

Jemena Gas Networks (NSW) Ltd

2015-20 Access Arrangement

Response to the AER's draft decision and revised proposal

Appendix 1.4 - Response to draft decision on JGN's revised AA

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TABLE OF CONTENTS

Introduction	1
Part A - JGN AA document – response to AER draft decision.....	2
Part B – Explanation of proposed revisions to the 2010 AA	15

INTRODUCTION

1. This Appendix consists of two Parts:
 - Part A contains a table which sets out the AER draft decision revisions required to the access arrangement (**AA**) document included in JGN's initial proposal, together with JGN's response to those revisions
 - Part B is a revised version of Appendix 1.1 to JGN's June 2014 access arrangement information. We have updated that document to take into account AA revisions that have been made since June 2014, arising either from the AER's draft decision or JGN's response.

PART A - JGN AA DOCUMENT – RESPONSE TO AER DRAFT DECISION

2. Note. This table relates only to those aspects of the AER’s draft decision relating, and requiring amendments, to the Access Arrangement document. It should be read together with the JGN’s mark-up of the AA document which is included in its revised proposal submission.

Draft decision revision #	Clause of AA	AER draft decision	JGN revised proposal (marked up as against drafting in JGN’s initial proposal)
<i>Rate of return revisions</i>			
3.1	5.1	Make all the necessary amendments to the access arrangement proposal to reflect the values for the rate of return and its parameters set out in section 3.1 of attachment 3. This includes amending the value of the return on debt in clause 5.1 of the access arrangement proposal from 7.30 per cent to 5.93 per cent (subject to updating).	AER amendment not accepted. For reasons set out in Appendices 7.10 (return on debt) and 7.01 (return on equity) of JGN’s response to the draft decision, JGN does not agree with the AER’s draft decision in relation to the rate of return. JGN considers that the AER’s draft decision is not consistent with the rate of return objective.
3.2	5.2-5.9	Make all the necessary amendments to clauses 5.2 to 5.9 of the access arrangement proposal to reflect our position set out in section 3.4.2 in attachment 3 and appendix I. In particular, reflect the annual debt update process and reflect our position that services providers are to nominate their averaging periods for the return on debt before the access arrangement period commences	AER amendment partially accepted. JGN has amended clause 5 to address the issue raised by the AER in relation to data sources to be used for updating the return on debt. Under JGN’s revised proposal, an average of available data series is to be used, unless the estimates from available data series diverge materially, in which case JGN’s selection method would be applied to determine to the best fit data source. JGN has also amended the method for extrapolation of independent data sources, in response to matters raised in the draft decision. The AA now provides for two alternative extrapolation methodologies to be used, one of which is the method proposed by the AER in the draft decision. Where extrapolation is required, both of the alternative methodologies will be used. Formulae for the two alternative methods are set out in new Schedule 8 (we note that the inclusion of this Schedule after Schedule 7 has resulted in the renumbering of two other schedules). JGN has also amended clause 5 to address matters raised in section 3.4.2 of the draft decision in relation to the method for transitioning to the trailing average.

PART A - JGN AA DOCUMENT – RESPONSE TO AER DRAFT DECISION

Draft decision revision #	Clause of AA	AER draft decision	JGN revised proposal (marked up as against drafting in JGN's initial proposal)
Rate of return revisions			
			<p>JGN's revised proposal reflects a 'hybrid-to-trailing average' approach to transition, consistent with the AER's position on efficient financing practice of the benchmark efficient entity, as set out in section 3.4.2 of the draft decision.</p> <p>These amendments are explained in Appendix 7.10 of JGN's response to the draft decision (return on debt).</p> <p>Otherwise, the AER's proposed amendments to clauses 5.2 – 5.9 are not accepted. For reasons set out in Appendix 7.10 (return on debt), JGN does not agree with the AER's draft decision in relation to the return on debt. JGN considers that the AER's Draft Decision is not consistent with the rate of return objective.</p>
3.9	5.10	Make all necessary amendments to reflect our draft decision, specifically, to delete the return on debt fixed principle (section 5.10) from JGN's access arrangement proposal.	For reasons set out in Appendix 7.10 (return on debt), the AER's amendments are not accepted.
Efficiency carryover mechanism revisions			
9.1	12.1	<p>Amend clause 12.1(h) so that it reads:</p> <p>"The following costs will be excluded from the operation of the efficiency carryover mechanism:</p> <ul style="list-style-type: none"> (i) UAG costs; (ii) licence fee costs; (iii) debt raising costs; (iv) carbon costs; (v) the cost of any relevant tax; and (vi) any cost category the AER decides to exclude from the operation of the efficiency carryover mechanism that is not forecast using a single year revealed cost approach in the access arrangement period 	<p>AER amendments to clause 12.1(h) are largely accepted.</p> <p>In relation to the amendment to clause 12.1(h)(vi), JGN proposes the following drafting:</p> <p><i>"any cost category that: (1) is not forecast using a single year revealed cost approach in the access arrangement period following this Access Arrangement Period (intended to commence 1 July 2020); and (2) the AER determines, as part of a decision on revisions to apply to this Access Arrangement (and following the consultation processes associated with that decision), to exclude from the operation of the efficiency carryover mechanism because it is satisfied that it would not promote the National Gas Objective."</i></p> <p>A definition of National Gas Objective has been inserted in Schedule 1 of the AA document. The definition simply refers to section 23 of the National Gas Law.</p> <p>For an explanation of these amendments, please see section 9 of JGN's</p>

