

# **Jemena Gas Networks (NSW) Ltd**

## **2015-20 Access Arrangement**

### **Response to the AER's draft decision and revised proposal**

#### **Appendix 5.4 - Operating expenditure step changes report**

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## OVERVIEW

Since we prepared our initial proposal opex forecasts, there have been three changes in circumstances which have resulted in our initial forecasts understating the best estimate of the opex a prudent operator would require to manage our network over the next access arrangement (**AA**) period. These changes in circumstance are:

- a new regulatory obligation imposed by the draft decision that would require JGN to obtain an independently audited or verified statement to support gas quantity inputs used in the reference tariff variation formula
- the identification of a positive net-benefit employee and public safety initiative to remove customer-owned asbestos meter covers
- an expected change in regulatory obligations regarding B2B service levels and market requirements in the next AA period.

Our opex step change proposal to recover the efficient costs of delivering these activities (incremental to those step changes approved in the draft decision) is summarised in Table OV–1.

**Table OV–1: 2015-20 step change proposal summary (\$2015, \$millions)**

Proposed step change	Total expenditure (2015-20)	Key driver(s)	Recurrent/non-recurrent
Gas quantity input audit	0.14	New regulatory obligation	Recurrent
Meter asbestos cover removal program	0.97	Cost-benefit analysis	Non-recurrent
B2B harmonisation	11.00	New regulatory obligation	Recurrent and non-recurrent elements

## 1. GAS QUANTITY INPUT AUDIT

### 1.1 DRIVER

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1. The driver of this step change is the draft decision. The draft decision introduces a new requirement for an independently audited or verified statement to support gas quantity inputs used in the reference tariff variation formula (refer to draft decision revisions 11.2 and 11.3). The associated costs:
  - are not captured in base year operating costs
  - are not in the nature of trend escalation for scale, scope or productivity change.

### 1.2 IMPACTED OPEX ACTIVITIES

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2. As a result of the new requirement introduced in the draft decision, JGN must engage an independent external party to audit or otherwise verify the statement to support gas quantity inputs used in the tariff variation mechanism.

### 1.3 PRUDENCE ASSESSMENT

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3. JGN has considered the following options to address this requirement:
  1. *Make no change*—this is not considered a viable option for JGN because:
    - a) rule 97 of the National Gas Rules (**NGR**) provides that reference tariffs may not be varied during the course of an AA period, except as provided in the reference tariff variation mechanism. In JGN's case, clause 3 of the access arrangement contains the reference tariff variation mechanism that JGN and the AER must comply with in varying JGN's reference tariffs
    - b) within clause 3, clauses 3.6(a)(iv) and 3.7(a)(iv) (as amended following the AER's draft decision) require JGN to have its statement supporting gas quantity inputs for any tariff variation independently audited or verified
    - c) if, for any tariff variation, JGN fails to have its statement independently audited or verified, it will not be compliant with the reference tariff variation mechanism. There will be a defect in the tariff variation process, and the relevant tariff variation cannot proceed
    - d) as a related matter, JGN could potentially suffer reputational damage were it not to comply with its own AA.
  2. *Conduct an independent audit of JGN's statement supporting gas quantity inputs*—this option would meet the requirements set out under the draft decision (which are expected to be made final), thereby ensuring a compliant tariff variation process.
4. Option 2 is therefore the preferred option. JGN proposes to proceed on that basis.

## 1.4 OPEX STEP CHANGE FORECAST

5. JGN has obtained a quote from KPMG to complete the audit of JGN's statement supporting gas quantity inputs in the reference tariff variation formula (refer Attachment A). KPMG estimates an annual cost of \$34K (excluding GST), escalated annually by CPI. The step change is outlined in Table 1–1. Note that there is no requirement for an audit in 2019-20 as there are only four annual tariff variation notices in an AA period. As JGN does not forecast a requirement for intra-year tariff variation, JGN has not included any amount for these.

