena Gas Networks (NSW) Ltd access arrangement 2020 to 2025: Attachment 1: Services covered by the access arrangement*, November 2019, pp. 5, 11–16 and 23.

⁷ AER, *Draft decision: Jemena Gas Networks (NSW) Ltd access arrangement 2020 to 2025: Attachment 1: Services covered by the access arrangement*, November 2019, pp. 20–23; JGN, *Access arrangement: JGN's NSW gas distribution network 1 July 2020 – 30 June 2025*, January 2020, schedule 2, clause 2.3(j), p. 54.

⁸ JGN, *Access arrangement: JGN's NSW gas distribution network 1 July 2020 – 30 June 2025*, June 2019, schedule 2, clause 2.3(c), p. 43.

⁹ JGN, *Access arrangement: JGN's NSW gas distribution network 1 July 2020 – 30 June 2025*, January 2020, schedule 2, clause 2.3(c), p. 45; JGN, *Revised 2020 plan*, January 2020, p. 8.

- As we required in our draft decision, JGN provided further clarification and parameters around the application of the wasted visit charge in the access arrangement.¹⁰

Further, JGN clarified that the wasted visit charge also applies to the new “Expedited reconnection” ancillary reference service.¹¹ JGN also made a minor change from its initial proposal to clarify that the am/pm appointments apply to reconnections, but not to disconnections.¹²

JGN made no changes to its non-reference service between the initial and revised proposals.¹³

1.3 Assessment approach

As per our draft decision.¹⁴

1.4 Reasons for final decision

We first considered whether JGN has complied with the requirements of the NGR, which we set out in Table 1.1.

Table 1.1 Assessment of JGN’s compliance with the 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 modified rule 48(1)(a)	Compliant. Clauses 1.2 and 11.1 and schedules 8 and 10 of the access arrangement proposal.
describe all of the pipeline services that the service provider can reasonably provide on the pipeline, which must be described having regard to the characteristics of different pipeline services, including those listed in subrule 47A(2) of the Amending Rule — NGR modified rule 48(1)(b)	Compliant. Section 2 of the access arrangement proposal.
from the pipeline services identified under subrule (b), specify the services the service provider proposes to specify as reference services having regard to the	Compliant. However, we require JGN to separate the bundled disconnection/reconnection ancillary reference service into disconnection and reconnection services from

¹⁰ Ibid, schedule 2, clause 2.3(j), p. 54.

¹¹ Ibid, schedule 2, clause 2.3(j), pp. 53–54.

¹² JGN, *Revised 2020 plan*, January 2020, p. 9; JGN, *Access arrangement: JGN’s NSW gas distribution network 1 July 2020 – 30 June 2025*, January 2020, schedule 2, clause 2.3(j), p. 54.

¹³ As we noted in the draft decision, for non-reference pipeline services or negotiated services, we are not required to set tariffs for these or the terms or conditions on which they will be provided. AER, *Draft decision: Jemena Gas Networks (NSW) Ltd access arrangement 2020 to 2025: Attachment 1: Services covered by the access arrangement*, November 2019, pp. 8–9.

¹⁴ AER, *Draft decision: Jemena Gas Networks (NSW) Ltd access arrangement 2020 to 2025: Attachment 1: Services covered by the access arrangement*, November 2019, p. 9.

reference service factors including any supporting information required by the AER — NGR modified rule 48(1)(c)	2021–22 (see section 1.4.1). Clause 2.2 of the access arrangement proposal specifies the proposed reference service. Table 3.3 of attachment 4.1 to the access arrangement proposal sets out JGN's consideration of the reference service factors. ¹⁵
if the pipeline service provider has engaged with pipeline users and end users in identifying the reference services under subrule (c), describe any feedback received from those users about which pipeline services should be specified as reference services — NGR modified rule 48(1)(d)	Compliant. Sections 2 and 3 of attachment 4.1 to the access arrangement proposal. ¹⁶

The reference tariffs and other (non-tariff) terms and conditions on which the reference service will be provided are considered in the Overview and Attachment 11.