PART A - JGN AA DOCUMENT – RESPONSE TO AER DRAFT DECISION

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<i>Rate of return revisions</i>			
		commencing in 2020. The AER will only do this when it is satisfied that JGN's consumers would not benefit from applying the efficiency carryover mechanism to that category of costs."	<p>response to the draft decision.</p> <p>JGN notes that this concept has been the subject of various discussions with AER staff during January and February 2015. Having regard to the feedback provided in those discussions, JGN has expressly provided in clause 12.2 that clause 12.1(h)(vi) is not a fixed principle as provided for in rule 99 of the National Gas Rules.</p> <p>Finally, we have amended the heading for clause 12, so that it becomes "Operating expenditure efficiency carryover mechanism".</p>
9.2	12.1	<p>Amend clause 12.1(i) as follows:</p> <p>Delete the text "with the following exception:" and replace with the text "adjusted for any approved pass through amounts."</p> <p>Delete clause 12.1(i)(i) which states:</p> <p>"the carryover of cost-related incremental efficiency gains will be calculated in a manner that takes account of any change in the scale of the activities which form the basis of the determination of the original benchmarks. The operating expenditure benchmarks will be adjusted consistent with the way in which the benchmark was determined."</p>	<p>AER amendment accepted.</p> <p>Note, consistent with the terminology used elsewhere in the AA document, we have substituted "Determined Cost Pass Through Amounts" in place of the AER's "approved pass through amounts". This is to ensure consistency of wording, and does not alter the intent of the clause.</p>
9.3	12.1	Delete the table in clause 12.1(i) and replace with Table 9-2 (on p17 of Attachment 9)	AER amendment accepted but with revised figures (reflecting JGN's revised AA proposal).
<i>Tariff setting revisions</i>			
10.1	3.1(b)	<p>Delete clause 3.1(b) and replace it with:</p> <p>"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:</p>	<p>AER amendment partly accepted. JGN understands following discussions with AER staff on 21 January 2015 that the intent of this clause is agreed in principle. JGN has used the simpler wording from its initial proposal, but included additional wording to make it clearer that variations may only be made with AER approval.</p>

PART A - JGN AA DOCUMENT – RESPONSE TO AER DRAFT DECISION

Draft decision revision #	Clause of AA	AER draft decision	JGN revised proposal (marked up as against drafting in JGN's initial proposal)
Rate of return revisions			
		<ul style="list-style-type: none"> (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.” 	<p>The start of clause 3.1(b) now reads:</p> <p><i>The Service Provider may vary Reference Tariffs at any time during the Access Arrangement Period <u>with the approval of the AER</u> in accordance with clause 3. Such variations may be affected through...</i></p> <p>JGN emailed AER staff on 22 January 2015 to confirm that the remainder of the clause 3.1(b) is consistent with the drafting of the equivalent clause in the Envestra Victoria Access Arrangement which was accepted by the AER. AER staff confirmed by return email that there was no issue with JGN's proposed drafting.</p>
10.2	Schedule 2, item 4	Amend Schedule 2, section 4 of the Access Arrangement proposal as indicated in revision 11.9 of the tariff variation mechanism attachment.	<p>See commentary below in relation to revision 11.9.</p> <p>JGN notes that it advised AER staff of a number of minor drafting issues with the AER's revised Schedule 2 (by email, followed by a telephone discussion on 21 January 2015). We understand the AER has no objection to these minor drafting issues being rectified in the version of Schedule 2 included in JGN's revised AA proposal, and consequently these amendments have been addressed in the JGN revised AA proposal</p> <p>JGN has also updated the tariff schedule to give effect to a new one-off 'Clean Energy Act repeal settlement' tariff component. This is to return residual¹ cost savings of \$628,221.70² to customers as a result of the repeal of the Clean Energy Act.</p>

¹ The repeal of the Clean Energy Act 2011 (Cth) on 17 July 2014 removed our carbon liabilities, effective from 1 July 2014. To give effect to this, we voluntarily ceased collecting carbon-related revenue from industrial customers (demand market) from 1 July 2014 and residential and commercial customers (volume market) from 1 August 2014. This was formalised with our 18 November 2014 within-year tariff variation notice that the AER approved in January 2015. Our within-year tariff variation notice also set out that we would return residual cost savings (the July 2014 carbon-related revenue from volume market customers plus gas transmission fugitive emissions and operating costs less a retailer of last resort pass through), including an allowance for time value of money, in our 2015-16 prices. This will appear as a one-off 'Clean Energy Act repeal settlement' tariff component in our 2015-16 tariff schedule (refer Schedule 2 of our AA). This will be a negative tariff component that will be removed from 2016-17.

² In accordance with our approach set out in our November 2014 within-year tariff variation notice, this includes revenue collected from the volume market during July 2014 from the \$0.110/GJ throughput charge (\$489,709) plus gas transmission fugitive emissions (\$91,696) and operating costs (\$31,000) less a pass-through amount for a retailer of last resort event (\$14,586) (all in \$2015). JGN has