**Table 1–1: 2015-20 gas quantity inputs audit requirement step change forecast (\$2015, \$000)**

	Step change forecast					
	2015-16	2016-17	2017-18	2018-19	2019-20	Total
Total step change	34	34	34	34	0	136

## 2. REMOVAL OF ASBESTOS METER COVERS

### 2.1 BACKGROUND

6. Up until the early 1970s, property owners and tenants were able to purchase and install a cover for their gas meter constructed from moulded fibre cement. Asbestos was bonded into the fibre cement during the manufacture of these gas meters.
7. JGN employees and contractors need to access the gas meters within the fibre cement covers and they can be required to lift these covers to perform meter maintenance or meter readings.
8. The driver for this step change is JGN's commitment to protect the safety of its employees, the community and its customers through the elimination of this health and safety risk. JGN and our customers consider employee and public safety as a non-negotiable when we go about providing our day-to-day services.
9. In September 2014, Jemena's health, safety and environment council reviewed the risk associated with the asbestos meter covers (**AMCs**) and requested recommendations for eliminating this risk. The council recommended that meter covers be removed from as many meter sets as possible.
10. It is important to appreciate that:
  - JGN does not own the meter covers (they are owned by our customers) and so JGN requires property-owner permission to remove the meter covers
  - JGN was not responsible for the installation of the meter covers
  - by removing the meter covers, JGN would be acting *beyond* its current legal obligations under the NSW Workplace Health Safety Act 2011 and NSW Code of Practice – Managing Asbestos in the Workplace, because the asbestos material is not yet in a friable state
  - this is a significant operating program that is unlike any other undertaken by JGN in recent years and is not reflective of the nature of operating programs undertaken in the proposed 2013-14 base year.
11. Therefore, JGN justifies the program on the net benefit provided to our employees and customers from completely eliminating this safety risk.
12. JGN proposes a non-recurrent opex step change to remove AMCs from NSW gas customers' properties. This is good industry practice. In proposing this step change, JGN has considered the requirements of rule 91(1) of the NGR and is of the view that the proposed expenditure is required for forecast opex to meet the opex criteria.
13. The forecast cost is \$0.97M (real \$2015) over two years, which is a prudent forecast based on the proposed project population (refer section 2.3.1 for details).
14. We note that this proposal was provided to AER staff prior to the making of the draft decision.<sup>1</sup>

<sup>1</sup> Email from JGN officer to the AER officers, 21 October 2014.

## 2.2 PRUDENCE ASSESSMENT

15. In terms of assessing costs, there are three options to be considered, the first two options each having two sub-options.

### 2.2.1 REMOVE AND DISPOSE OF THE AMCS UNDER A LARGE-SCALE PROGRAM OF WORK (OPTION 1)

#### 2.2.1.1 Request a customer contribution (option 1(a))

16. This option involves undertaking a large-scale meter cover removal program and billing the customer (via their retailer) for the cost of undertaking this work. Because the costs are unable to be capitalised to JGN's RAB (because no asset is being created), the customer contribution would not be deducted from the RAB.
17. The benefits of this option are that it will result in a more economic (cost-reflective) outcome than option 1(b). However, it is considered highly unlikely that customers would be willing to provide any contribution for this work under the (false) perception that meter cover maintenance is the responsibility of JGN. As the responsibility of the property owner, it is not appropriate to pass this cost through to tenants in rental properties either. Creating a user-pays scheme would likely result in customer complaints which negatively impact sentiment about JGN and the attractiveness of natural gas connections, and also create direct costs through resolution processes and engagement with the NSW Energy and Water Ombudsman (**EWON**). It also may incentivise customers to attempt to remove and dispose of the meter covers themselves, which creates unnecessary safety risks.

#### 2.2.1.2 Do not request a customer contribution (option 1(b))

18. This option involves undertaking a large-scale meter cover removal program but not charging the customer for the cost of undertaking this work. Costs would be recovered through haulage service network tariffs through the opex building block (an opex step change).
19. This option will result in cross-subsidies between owners of properties with asbestos meter covers and those without such covers. The benefit of this option is that it will support customer take-up of the offer to remove the asbestos covers and therefore provide economy of scale efficiencies from undertaking a large-scale program.