1.4.1 Haulage

Our final decision is to accept the haulage component of JGN's reference services for the 2020–25 access arrangement period. JGN's revised proposal addressed our concern in the draft decision regarding the boundary metering strategy.¹⁷

Our draft decision accepted JGN's proposed haulage services, with the exception of its boundary metering strategy. We considered JGN should continue to offer individual hot water metering to new high rises in the 2020–25 access arrangement period as part of its reference service.¹⁸

As noted in section 1.2, JGN accepted our draft decision and will continue to offer the individual hot water metering service to new high rises with a central hot water unit.

Energy Consumers Australia (ECA) and the Public Interest Advocacy Centre (PIAC) supported our draft decision and JGN's revised proposal regarding this issue.¹⁹ PIAC retains concerns regarding consumer outcomes if JGN implements its boundary metering strategy. While PIAC supports JGN's intent to minimise capex through this strategy, the ultimate impact on the households within the site depends also on the costs from the embedded network operator. PIAC stated embedded networks have been a concern in the electricity market and that such networks have been the subject of several submissions by PIAC and a review by the Australian Energy Market

¹⁵ JGN, *Jemena Gas Networks (NSW) Ltd 2020–25 access arrangement proposal: Attachment 4.1: Our reference service and tariffs*, 30 June 2019.

¹⁶ Ibid.

¹⁷ The boundary metering strategy involved JGN's proposal to stop offering hot water meters to individual premises in new high rise buildings, from 1 July 2020, where residents are supplied hot water from a centralised hot water system.

¹⁸ AER, *Draft decision: Jemena Gas Networks (NSW) Ltd access arrangement 2020 to 2025: Attachment 1: Services covered by the access arrangement*, November 2019, pp. 5 and 11–17.

¹⁹ ECA, *Technical Report: Response to JGN revised access arrangement proposal – 2020-25: Prepared by TRAC Partners*, 12 February 2020, pp. 17–18; PIAC, *Submission to Jemena Gas Networks revised access arrangement 2020–25*, 20 February 2020, p. 2.

Commission (AEMC).²⁰ We also discussed concerns regarding embedded networks in our draft decision.²¹

AGL stated it agreed with the original boundary metering strategy and encouraged us and JGN to continue with this strategy. AGL considered the boundary metering strategy would have simplified the metering requirements for customers, providing for more appropriate solutions for JGN and, in turn, ensuring customer meter data is efficiently provided.²²

AGL did not expand on its point that the boundary metering strategy would efficiently provide customer meter data. As we noted in our draft decision, offering the choice of individual hot water metering enables measurement of gas usage by individual customers in a high rise; whereas a boundary meter by itself does not.²³ Further, AGL did not address our draft decision's observation that there still appeared to be demand for individual hot water metering and that there could be concerns regarding consumer protection under the boundary metering strategy.²⁴

In accepting our draft decision, JGN stated it will reconsider its boundary metering strategy again outside the 2020–25 period. JGN further stated it will continue to work with the NSW government, the Energy & Water Ombudsman NSW (EWON) and other stakeholders to support customer protection solutions.²⁵

Consistent with our draft decision, we encourage JGN to address concerns regarding consumer protection (and other valid concerns) if it proposes to implement the boundary metering strategy in future access arrangement periods.

1.4.2 Ancillary reference services

Our final decision is to accept the ancillary service component of JGN's reference services for the 2020–25 access arrangement period. However, we require JGN to separate the bundled disconnection/reconnection ancillary service for volume customers into disconnection and reconnection services from 2021–22 (see section 1.4.2.1 for more details).

Our draft decision accepted JGN's proposed ancillary services, subject to greater clarification about the wasted visit charge. As noted above, JGN provided further

²⁰ PIAC, *Submission to Jemena Gas Networks revised access arrangement 2020–25*, 20 February 2020, p. 2.

²¹ AER, *Draft decision: Jemena Gas Networks (NSW) Ltd access arrangement 2020 to 2025: Attachment 1: Services covered by the access arrangement*, November 2019, pp. 14–16.

²² AGL, *Submission: Jemena Gas Networks (NSW) Access Arrangement 2020-25*, 17 February 2020, p. 3.