PART A - JGN AA DOCUMENT – RESPONSE TO AER DRAFT DECISION

Draft decision revision #	Clause of AA	AER draft decision	JGN revised proposal (marked up as against drafting in JGN's initial proposal)
Rate of return revisions			
<i>Tariff variation mechanism revisions (see also section 11 of JGN's response to the draft decision)</i>			
11.1	3.6(a)(iii)	Delete clause 3.6 (a)(iii) and replace it with the following: “At the same time as submitting proposed Haulage Reference Tariffs to the Regulator, the Service Provider will also provide to the AER information demonstrating that the proposed Haulage Reference Tariffs are, to the extent relevant, consistent with the Reference Tariff Control Formula and rebalancing control formulae in clause 3.2.”	This revision does not appear to change the substance of the clause. However, it reduces stakeholder accessibility by adding more words, in a way that is not wholly consistent with the remainder of clause 3.6(a) (from a drafting perspective). We propose the initial drafting be retained as there is no sound reason for the change, and our drafting already has the same meaning as the AER's revision. As discussed with AER staff on 21 January 2015, clause 3.6(a) sets out the information that JGN must provide the AER in a variation notice which proposes to vary reference tariffs. In that context, the JGN proposed drafting is intended to have the same meaning as the AER's draft decision amendment.
11.2	3.6(a)(iv)	Delete clause 3.6(a)(iv) and include the following: “In respect of the annual variations of reference tariffs, the Service Provider will include a statement to support the gas quantity inputs in the reference tariff variation formula. The statement will be independently audited or verified and the quantity input will reflect the most recent actual annual quantities available at the time of reference tariff variation assessment. The actual quantity will be provided as four quarters of gas quantity data reconciling to an annual total quantity of gas.”	AER amendments accepted, subject to the following minor amendments: <ul style="list-style-type: none"> • remove “In respect of the annual variation of reference tariffs, the Service Provider will”; • replace “include” with “includes”; • replace “reference tariff variation formula” with “Reference Tariff variation mechanism”; • “quantity” has been capitalised; • replace “annual” with “Financial Year”; and • replace “reference tariff variation assessment” with “submitting the Variation Notice”. These minor amendments remove certain drafting that is already set out in the prefatory words of clause 3.6 and ensure consistency with terminology and defined terms used elsewhere in the AA document.

adjusted for the difference for the time value of money consistent with the a previous AER's request for this to be based on the assumption that the relevant adjustments are in end of financial year dollars (30 June) and that the adjustments will be provided for evenly over the financial year (i.e. JGN has applied the adjustment for 0.5 years).

PART A - JGN AA DOCUMENT – RESPONSE TO AER DRAFT DECISION

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			<p>Clause 3.6(a)(iv) now reads:</p> <p><i>includes a statement to support the Gas Quantity inputs in the annual Reference Tariff variation mechanism. The statement <u>will be independently audited or verified</u>, must be provided by an officer of the Service Provider and the Quantity input must reflect the most recent actual Financial Year Quantity available at the time of submitting the Variation Notice. <u>The actual Quantity will be provided as four quarters of Gas Quantity data reconciling to an annual total Gas Quantity.</u></i></p>
11.3	3.7(a)(iv)	<p>Delete clause 3.7(a)(iv) and include the following:</p> <p>"In respect of the annual variations of reference tariffs, the Service Provider will include a statement to support the gas quantity inputs in the reference tariff variation formula. The statement will be independently audited or verified and the quantity input will reflect the most recent actual annual quantities available at the time of reference tariff variation assessment. The actual quantity will be provided as four quarters of gas quantity data reconciling to an annual total quantity of gas."</p>	<p>AER amendment regarding independently audited or verified statement is accepted, with the same minor amendments as for revision 11.2. However, as discussed with AER staff on 21 January 2015, JGN's drafting will refer to intra-year variations of reference tariffs rather than an annual variations (which is the subject of clause 3.6).</p> <p>Additionally, this revision refers to 'annual' quantities 'provided as four quarters'. However, a within-year tariff variation notice will be collecting revenue over quantities that relate to periods shorter than one year.</p> <p>Accordingly, clause 3.7(a)(iv) now reads:</p> <p><i>includes a statement to support the Gas Quantity inputs in the Reference Tariff variation mechanism. The statement must be provided by an officer of the Service Provider <u>will be independently audited or verified</u>, and the Gas Quantity inputs must reflect the most recent actual Quantity available at the time of submitting the Variation Notice."</i></p>
11.4	3.2(b)	<p>Revise the definitions in clause 3.2(b) to reflect section 11.4.1 [of the AER draft decision].</p>	(Please also see section 11.3.3.1 of JGN's response to the draft decision.)
		<p>Rebalancing side constraint formula – the side constraint in the AER's draft decision is multiplied rather than added (i.e., $(1+CPI_t)(1-X_t)(1+A_t)(1+PT_t)(1+0.1)$).</p>	AER amendment to rebalancing side constraint formula accepted.
		<p>CPI_t definition –refers to September rather than December</p>	CPI_t definition not accepted as discussed with AER staff on 21 January 2015.

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Rate of return revisions			
		quarter CPI.	<p>In this regard, JGN notes that referring to the September quarter would be a retrograde step as CPI for the tariff variations would not be based on the most up to date data (December quarter CPI). Compensating for inflation should use the most recently available CPI information to ensure as accurate as possible tariff variations.</p> <p>JGN understands from its discussion with AER staff that references to December quarter should be retained in definition, and accordingly our response reflects this. In addition, JGN's revised proposal contains a slightly revised definition of CPI_t as our initial proposal did not include CPI for the financial year prior to 30 June 2015. As the definition of L_{t-2} in the automatic adjustment factor in Schedule 3 (approved by the AER) refers to the value of CPI_t determined in 2014-2015, JGN has therefore added the following words to the definition of CPI_t in clause 3.2: <u>"means...for the Financial Year beginning 1 July 2014 and ending 30 June 2015, 0.0172"</u>.</p>
		Definition of X_t – means the X factor for each financial year, determined in accordance with the PTRM approved in the AER's final decision, and annually revised for the return on debt updated calculated for the relevant financial year during the access arrangement period.	<p>JGN proposes changing all references to "PTRM" to "JGN Revenue Model", for consistency with other aspects of JGN's AA and also as JGN does not have a PTRM.</p> <p>The AER amendment to refer to the PTRM approved in the AER's final decision is accepted. This change can be found in the definition of "JGN Revenue Model" in Schedule 1, which is largely the same as the PTRM definition in the our initial AA proposal and reads as follows:</p> <p><i>"JGN Revenue Model means the revenue model that is used by the Service Provider to calculate Reference Tariffs for the Access Arrangement Period and as approved in the AER's final decision for this Access Arrangement Period."</i></p> <p>JGN does not accept the AER's amendment to provide that the X factor is "annually revised..." For reasons explained in Appendix 7.10 (return on debt), JGN has retained its proposed method for updating the return on debt and making consequential changes to the X factor..</p>