### 2.2.2 REQUEST THAT CUSTOMERS REMOVE AND DISPOSE OF THEIR AMCS (OPTION 2)

#### 2.2.2.1 Provide a contribution towards the cost (option 2(a))

20. This option involves writing to the customers and requesting that they arrange removal and disposal of their AMCs and, once completed, contact JGN to receive a rebate for the cost. Costs would be recovered through haulage service network tariffs through the opex building block (an opex step change).
21. This option is not preferred, as JGN considers it unlikely that customers would be willing to take on the responsibility for this work under the (false) perception that meter cover maintenance was the responsibility of JGN. This approach would likely result in customer complaints which negatively impact sentiment about JGN and the attractiveness natural gas connections, and also create direct costs through resolution processes and engagement with EWON. It also may incentivise customers to attempt to remove and dispose of the meter covers themselves, which may create unnecessary safety risks for the community at large.
22. There would be additional costs incurred in having to visually confirm the removal of the meter cover before a payment was made and assessing and administering the payment claims made by the customer.



## 2.2.2.2 Do not provide a contribution towards the cost (option 2(b))

23. This option involves writing to the customers and requesting that they arrange removal of the meter covers at their own cost.
24. It is considered highly unlikely that customers would be willing to take on the responsibility for this work under the (false) perception that meter cover maintenance was the responsibility of JGN. This approach would likely result in customer complaints which may negatively impact sentiment about JGN and the attractiveness of natural gas connections, and also create direct costs through resolution processes and engagement with EWON. It also may incentivise customers to attempt to remove and dispose of the meter covers themselves, which may create unnecessary safety risks for the community at large.

## 2.2.3 REMOVE THE METER COVERS ON AN AD-HOC BASIS (OPTION 3)

25. This option involves removing and disposing the AMCs at the same time that customers' meters require replacement, or when prompted by customer complaints or escalation to EWON. Due to the loss of efficiency associated with a large scale program of work approach, the unit cost of undertaking this work would be considerably higher than under a large scale removal program—we estimate that the unit cost would be \$400/cover compared to \$200/cover under a planned program. With a meter life of 15 years, the safety benefits of this approach would be materially and unnecessarily deferred.
26. Based on the above and the higher reputational risk borne by JGN in the event of customer disputes, this option is not recommended.

## 2.2.4 BENEFITS OF REMOVING THE AMCS

27. The benefits of removing AMCs are:
  - mitigating the health impacts of person(s) being affected by the asbestos in the AMCs, any consequential reputational damage<sup>2</sup> and direct costs through complaints management and dispute resolution
  - reducing the frequency of meter reading estimation by contractors, where the contractor is concerned about interacting with the AMC—that reduce the costs of addressing customer complaints (often via EWON).
28. It is challenging to estimate the likelihood of exposure. Even with a one in 100 chance of a single exposure across the 8,000 AMCs, the possible expected value of the reputational damage to JGN alone (ignoring related companies and shareholders) is estimated to be over \$1M.<sup>3</sup>
29. Further, such reputational damage will stifle the benefits of our strategic efforts to market natural gas as product that is safe and supports our customers' lifestyle aspirations. Assuming, conservatively, that we intend to spend \$9M p.a. on marketing into the future<sup>4</sup>, even a 10 per cent deterioration in the effectiveness of this marketing expenditure due to public asbestos concerns would result in close to \$0.9M in losses.
30. Although challenging to quantify, JGN considers the benefits of the program are likely to outweigh the costs of a fully-funded replacement program.

<sup>2</sup> This reputational damage would result from a negative view of the safety of JGN's assets (from the false perception) and consequential disconnections and lower new customer connections, resulting in less customers to share our fixed costs.

<sup>3</sup> Assuming reputational damage of at least \$100M if an exposure occurred. Excludes costs of health impact on person(s), any dispute resolution costs. Note that following media coverage of Telstra's asbestos case, Telstra's share price dropped by around 10 per cent. 10 per cent of JGN's regulatory asset base is around \$300M.