²³ Acknowledging that measuring gas usage through individual hot water meters is an indirect measure in that it requires a conversion from water usage to gas usage. AER, *Draft decision: Jemena Gas Networks (NSW) Ltd access arrangement 2020 to 2025: Attachment 1: Services covered by the access arrangement*, November 2019, pp. 16–17

²⁴ AER, *Draft decision: Jemena Gas Networks (NSW) Ltd access arrangement 2020 to 2025: Attachment 1: Services covered by the access arrangement*, November 2019, pp. 12–15.

²⁵ JGN, *Revised 2020 plan*, January 2020, p. 65.

clarification around the application of this charge in its revised proposal. We consider these clarifications provide reasonable certainty and transparency to customers. However we agree with AGL who submitted that JGN should refine this charge and its application in future access arrangement periods as it gains experience through implementation.²⁶

We also consider the following minor amendments to JGN's ancillary reference services are reasonable:

- the wasted visit charge also applies to the "Expedited reconnection" ancillary reference service.²⁷
- the am/pm appointments apply to reconnections, but not to disconnections.²⁸

1.4.2.1 Disconnection / reconnection ancillary service

Our final decision is to require JGN to offer separate disconnection and reconnection services from 2021–22 onward. As a transition measure, JGN will continue to offer the bundled disconnection/reconnection service in 2020–21 only.

Our draft decision accepted JGN's proposed approach to pricing its 'disconnection/reconnection' services; this included maintaining the bundled 'disconnection/ reconnection' charge for volume customers. We noted stakeholder feedback from AGL disagreeing with the combined fee, but considered no case was made to unbundle the fee at that stage. We invited concerned stakeholders to submit such evidence to inform our final decision.²⁹

In its revised proposal, JGN retained the bundled charge. However, JGN also suggested that—if the AER decided to separate the charge—the unbundled charges apply from 2021–22 to provide JGN and retailers time to implement IT and billing changes.³⁰

AGL provided analysis in support of unbundling this fee. AGL's analysis of completed disconnections and scheduled reconnections in the JGN distribution region in 2018–19 found that:³¹

- 52 per cent of disconnections were not reconnected within 3 months, and
- 33 per cent of customers that AGL reconnected were not the same customers that it had disconnected.

²⁶ AGL, *Submission: Jemena Gas Networks (NSW) Access Arrangement 2020-25*, 17 February 2020, p. 4.

²⁷ JGN, *Access arrangement: JGN's NSW gas distribution network 1 July 2020 – 30 June 2025*, January 2020, schedule 2, clause 2.3(j), pp. 53–54.

²⁸ JGN, *Revised 2020 plan*, January 2020, p. 9; JGN, *Access arrangement: JGN's NSW gas distribution network 1 July 2020 – 30 June 2025*, January 2020, schedule 2, clause 2.3(j), p. 54.

²⁹ AER, *Draft decision: Jemena Gas Networks (NSW) Ltd access arrangement 2020 to 2025: Attachment 1: Services covered by the access arrangement*, November 2019, pp. 18-19.

³⁰ JGN, *Revised 2020 plan*, January 2020, p. 8.

³¹ AGL, *Submission: JGN 2020 revised proposal*, 17 February 2020, p. 4.

JGN noted that the results differ if a longer time period is chosen—for instance, JGN’s data for 2018–19 shows that while only 53 per cent of premises are reconnected within 90 days, 74 per cent are reconnected within a year.³²

We consider the above data indicate that a significant proportion customers who disconnect have not reconnected within either three months or one year. Moreover, JGN’s data do not identify what percentage of customers who reconnected are the same customers who had disconnected. We consider that the 33 per cent of reconnected customers identified by AGL as being different to the customers they disconnected also represents a significant proportion.

In addition to these considerations, we have also received further evidence that we consider indicates a preference by retailers to separate the disconnection/reconnection service. During JGN’s consultation prior to submitting its initial proposal, two retailers supported retaining the bundled charge while four retailers considered the charge should be separated.³³

Similar to AGL, another retailer’s submission to JGN’s draft Plan noted it considered establishing separate charges for disconnection and reconnection fairer and more cost reflective.^{34,35} The retailer stated that JGN’s draft Plan assumed that disconnections are predominantly due to non-payment by a customer, and therefore should be considered as a bundled charge for disconnection and reconnection.³⁶ This retailer did not agree with this assumption as retailers request disconnection for various reasons, including but not limited to debt management.³⁷

AGL’s analysis supports this, noting that instances of disconnections without reconnections include customers disconnected for debt churning to another retailer, customers disconnecting for renovation then selling the property, and customers ceasing the use of gas without abolishment. Instances of reconnections without disconnections include customers churning in after being disconnected by another retailer, and customers moving in.³⁸

JGN submitted that unbundling the charges could create a barrier to reconnection.³⁹ JGN viewed this as inconsistent with its objective of removing obstacles to customers consuming gas through its network because retaining customers puts downward

³² JGN, *Response to AER information request IR058: Ancillary Services*, 9 March 2020, p. 4.