PART A - JGN AA DOCUMENT – RESPONSE TO AER DRAFT DECISION

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			<p>The revised AA definition that JGN is proposing is:</p> <p><i>"X_t means the X factor for each Financial Year, determined in accordance with the PTRMJGN Revenue Model, updated for the return on debt in accordance with clause 5.9."</i></p>

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Draft decision revision #	Clause of AA	AER draft decision	JGN revised proposal (marked up as against drafting in JGN's initial proposal)
<i>Rate of return revisions</i>			
11.5	Schedule 3	Revise the definitions in Schedule 3 to reflect section 11.4.2 and 11.4.3 [of the AER draft decision].	See section 11.3.3.1 of JGN's response to the draft decision.
		Insert in (a) and (b) of Carbon Cost factor amount "as approved by the AER" after "Carbon Scheme"	AER amendment accepted. However, we have inserted "as approved by the AER" after "Service Provider" in each of (a) and (b) (given it is the cost amount, not the Carbon Scheme itself, that is approved by the AER).
		AP_i definition – refers to the access arrangement "applying to JGN".	AER amendment not accepted. As per discussion with AER staff on 21 January 2015, it is JGN's understanding that the AA applies to the Network. Therefore, the use of "Network" in paragraph (b) is more appropriate than "JGN".
11.6	Schedule 1	<p>Revise the definitions in Schedule 1 to reflect the following:</p> <p>"Service standard event</p> <p>A legislative or administrative act or decision that has the effect of:</p> <p>Varying, during the course of an Access Arrangement Period, the manner in which Jemena Gas Networks is required to provide a Reference Service; or</p> <p>Imposing, removing or varying, during the course of an Access Arrangement Period, minimum service standards applicable to a Reference Service; or</p> <p>Altering, during the course of an Access Arrangement Period, the nature or scope of a Reference Service, provided by Jemena Gas Networks."</p>	<p>As discussed with AER staff on 14 January 2015, JGN accepts this event in principle, but proposes the following minor amendments:</p> <ul style="list-style-type: none"> references to "Jemena Gas Networks" in the AER's version of this definition should be replaced with "Service Provider" to align with the drafting convention used in the remainder of; and change "a Reference Service" to "the Reference Service". JGN considers "the Reference Service" is more appropriate as there is only one Reference Service under the AA (the Haulage Reference Service). <p>JGN understands that AER staff had no objections to these minor amendments. The revised drafting for this event is set out in section 12.3 of JGN's response.</p>

PART A - JGN AA DOCUMENT – RESPONSE TO AER DRAFT DECISION

Draft decision revision #	Clause of AA	AER draft decision	JGN revised proposal (marked up as against drafting in JGN's initial proposal)
Rate of return revisions			
		<p>“Regulatory Change Event</p> <p>Regulatory change event means a change in regulatory obligation or requirement that falls within no other category of cost pass through event and substantially affects the manner in which the Service Provider provides the Reference Service.”</p>	<p>AER amendments accepted except for the insertion of “substantially”, and replacement of “cost pass through event” with “Cost Pass Through Event” (to align with the drafting convention used throughout the AA). Please see section 12 of JGN’s response to the draft decision in relation to this issue.</p> <p>JGN’s revised drafting of this event is set out in section 12.3 of JGN’s response.</p>
Section 11.4.4 of draft decision	3.4(a) and Schedule 1	AER does not approve JGN’s proposed business continuity event.	<p>JGN has deleted the Business Continuity Event and replaced it with the following events (requiring amendments to clause 3.4 and to the definitions in Schedule 1 of the AA):</p> <ul style="list-style-type: none"> • Terrorism Event • Natural Disaster Event • Gas Supply Shortfall Event • Insurance Cap Event • Insurer Credit Risk Event <p>An explanation of these proposed amendments can be found in section 12 of JGN’s response to the draft decision.</p> <p>JGN’s proposed drafting for these events is set out in section 12.3 of JGN’s response.</p>
		AER does not approve JGN’s proposed network user failure event.	<p>JGN proposes a revised Network User Failure Event. The revised event and an explanation of the event, including the amendments JGN proposes (relative to its initial proposal) can be found in section 12 of JGN’s response to the draft decision.</p>
11.7	3.5	Make all the necessary amendments to reflect the AER’s draft decision to not approve the fixed principle in relation to cost pass through events in an immediately prior access arrangement.	<p>JGN does not accept the AER’s amendments, and maintains its position from its initial proposal, in relation to clause 3.5. See section 11.2.2 of JGN’s response to the AER’s draft decision.</p>