<sup>4</sup> We expect to spend around \$9M on marketing over the next AA period (refer AAI chapter 8). With increasing fuel competition, this expenditure could potentially increase to support new connections and maintain existing connections beyond 2020.

## 2.3 PREFERRED OPTION AND COST FORECAST

31. Based on the prudence assessment in section 2.2, our preferred option is option 1(b) because it reflects the lowest sustainable cost of removing the AMCs while delivering the benefits (discussed in section 2.2.4) as quickly as possible.

**Table 2–1: 2016-20 Asbestos meter cover step change forecast (\$2015, \$000)**

Option 1(b)	Step change forecast					Total
	2015/16	2016/17	2017/18	2018/19	2019/20	
Survey & communication	153					153
Hunter & Central Coast region pilot program	25					25
Sydney and regional areas removal program		795				795
<b>Step change forecast</b>	<b>178</b>	<b>795</b>				<b>973</b>

### 2.3.1 JUSTIFICATION FOR CUSTOMER TAKE-UP RATE

32. There are currently 177 AMC's identified by the Department of Community Services Hunter (**DoCS**) in the Hunter and Central Coast region plus approximately 6,500 AMCs in Sydney and other NSW regional areas. As this list may be incomplete, option 1(b) entails the engagement of a meter reading contractor (Skilltech through Select Solutions) to identify and record all AMCs as part of its meter reading program.
33. The updated survey is anticipated to result in a higher total number of AMCs, in the order of 8,000.<sup>5</sup> JGN is of the view that a high acceptance rate of 70% can be attributed to the 177 identified AMCs in the Hunter and Central Coast region, because the DoCS has requested their removal. A 50% take-up rate is estimated on the remaining AMCs, taking into account recent customer complaints and increased incidence of estimated meter readings.
34. The proposed take-up rate is informed by better public awareness of asbestos in Australia, which has one of the highest rates of mesothelioma in the world. The dangers of asbestos will be amplified by recent media coverage of asbestos issues, such as:
- the management of asbestos in Telstra pits as work is undertaken for the rollout of the National Broadband Network
  - the Mr Fluffy asbestos case in Canberra
  - recent deaths potentially linked to asbestos in factory sites around Melbourne
  - ongoing coverage of James Hardie's management of asbestos in recent decades.
35. A high take-up rate will support the economies of scale delivered by a one-off targeted program. While the letters to customers will be measured and considered, they will support a high take-up rate by clearly explaining the circumstances and that the service would be provided at zero cost.

<sup>5</sup> For clarity, note that meters covers are not installed over all meters and JGN does not consider replacement is necessary where the covers do not currently sit over the top of some meters.

**Table 2–2: Proposed project meter population**

Description	Asbestos meter covers (number)	Estimated take-up rate (%)	Proposed project population
Hunter and Central Coast	177	70%	124
Sydney and other NSW regional areas	6,500	50%	3,250
Increase attributed to updated survey	1,323	50%	662
<b>Total</b>	<b>8,000</b>		<b>4,036</b>

36. Table 2–3 and Table 2–4 sets out the project cost build for a take-up rate of 100% and the proposed project population, respectively.

**Table 2–3: Project cost build based on 100% take-up rate (\$2015, \$000)**

Costs	Options cost breakdown					
	Unit	Option 1(a)	Option 1(b)	Option 2(a)	Option 2(b)	Option 3
EWON unit charge	\$/meter	0	0	145.9	145.9	145.9
Meter removal & disposal	\$/meter	197.3	197.3	197.3	197.3	395
Customer contribution	\$/meter	(98.65)	0	0	0	0
<b>JGN total unit cost</b>	<b>\$/meter</b>	<b>98.65</b>	<b>197.5</b>	<b>343.2</b>	<b>343.2</b>	<b>540.9</b>
x Asbestos meter covers	number	8,240	8,240	8,240	8,240	8,240
<b>Subtotal</b>	<b>\$000</b>	<b>813</b>	<b>1,627</b>	<b>2,828</b>	<b>2,828</b>	<b>4,457</b>
+ Survey & communication	\$000	153	153	0	0	0
<b>Total cost</b>	<b>\$000</b>	<b>966</b>	<b>1,780</b>	<b>2,828</b>	<b>2,828</b>	<b>4,457</b>

(1) Option 1(a) assumes a customer capital contribution equivalent to 50% of meter removal and disposal costs (\$100/meter).