³³ JGN, *Response to AER information request #060: Follow up question on disconnection/reconnection charge*, 20 March 2020.

³⁴ AGL, *Submission: JGN 2020 revised proposal*, 17 February 2020, pp. 4–5.

³⁵ JGN, *Response to AER information request #060: Follow up question on disconnection/reconnection charge*, 20 March 2020.

³⁶ See also AER, *Draft decision: Jemena Gas Networks (NSW) Ltd access arrangement 2020 to 2025: Attachment 1: Services covered by the access arrangement*, November 2019, p. 19.

³⁷ JGN, *Response to AER information request #060: Follow up question on disconnection/reconnection charge*, 20 March 2020.

³⁸ AGL, *Submission: JGN 2020 revised proposal*, 17 February 2020, p. 4.

³⁹ JGN, *Response to AER information request IR040: Ancillary reference services*, 30 September 2019, p. 2; JGN, *2020–25 access arrangement proposal: Attachment 4.1: Our reference service and tariffs*, June 2019, p. 14.

pressure on network prices.⁴⁰ While we agree that having a larger customer base puts downward pressure on JGN's prices, we consider there are more appropriate ways to retain (and gain) customers.

We understand some retailers voiced concerns with the process and IT costs associated with unbundling the 'Disconnection/reconnection' service.⁴¹ One retailer suggested that any separation of the bundled charge should first be trialled with large customers, while keeping it bundled for small customers.⁴²

We do not consider this to be a significant barrier as many retailers already face unbundled charges in other jurisdictions.⁴³ However, we note that JGN's proposal to keep disconnection/reconnection as a bundled charge in 2020–21 and then separate the charges from 2021–22 onwards should provide retailers adequate time to execute the necessary changes to their process and systems.

We also understand the bundled charge is part of JGN's strategy to support vulnerable customers. We support initiatives to support vulnerable customers and we commend JGN who noted its bundled charge can provide an incentive for retailers to exhaust all debt management options prior to seeking a disconnection.⁴⁴ On the other hand, we also acknowledge the submissions above that point to other reasons for disconnecting from (and reconnecting to) JGN's network.

It would also appear to us that separated disconnection and reconnection charges can benefit vulnerable customers under certain circumstances. For example, a vulnerable customer moving premises would only be required to pay a disconnection fee at the time of moving out. Where the vulnerable customer's new premise does not have a gas connection, they would not need to pay for a reconnection service. In such an instance, the bundled fee would have charged the vulnerable customer for a service they did not need nor request (reconnection).

In addition, there are other more direct and transparent mechanisms that protect vulnerable consumers and do not cause a violation of the 'causer pays' principle, such as hardship programs. Nevertheless, we would encourage gas distributors to explore initiatives that would support vulnerable customers for our assessment against the NGR and NGL in access arrangement determinations.

⁴⁰ JGN, *Response to AER information request IR058: Ancillary Services*, 9 March 2020, p. 4.

⁴¹ JGN, *2020–25 access arrangement proposal: Attachment 4.1: Our reference service and tariffs*, June 2019, p. 14.

⁴² JGN, *Response to AER information request IR060: Follow up question on disconnection/reconnection charge*, 20 March 2020.

⁴³ Of the 12 gas retailers for small customers in NSW, 11 also operate in jurisdictions where the gas distributor has separate disconnection and reconnection fees. See AER, *State of the energy market 2018*, December 2018, p. 35; AER approved annual tariff variation notices.

⁴⁴ JGN, *Response to AER information request IR040: Ancillary reference services*, 30 September 2019, p. 2; JGN, *2020–25 access arrangement proposal: Attachment 4.1: Our reference service and tariffs*, June 2019, p. 14.