PART A - JGN AA DOCUMENT – RESPONSE TO AER DRAFT DECISION

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<i>Rate of return revisions</i>			
11.8	3.4(b)	Delete clause 3.4(b) and replace it with the following. 3.4(b) The Service Provider may seek the approval of the AER to pass through costs where as a result of a Cost Pass Through Event the Service Provider has incurred, or is likely to incur, higher costs in providing the Reference Service than it would have incurred but for that event and those costs are at least one per cent of the smoothed revenue requirement specified in the final decision in the years of the access arrangement period that the costs are incurred.	AER amendments are not accepted, other than: <ul style="list-style-type: none"> the deletion of references in clause 3.4(b)(i) and (ii) to “Regulatory Change Event that relates to carbon”; JGN agrees with the deletion of “are or are reasonably estimated to be”. Furthermore, JGN proposes the insertion of “Network User Failure Event” in place of “Regulatory Change Event that relates to carbon” in each of clause 3.4(b)(i) and (ii). An explanation of: <ul style="list-style-type: none"> JGN's basis for maintaining its position from the initial proposal regarding the materiality thresholds for cost pass through events; and the above amendment relating to the Network User Failure Event, can be found in section 12 of JGN's response to the draft decision.
	3.4(c)	Delete clause and 3.4(c) and replace it with the following. 3.4(c) The AER may require the Service Provider to pass through costs where as a result of a Cost Pass Through Event the Service Provider has incurred, or is likely to incur, higher costs in providing the Reference Service than it would have incurred but for that event and those costs are at least one per cent of the smoothed revenue requirement specified in the final decision in the years of the access arrangement period that the costs are incurred.	AER amendments are not accepted, other than JGN agrees with the deletion of “are or are reasonably estimated to be”. An explanation of JGN's basis for maintaining its position from the initial proposal regarding the materiality thresholds for cost pass through events can be found in section 12 of JGN's response to the draft decision.

PART A - JGN AA DOCUMENT – RESPONSE TO AER DRAFT DECISION

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<i>Rate of return revisions</i>			
11.9	Schedule 2, item 4	Delete section 4 in Schedule 2 and replace them with the following updated tables on pages 11-26 to 11-31 of the AER's draft decision.	<p>JGN's revised section 4 of schedule 2 has been updated to reflect prices to give effect to our revised proposed revenue requirement in chapter 10.</p> <p>Additionally, it has not replicated the following errors in the AER's table 4.1 of the AA. Referencing each of sections (a) to (j) of the table:</p> <ul style="list-style-type: none"> (a) Demand Capacity Rates need to show 3 decimal places (b) DC Country rates need to show 3 decimal places (c) DC Country rates (pressure reduction) need to show 3 decimal places (d) Tariff Class should be "DCFR-6" not "DCRF-6" (e) No errors (f) DT tariff blocks, second block is described as "first 1667" instead of "next 2500" and DMT tariffs should not have a minimum monthly quantity of 833 GJ (g) Provision of basic metering charges should be rounded to 0 decimal places (h) VI / VB Coastal & Country rates need to show 3 decimal places. Additionally, VB Coastal / Country labelled incorrectly as VI Coastal / Country in the tariff class column (i) Fixed charge rates need to show 3 decimal places. Additionally, VB Coastal / Country labelled incorrectly as VI Coastal / Country in the tariff class column (j) Ancillary charges should show 2 decimal places.

PART A - JGN AA DOCUMENT – RESPONSE TO AER DRAFT DECISION

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Rate of return revisions			
<i>Non-tariff components revisions</i>			
12.5	8.2 Extensions and expansions policy	<p>Amend clause 8.2(c) of the access arrangement revision proposal as follows:</p> <p>Add text to clause 8.2(c) by inserting this sentence after the first sentence:</p> <p>"The Service Provider will notify the AER of any proposed surcharge to be levied on users of incremental services and designed to recover non-conforming capital expenditure or a specified portion of non-conforming capital expenditure (nonconforming capital expenditure which is recovered by means of a surcharge will not be rolled into the capital base."</p>	AER amendment accepted.
12.6	1.3.	<p>Amend clause 1.3 of the access arrangement revision proposal as follows:</p> <p>Delete this part of the clause:</p> <p>"or such later date as provided for by the AER pursuant to the National Gas Rules"</p> <p>so that the final clause will read:</p> <p>1.3 The review submission date is 30 June 2019.</p>	<p>AER amendment accepted.</p> <p>Clause 1.3 now reads: "<i>The review submission date is 30 June 2019, or such later date as provided for by the AER pursuant to the National Gas Rules.</i>"</p> <p>JGN discussed this clause with AER staff on 21 January 2015, noting that circumstances could arise whereby the AER approves an extension to the review submission date (as happened in JGN's case in 2010). AER staff provided feedback that this was a matter that could be addressed by exchange of correspondence at the relevant time, and therefore did not need to be reflected explicitly in clause 1.3 of the AA. On that basis, JGN has accepted the AER's revised wording of clause 1.3.</p>