(2) Option 2(a) assumes that the ad-hoc meter removal and disposal cost is equal to option 3, and a JGN capital contribution of 50% (\$200/meter).

**Table 2–4: Project cost build based on proposed project population (\$2015, \$000)**

Costs	Options cost breakdown					
	Unit	Option 1(a)	Option 1(b) - proposed	Option 2(a)	Option 2(b)	Option 3
EWON unit charge	\$/meter	0	0	145.9	145.9	145.9
Meter removal & disposal	\$/meter	197.3	197.3	197.3	197.3	395
Customer contribution	\$/meter	(98.65)	0	0	0	0
<b>JGN total unit cost</b>	<b>\$/meter</b>	<b>98.65</b>	<b>197.5</b>	<b>343.2</b>	<b>343.2</b>	<b>540.9</b>
x Asbestos meter covers	number	4,157	4,157	4,157	4,157	4,157
<b>Subtotal</b>	<b>\$000</b>	<b>410</b>	<b>820</b>	<b>1,426.7</b>	<b>1,426.5</b>	<b>2,248.5</b>
+ Survey & communication	\$000	153	153	0	0	0
<b>Total cost</b>	<b>\$000</b>	<b>563</b>	<b>973</b>	<b>1,427.5</b>	<b>1,427.5</b>	<b>2,248.5</b>

## 3. B2B HARMONISATION

### 3.1 BACKGROUND

37. Since early 2014, the Australian Energy Market Operator (**AEMO**), in consultation with retailers and gas distribution networks in NSW and the ACT, has been considering whether the business to business (**B2B**) and business to market operator (**B2M**) processes in the NSW/ACT retail market should be brought into line with those applying in other jurisdictions (the 'harmonisation project'). Over this period the harmonisation project has moved from the scoping phase to the design phase and while all indicators are that it will move to the implementation phase, AEMO is not due to make a final decision to implement the project and to make the necessary amendments to the NSW/ACT Retail Market Procedures (**RMP**) and the Gas Interface Protocol (**GIP**)<sup>6</sup> until late February 2015 (as at 24 February 2015, this decision had not been made).
38. At the time we submitted our initial proposal, the harmonisation project was still in the scoping phase, with AEMO not yet having made a decision to proceed to the design phase. There was, therefore, no certainty that the harmonisation project would proceed at the time the initial proposal was prepared. Nor was there any certainty about the scope of the changes that would be required if AEMO decided to proceed with the harmonisation project or the likely timing of such changes. JGN was *not*, therefore, in a position to make provision for the costs of the harmonisation project (over and above the costs it expected to spend on replacing its GASS+ legacy IT system with the OneSAP system) in our initial proposal.
39. As the harmonisation project has moved from the scoping phase into the detailed design phase, it has become clearer that the project will proceed and that JGN will incur additional costs installing the required IT infrastructure and complying with a range of new service standards and other regulatory obligations that will be given effect through the NSW/ACT RMP and GIP.
40. Under the B2B and B2M procedures that are currently in place in the NSW/ACT retail gas market, service order processing<sup>7</sup> between a distribution network and retailers is managed by remote login to the distribution network's system, while file transfer protocol facilities are used to manage transactions directed to and from AEMO. The approach employed in NSW/ACT differs markedly from the approach employed in other retail gas markets in eastern Australia, which are operated by AEMO using an FRC Hub. In simple terms, the FRC Hub is communication infrastructure that provides a gateway through which AEMO, retailers and distribution networks can deliver and receive standardised B2B and B2M messages for a range of different transactions using defined protocols and formats.<sup>8</sup>
41. While the harmonisation of the NSW/ACT B2B and B2M procedures has been on AEMO's agenda for some time,<sup>9</sup> the costs of replacing distribution networks' existing IT infrastructure in NSW and the ACT to achieve this harmonisation was, until recently, considered too high to warrant the change. It was not therefore until early 2014 when JGN announced that it would be replacing its GASS+ system<sup>10</sup> with the OneSAP system that the opportunity to achieve a greater degree of harmonisation became more credible.
42. Shortly after this announcement, AEMO formed the NSW/ACT Retail Gas Project (**NARGP**) Working Group, which consists of representatives from AEMO, retailers and NSW and ACT gas distribution networks (i.e. JGN,

