

## Open letter

Our Ref: 60550  
Contact Officer: Scott Sandles  
Contact Phone: 03 9290 1487

28 March 2018

Dear stakeholder

### Gas distribution reference tariffs in NSW from 1 July 2018

This letter explains the interim arrangements that we are in the process of formalising to govern the setting of gas distribution reference tariffs (and non-price terms and conditions) for Jemena Gas Networks (JGN) for the 12-month period commencing on 1 July 2018.

These are interim arrangements, in the sense that, after the final level of allowed revenues/prices is determined through the remittal process, an adjustment to JGN future reference tariffs will be needed if there is any difference between that final allowed level of revenue/prices and the level of revenue/prices already recovered under these interim arrangements.

The JGN remittal process will determine the revenue/prices JGN is allowed to earn for the provision of gas pipeline services over the 2015–20 period. Given the timing of the remittal process, it might be possible to partially reflect any necessary adjustments arising from the final allowed level of revenue/prices into gas network tariffs in the final year of JGN's access arrangement period (2019–20), with residual adjustments applied to tariffs in the next access arrangement period. The AEMC has received a rule change proposal from JGN to allow this adjustment to be smoothed into the next period, similar to the revenue smoothing arrangements approved for the NSW and ACT electricity distributors. The AEMC has commenced consultation on this rule change.

#### Background

On 26 February 2016, the Australian Competition Tribunal (the Tribunal) handed down its decisions on the limited merits review of the AER's NSW and ACT electricity distribution determinations and JGN's gas access arrangement decision issued in April and June 2015, respectively.

The Tribunal set aside and remitted to the AER for further consideration its determinations for:

- the ACT electricity distributor, Evoenergy (formerly named ActewAGL)
- the NSW electricity distributors Ausgrid, Endeavour Energy and Essential Energy
- the NSW gas distributor, Jemena Gas Networks (JGN)

On 24 March 2016, the AER applied to the Full Federal Court for judicial review of the Tribunal's decisions. The Court upheld the AER's appeal regarding gamma, but dismissed other aspects including the AER's decisions on return on debt, and aspects of JGN's capital expenditure.

Resolution of the remittal process is not yet finalised. In the interim, it was not clear what network charges should apply. Neither the Tribunal or Court's decisions, nor the electricity or gas rules, provided an unambiguous way forward.

#### Current 2017–18 interim arrangements

In 2017, we entered into an enforceable undertaking with JGN to establish gas distribution reference tariffs for the 12-month period commencing on 1 July 2017.

This undertaking sought to promote the objectives of revenue/price stability, predictability and transparency by:

- providing for real price reductions of 7 per cent, on average, to JGN's gas reference tariffs, and providing for the submission of an annual tariff variation notice for the 12-month period from 1 July 2017 to give effect to this outcome. A 7 per cent average real price reduction is consistent with the control mechanism and the X factor for 2017–18 from our 2015 final decision.
- providing for all non-price components of JGN's access arrangement (e.g. connections policies, classification of services, and negotiated services framework) to be maintained.

JGN's current enforceable undertaking is set to expire on 30 June 2018. As the remittal process is on-going, we are in the process of establishing new interim arrangements through entering into a new enforceable undertaking with JGN to govern the setting of reference tariffs to be applied from 1 July 2018.

#### 2018–19 interim arrangements

As with 2017–18, our approach for the 2018–19 undertakings seek to promote the objectives of revenue/price stability, predictability and transparency by:

- establishing a framework that minimises price volatility for consumers and protects against significant under or over recoveries of revenue by JGN during this interim period
- providing for real price reductions of 5.4 per cent, on average, to JGN's gas reference tariffs, and providing for the submission of an annual tariff variation notice for the 12-month period from 1 July 2018 to give effect to this outcome. A 5.4 per cent average real price reduction is a greater price reduction for 2018–19 than required in our 2015 final decision (which included an X factor of 4.9 per cent for 2018-19). We understand JGN is proposing this greater price reduction after feedback from stakeholders.
- providing for all non-price components of the 2015 distribution determinations (e.g. connections policies, classification of services, and negotiated services framework) to be maintained.

We are in discussions with JGN regarding the terms of the undertakings that will give effect to the above, but have not yet accepted an undertaking from JGN. When an undertaking is accepted by the AER, we will make it publicly available on our website. We expect this to happen during April 2018.

Yours sincerely



Chris Pattas  
General Manager  
AER Network Pricing, Policy and Compliance