PART B – EXPLANATION OF PROPOSED REVISIONS TO THE 2010 AA

INTRODUCTION

1. In its AA initial proposal for the 2015-20 access arrangement period, JGN proposed a number of changes to its current access arrangement (**2010 AA**). Those changes fall into the following categories:
 - changes which are consistent with, or replicate, principles or structures in the 2010 AA but with amendments to:
 - reflect JGN’s revised approach to the reference service, reference tariffs and tariff classes
 - clarify or simplify the particular process or mechanism to enhance the practical workability of the clause and/or
 - align JGN’s approach with other network businesses’ approved access arrangements
 - changes to more closely align the drafting of particular provisions with the National Gas Rules (**NGR**), particularly where NGR requirements have changed as a result of the introduction of the National Energy Customer Framework (**NECF**) in NSW, or which are responsive to other rule changes (e.g. return on debt and amendments to rule 87 of the NGR)
 - deletion of clauses that were in the 2010 AA which are redundant or duplicative, thereby simplifying the access arrangement document. These clauses may be overly detailed, already found in the Reference Service Agreement (**RSA**), or simply duplicate a rule in the NGR that does not relate to the particular contents of JGN’s AA.
2. Further revisions to the AA have been made by JGN in response to the AER’s draft decision. Accordingly, JGN has updated this document (which was Appendix 1.1 of the Access Arrangement Information JGN submitted as part of its initial proposal), to reflect those revisions.
3. The key changes (as revised for JGN’s response) are outlined in the table below. This table does not include mechanical drafting or other formatting changes (e.g. paragraph renumbering, new or amended subheadings) that:
 - were reflected in the mark-up provided with the initial proposal (and were subsequently accepted by the AER in its draft decision), or
 - are reflected in the AA mark-up provided with JGN’s response to the draft decision.

PART B – EXPLANATION OF PROPOSED REVISIONS TO THE 2010 AA

Table: Explanation of proposed revisions to the 2010 AA

Subcategory	2010 AA reference	2015 AA reference	Summary of proposed change
Introduction			
General – information about the Network and other introductory matters	Clause 1	Clause 1	<p>Clause 1 of the 2010 AA has been shortened and simplified, while retaining the elements required by rule 48 of the NGR. Key changes proposed include:</p> <ul style="list-style-type: none"> an updated Review Submission Date (30 June 2019) and Revision Commencement Date (1 July 2020) are included. In relation to the Review Submission Date, JGN notes that it has removed the acceleration of the Review Submission Date clause in the 2010 AA (clause 11). That clause was inserted in the 2010 AA in anticipation of expected amendments to the National Gas Law (NGL) and the NGR or the commencement of the National Energy Retail Law and National Energy Retail Rules in New South Wales during the 2010-15 AA period. Given these changes have now been effected, it is therefore no longer relevant for the 2015 AA an interpretation clause has been inserted in clause 1 of the 2015 AA, which essentially cross-refers to AA schedule 1 (which sets out the definitions) and incorporates a principle from schedule 1 of the 2010 AA that states that terms not defined in the AA are defined in the RSA. JGN is not proposing any revisions to the other interpretation principles in schedule 1 The brief history of JGN in clause 1.1 of the 2010 AA has been deleted as it is not required under the NGR and the description of the Network is shorter– that information will be placed on JGN's website as required by clause 48(1)(a) of the NGR. Network maps and receipt points are still included in the 2015 AA – that information is in schedules 8 and 9 (which have both been updated for the 2015 AA).
Services Policy			
Reference Services	Clause 2.2	Clause 2.2	<ul style="list-style-type: none"> JGN is proposing to offer a single reference service in the 2015 AA – the Haulage Reference Service. A description of the Reference Service is set out in section 2 of the 2015 AA.
Non-Reference Services	Clause 2.3	Clause 2.4	The non-reference services to be offered under the 2015 AA are the same as under the 2010 AA.

PART B – EXPLANATION OF PROPOSED REVISIONS TO THE 2010 AA

Subcategory	2010 AA reference	2015 AA reference	Summary of proposed change
Reference Tariff Schedule and Variation Mechanisms			
Reference Tariffs – introductory provisions	Clause 3.1 and 3.2	Clauses 3.1, 3.9 and 3.10	<p>Some of the introductory provisions in clause 3 of the 2010 AA have been removed in the 2015 AA as they are redundant and not required by the NGR. Most of the introductory provisions have, however, been retained with minimal amendment:</p> <ul style="list-style-type: none"> clause 3.1(b) of the 2015 AA clarifies how JGN may vary Reference Tariffs during the 2015-20 AA period with the approval of the AER by effecting such variations through Reference Tariff components, introducing or withdrawing Reference Tariffs, or any combination of these. This clause is similar to a clause that was approved in Envestra’s (Victoria) AA (see clause 4.4.1 of the Envestra (Victoria) AA) the provision regarding publication of a revised Reference Tariff Schedule (RTS) has been shifted to clause 3.9 in the 2015 AA with no substantive changes the principle in clause 3.1 of the 2010 AA regarding how JGN determines Reference Tariffs and the depreciation method used for establishing the opening Capital Base for the 2015-20 AA and the subsequent access arrangement period are now in clause 3.10.
Initial Reference Tariff Schedule	Schedule 2	Schedule 2	<p>The Initial Reference Tariffs are set out in schedule 2 of the 2015 AA. As well as simplifying its reference service offering, JGN is proposing to simplify its tariffs by consolidating fixed charges and removing redundant tariff classes. An explanation of these changes is set out in chapter 9 of JGN’s Access Arrangement Information (AAI). These changes include:</p> <ul style="list-style-type: none"> new tariff classes and consequential changes to tariff class assignment criteria transitional arrangements between the 2010 AA and 2015 AA for the assignment or re-assignment of certain tariff classes and reductions in chargeable demand have been set out in a new section in the RTS rather than the RSA.
Reference Tariff variation mechanism	Clauses 3.4(b) and 3.5	Clauses 3.2 and 3.3	<p>JGN proposes to broadly retain the current method for varying reference tariffs over the 2015-20 AA period, that is, it proposes to retain a tariff basket form of price control for varying reference tariffs. The changes that JGN is proposing to the price control formula are set out in chapter 10 of the AAI.</p> <p>The definition of q_{t-2}^{xy} in the formula differs slightly to the definition in the 2010 AA in that it refers simply to quantity rather than “actual quantity”—this is to reflect the fact that in some cases, JGN will be using reasonable estimates of quantity, as actual quantity data will not be available. For example, in the year after a new tariff has been introduced, audited historical actual quantity will not be available. JGN notes that this change is consistent with the Jemena Electricity Network (JEN) definition of the equivalent of q_{t-2}^{xy} in its price control formula (see clause 2.1 in</p>