<sup>6</sup> The GIP is the protocol that governs the manner and form in which information is to be provided, notice given, notices or documents delivered and requests made as contemplated by the RMP.

<sup>7</sup> These services include things like account creation, customer transfer notification, network billing and the provision of meter data information.

<sup>8</sup> The transactions are defined in a set of technical standards that are either specified in the GIP or Specification Pack.

<sup>9</sup> JGN has been participating in AEMO's evaluation of the costs and benefits of harmonising B2B procedures since October 2010.

<sup>10</sup> The GASS+ system is JGN's largest and core distribution network management, processing and data system.

ActewAGL, APA and AGNL). In the early days of the project, members of NARGP worked closely with AEMO to develop a scoping document, which set out at a high level what the proposed changes to the NSW/ACT B2B and B2M procedures were likely to entail so that market participants could provide AEMO with estimates of the costs and benefits that were likely to be associated with the project. These estimates were then provided to the Nous Group, who was retained by AEMO to carry out an independent cost-benefit analysis of the proposed harmonisation of B2B and B2M procedures.

43. The Nous Group completed this cost-benefit analysis in mid-July 2014. In short, the Nous Group found that the quantitative and qualitative benefits of harmonisation will outweigh the costs and that “the vast majority of NSW/ACT gas end customers will be better off” as a result of the proposed harmonisation.<sup>11</sup> The Nous Group therefore recommended proceeding with the harmonisation of B2B and B2M procedures and noted that doing so would “support the NGO”.<sup>12</sup>
44. The Nous Group’s recommendation was formally endorsed by the AEMO Board on 31 July 2014 when it agreed to proceed to the design phase and to start considering the amendments that would need to be made to the NSW/ACT RMP and the GIP to give effect to the harmonisation project.<sup>13</sup> Since entering into the design phase, the NARGP has worked closely with AEMO to identify:
  1. the scope of the proposed changes to the NSW/ACT B2B and B2M procedures, when the changes should take effect and whether the changes should apply to smaller distribution networks in NSW (e.g. APA’s Central Ranges network and AGNL’s Wagga network)
  2. any changes to ensure compliance with new requirements for energisation of new connections where customers request them directly from the distributor rather than via a retailer
  3. any opportunities to harmonise the service levels applying to participant transactions in the NSW/ACT retail market with those applying in Victoria
  4. any other market driven opportunities to modify the design of JGN’s OneSAP system to simplify or improve market processes (e.g. streamlining the billing transaction format and allowing transfers on estimated reads rather than actual meter reads)—note that these changes have been largely driven by retailers and, to a lesser extent, by AEMO
  5. the amendments that would need to be made to the NSW/ACT RMP and the GIP to give effect to the changes in (1)-(4).

**Table 3–1: AEMO’s consultation and decision-making process**

Project phase	Key Dates	Deliverables
Scoping phase	30 May 2014	AEMO published high level scoping documents on the proposed changes to B2B and B2M processes to enable initial costings to be carried out.
	30 June 2014	JGN submits its AA proposal.
	15 July 2014	Nous Group completed its cost-benefit analysis of the proposed harmonisation of B2B and B2M processes for AEMO.
	31 July 2014	AEMO Board decided to proceed to the design phase of the harmonisation project.

<sup>11</sup> Nous Group, *NSW/ACT Gas Market Reform – Cost Benefit Analysis*, 3 July 2014, pp 6 and 9.

<sup>12</sup> *ibid*, p 9.

<sup>13</sup> Note that amendments to the RMP and GIP must be considered by AEMO having recourse to the consultation and decision-making framework set out in Part 15B of the NGR.

Project phase	Key Dates	Deliverables
Design phase and assessment of required changes to procedures	25 November 2014	AEMO published the proposed amendments to the RMP and GIP and called for comments by 11 December 2014.
	5 January 2015	AEMO is due to release its Impact and Implementation Report ( <b>IIR</b> ) for the proposed amendments to the RMP and GIP for consultation.
	3 February 2015	Consultation period for the IIR ends.
	Late February 2015	AEMO is due to publish its decision on whether to move to the implementation phase and to make the necessary changes to the RMP and GIP.
Implementation phase	February 2015 – April 2016	April 2016 target date for new systems and procedures to go live. In the first year distribution networks will only be required to use their 'reasonable endeavours' to comply with new service standards and other regulatory obligations. From April 2017, firm targets will apply.

Source: AEMO, Proposed Procedure Change, 25 November 2014.

45. As this table highlights, consultation on the harmonisation project is still ongoing and AEMO is not expected to make its final decision to implement the project and to make the necessary amendments to the NSW/ACT RMP and GIP until late February 2015. Refinements are therefore still being made to the proposed B2B and B2M procedures, service levels and other regulatory obligations. This refinement process is not expected to end until the consultation period closes and AEMO makes its final decision.
46. While refinements are still being made, there is broad agreement amongst stakeholders that:
- the new B2B and B2M processes and the design of the supporting IT infrastructure should be based on the Victorian model, albeit with some amendments to reflect jurisdictional specific arrangements, such as:
    - the contestability of hot water meters in NSW and the ACT
    - the application of NECF obligations in NSW and the ACT
    - the operation of the Short Term Trading Market (**STTM**) in Sydney
    - the ability to transfer customers on the basis of estimated reads in NSW and the ACT rather than actual reads and the ability for customers to carry out their own reads.
  - the service levels applying to the timing of the provision of meter reading data, special meter reads and service order data, should be the same as those currently applied in Victoria
  - the new systems, procedures and protocols should go live in April 2016, but, in the first year, distribution networks should only be required to comply with new obligations on a reasonable endeavours basis.

## 3.2 WHAT THE HARMONISATION PROJECT MEANS FOR JGN

47. If, as is expected, AEMO decides to proceed to the implementation stage of the harmonisation project by amending the NSW/ACT RMP and GIP, then JGN will be required to:<sup>14</sup>
- implement new IT hardware and software to give effect to the new:

<sup>14</sup> If JGN fails to do either of these things then AEMO may, under section 91MB of the National Gas Law, direct it to rectify the breach or to implement specific measures to ensure future compliance. AEMO may also refer the breach to the AER.



- B2B and B2M procedures in NSW/ACT, which will reflect the NSW/ACT jurisdictional specific arrangements outlined in section 3.1
- service standards and other regulatory obligations
- other market driven process improvements

This new IT infrastructure will need to be in place prior to April 2016 to enable testing to occur.

- comply with a number of new service levels for participant transactions from April 2016—three of the more significant changes to service levels that JGN will subject to from April 2016 are outlined in Table 3–2.
- change its approach to connections—under the current approach, new connections can be energised even if there is no retail contract in place. The requirement to employ a two-step process for customer-initiated connections will therefore give rise to additional operating costs
- comply with a range of other new regulatory obligations from April 2016. Some examples of these new obligations include the requirement for JGN to:
  - comply with the FRC Hub terms and conditions
  - respond to any AEMO request for missing meter data
  - process customer own reads within a defined time period
  - provide AEMO with daily average heating values
  - replace estimated reads with actual reads
  - notify all market participants of next scheduled read date when meter reading route changes
  - use reasonable endeavours to make metering database accessible to market participants.