PART B – EXPLANATION OF PROPOSED REVISIONS TO THE 2010 AA

Subcategory	2010 AA reference	2015 AA reference	Summary of proposed change
			JEN's distribution determination amended in accordance with the orders of the Tribunal (28 September 2012)). JGN notes that any intra-year variations are to also comply with the price control formula for annual Reference Tariff variations. This is consistent with the approach in clause 3.4(b) of the 2010 AA but with the added clarification that JGN needs to make such adjustments as necessary given it is an intra-year rather than an annual variation. The AER will then have oversight of the variation as discussed below.
Procedures for notifying the AER of a Reference Tariff variation	Clause 3.4(b), (c) and (d)	Clauses 3.6 and 3.7	The variation notice process from the 2010 AA has been largely retained for both annual and intra-year variations. A key difference is that the intra-year variation notice process is now set out separately in the 2015 AA. For annual reference tariff variations, JGN will submit a variation notice no later than 15 March or the next closest business day prior to the commencement of the relevant financial year to which the variation relates. This is earlier than the equivalent date under the 2010 AA (15 April or the next closest business day). For intra-year variations, JGN proposes that a variation notice must be submitted to the AER at least 50 business days prior to the date upon which it intends the varied tariffs to come into effect. The same period applies under the 2010 AA.
AER assessment of Reference Tariff variations	Clause 3.4(d)	Clause 3.8	JGN proposes to retain the timing in which the AER must inform JGN as to its decision on the reference tariff variation (30 business days). The 2015 AA affords the AER an ability to extend the time for making its decision (for a maximum, additional 20 business days) where the AER needs to obtain further information from JGN, obtain expert evidence or consult about the variation notice. A maximum period of 50 business days for the AER to approve or reject any proposed variation affords the AER adequate oversight as required under rule 97(4) of the NGR. The time period for the AER's consideration of any variation notice is consistent with time periods in other recently approved AAs.
Cost Pass Through Events – list of events, materiality, AER notification and assessment, and cross-period events	Clauses 3.4, 3.5C and 3.5D	Clauses 3.4 and 3.5, and Schedule 3	The key changes in the 2015 AA on Cost Pass Through Events are as follows: <i>Revised list of Cost Pass Through Events</i> JGN proposes to revise the list of Cost Pass Through Events for the 2015-20 AA period to align with events adopted by other network businesses in recently approved AAs where it is appropriate and practical to do so. Certain cost pass through events in the 2010 AA are now specified as automatic adjustment factors, which the AER will have oversight of pursuant to the variation notice process found in clause 3.6 of the 2015 AA. The revised list of Cost Pass Through Events is as follows:

PART B – EXPLANATION OF PROPOSED REVISIONS TO THE 2010 AA

Subcategory	2010 AA reference	2015 AA reference	Summary of proposed change
			<ul style="list-style-type: none"> Regulatory Change Event Service Standard Event Network User Failure Event Natural Disaster Event Terrorism Event Insurance Cap Event Insurer Credit Risk Event <p>Further information regarding JGN’s proposed approach to cost pass through is set out in section 12 of the JGN response to the AER draft decision.</p> <p><i>Materiality thresholds</i></p> <p>JGN is proposing to amend the materiality thresholds which apply to the proposed Cost Pass Through Events for the 2015-20 AA period essentially as follows:</p> <ul style="list-style-type: none"> automatic adjustment factors—no materiality threshold (in keeping with the approach taken in the 2010 AA for Change in Tax Events, Licence Fee Adjustment Events and UAG Adjustment Events) Network User Failure Event — no materiality threshold all other Cost Pass Through Events—1 per cent of the smoothed forecast revenue in the year in at least one of the years in which costs are incurred, or 0.5 per cent of the smoothed forecast revenue over the 2015-20 AA period. <p><i>Notification of Cost Pass Through Events</i></p> <p>JGN’s proposed approach to notification is essentially the same as that which applies under the 2010 AA. An initial notification is required to be lodged with the AER within 90 business days of becoming aware that the relevant event has occurred (clause 3.4(d)). Where details of costs incurred or likely to be incurred as a result of the event are not known at that time, clause 3.4(h) provides for JGN to submit a supplementary notice containing that additional cost information.</p> <p>Following JGN’s notification, the AER is to make a decision on any notification of a Cost Pass Through Event within 40 business days, with the ability to extend that timeframe to an absolute time limit of 90 business days. This absolute 90 business day period is unchanged from the 2010 AA. The matters that the AER must take into account in making a determination on a Cost Pass Through Event are also largely unchanged.</p>