**Table 3–2: Changes in service levels—timing of data provision**

Participant transactions	Proposed new service level	Existing service level in NSW/ACT RMP
Meter data provision (routine, customer and special reads)	JGN will be required to read meters on the next scheduled read date ( <b>NSRD</b> ) and to then comply with the following standards:  Gas meter: JGN will be required to provide an actual read 1 business day after the NSRD, or an estimate 2 business days after the NSRD.  Hot water meters: JGN will be required to provide an actual read 4 business days after the NSRD, or an estimate 5 business days after the NSRD.	Monthly or quarterly data to be provided in accordance with the following: <ul style="list-style-type: none"> <li>• at least 90% of data collected in any month is to be provided 5 business days after the meter read</li> <li>• at least 98% of data collected in any month is provided 20 business days after the meter read.</li> </ul>
Special meter reads (market notification)	Retailer to nominate date for a special meter read, which can be no earlier than 2 business days after the request.  JGN will then be required to use reasonable endeavours to carry out the special meter read on the date requested and 1 business day after this date to provide either the meter reading, or a reason for not reading the meter and the next possible special meter read date.	Special meter reads to be notified in at least 5 business days.
Service order completion	JGN to notify AEMO of service completion no	No existing service level.

Participant transactions	Proposed new service level	Existing service level in NSW/ACT RMP
(market notification)	later than 5 days after the service order was completed.	

### 3.3 INDICATIVE ESTIMATE OF COSTS OF COMPLYING WITH THE NEW OBLIGATION

48. Because refinements are still being made to the proposed B2B and B2M procedures, service levels and other processes, protocols and regulatory obligations, JGN is not in a position at this point in time to provide the AER with a final forecast of the opex and capex associated with the harmonisation project. It has, however, prepared preliminary placeholder estimates that provide an indication of the incremental costs of implementing the business process changes that will be required to comply with:

- the new service levels for the provision of metering data, special meter reads and service order data
- new energisation requirements in NSW and the ACT
- other new regulatory obligations in the NSW/ACT RMP.

#### 3.3.1 OPEX STEP CHANGE

**Table 3–3: 2015-20 B2B harmonisation opex step change placeholder forecast (\$2015, \$millions)**

	Step change forecast					
	2015-16	2016-17	2017-18	2018-19	2019-20	Total
Compliance with new service levels	0.8	2.5	2.0	2.0	2.0	9.3
Energisation of customer-initiated connections (process and business solution)	0.2	0.0	0.0	0.0	0.0	0.2
Data validation	0.3	0.0	0.0	0.0	0.0	0.3
Retailer and market management	0.2	0.5	0.5	0.5	0.5	2.7
<b>Total step change</b>	<b>1.5</b>	<b>3.0</b>	<b>2.5</b>	<b>2.0</b>	<b>2.0</b>	<b>11.0</b>



## **Attachment A**

### **KPMG quote**

## A1. KPMG QUOTE

**From:** [KPMG]  
**Sent:** Monday, 22 December 2014 8:24 AM  
**To:** [JGN]  
**Cc:** [JGN and KPMG representatives]  
**Subject:** Proposed Audit Fees - Tariff Qty JGN

Dear [JGN],

Further to your discussions with [KPMG representative] over recent days, an indicative fee estimate if we were engaged to perform review assurance over certain information in connection with the JGN Tariff Qty is set out below. The actual fee would be agreed once we had a greater understanding of the basis of preparation and related processes undertaken by your team. However, for the purposes of estimating a fee now, we have assumed the following:

JGN reference tariff model

The elements that would need audit per your assessment are:

1. Inputs|Volumes tab – all data
2. Inputs|General tab – Throughput volumes in row 53.

KPMG fee range: \$20,000 - \$30,000 for the regulatory year 1 July 2013 to 30 June 2014, exclusive of the Goods and Services Tax and out of pocket expenses.

- Note that this fee range is estimated at KPMG FY2015 charge out rate, and will subject to CPI adjustment if the work will be performed in FY2016.
- Out of pocket expenses are estimated at \$4,000, exclusive of the Goods and Services Tax, at current rates.

Should you require anything additional please give me a call. Wishing you a safe and happy Christmas

Kind Regards

**[KPMG representative]**

Director  
Audit

KPMG  
147 Collins Street  
Melbourne VIC 3000 Australia

Tel +61 3 9838 4027  
Mob +614 09 826 509