PART B – EXPLANATION OF PROPOSED REVISIONS TO THE 2010 AA

Subcategory	2010 AA reference	2015 AA reference	Summary of proposed change
			<p><i>Definition of WACC</i></p> <p>Clause 3.4(j)(iv) provides that the AER is to take into account the time cost of money based on the WACC for JGN. JGN has amended the definition of WACC to clarify that the time value of money adjustment will use a pre-tax WACC. This avoids doubt that a vanilla or post-tax WACC could also be fit for this purpose. The pre-tax WACC is appropriate because the revenue allowance is before the payment of corporate tax. This approach is consistent with how the X factors are calculated in JGN's forecast revenue model.</p> <p><i>UAG costs notification</i></p> <p>UAG costs are now specified as an automatic adjustment factor and the method for calculating those costs is set out in schedule 3. As part of the streamlining and simplification process, JGN has deleted the process in clause 3.5D of the 2010 AA which involves JGN providing the AER with a statement containing UAG cost information. This information could still be provided to the AER on an annual basis as part of the RIN reporting process.</p> <p><i>Cross-period cost pass through events</i></p> <p>JGN proposes to insert a provision to clarify the approach to cost pass through events occurring in a immediately prior access arrangement period, the costs of which are not passed through in Reference Tariffs in that period. JGN's proposal is that such costs are to be passed through in the subsequent regulatory period (2015 AA, clause 3.5). JGN considers such a provision is necessary given there is typically a lag of at least 12 months between JGN's final opportunity to vary Reference Tariffs under a particular access arrangement and the commencement of a new access arrangement period such that there is a need for a mechanism to pass through costs associated with an event that occurs in the final year of an access arrangement period in the next access arrangement period.</p> <p>The provision intends to capture circumstances arising under three different scenarios:</p> <ul style="list-style-type: none"> • where the AER has made a decision as to the amount that should be passed through as a result of the cost pass through event, but where it is impracticable for pass through to occur in that access arrangement period (such as where the AER's decision occurs in the final months of the access arrangement period) • where JGN has notified the AER of the cost pass through event in the immediately prior access arrangement period but the AER has not made its decision before the end of that period • where the timing of the event is such that although the event had occurred, it was not notified to the AER by JGN and the notification ultimately occurs in the subsequent access arrangement period. <p>This provision is expressed as a fixed principle.</p> <p>The cost pass through factor formulae in schedule 3 of the 2015 AA is intended to also deal with pass through</p>

PART B – EXPLANATION OF PROPOSED REVISIONS TO THE 2010 AA

Subcategory	2010 AA reference	2015 AA reference	Summary of proposed change
			amounts that arise as a result of cross-period cost pass through events.
Tariff Class assignment and re-assignment			
Tariff Class assignment	Clause 3.3	Clause 4.1	For clarity, the Tariff Class assignment provisions in the 2010 AA have been shifted to a separate section in the 2015 AA but are largely unchanged. The only additional provision is a new clause that requires a User or Prospective User to provide, on request, information to enable JGN to assign a Delivery Point with a Tariff Class.
Tariff Class re-assignment	Clause 3.3	Clause 4.2	The Tariff Class re-assignment provisions in the 2010 AA have also been shifted, with three changes: <ul style="list-style-type: none"> • clarification that Tariff Class re-assignment may occur if a Tariff Class has been withdrawn • the provision dealing with User-requested re-assignment has been amended to align with rule 509 of the NGR which deals with tariff class re-assignment • a new provision on how JGN will determine a User's request and inform the User of its decision has been inserted, again to ensure alignment with rule 509.
Return on debt and averaging period nomination			
Updating the return on debt within the AA period	n/a	Clause 5	<p>This is a new clause designed to facilitate updating of the return on debt within the 2015-20 AA period. Updating of the return on debt within the 2015-20 AA period is now allowed for, following recent changes to rule 87 of the NGR. Clause 5.1 of the 2015 AA allows for the return on debt for each year to be different (as is now provided for by rule 87(9)(b) of the NGR). This is done by annual updating of a trailing average return on debt formula. The trailing average formula that is used in clause 5.1 reflects JGN's proposal that there be a transition to the trailing average approach for the base rate component of the return on debt only. Further information regarding JGN's proposed approach to the return on debt transition (including explanation of the formulae used in clause 5.1) is set out in appendix 7.10 of the JGN response to the AER draft decision.</p> <p>Clauses 5.2 to 5.4 set out the method for estimating the prevailing return on debt in later years of the 2015-20 AA period, for the purposes of updating the trailing average. This method has been specified in as much detail as possible, so that it can be applied automatically and within a relatively short timeframe. In response to matters raised in the draft decision, JGN has amended the method for estimating the prevailing return on debt to provide for use of an average of yield estimates from available Independent Data Sources, except where these yield estimates diverge significantly (by more than 60 basis points). JGN understands the AER's preference for use of an average, but considers that where estimates diverge significantly there is a need to assess whether one source alone, or an average, would provide for a better estimate of the prevailing return on debt (refer to appendix 7.10 of the JGN</p>

PART B – EXPLANATION OF PROPOSED REVISIONS TO THE 2010 AA

Subcategory	2010 AA reference	2015 AA reference	Summary of proposed change
			<p>response to the AER draft decision for further discussion of this issue).</p> <p>Clauses 5.5 to 5.8 set out processes for nomination of averaging periods and determination of the prevailing return on debt in these later years. This includes processes for the AER to review and approve averaging periods and to review JGN's calculations of the prevailing return on debt for each averaging period. These processes for AER oversight of averaging periods and return on debt calculations are very similar to other key processes under the AA, such as the process for review and approval of cost pass through events.</p> <p>Clauses 5.9 and 5.10 set out how the change in total revenue and tariffs will be effected. For most years, this involves updating the X factors in JGN's revenue model. However for the last year of the 2015-20 AA period, a true up amount needs to be carried into the next AA period, because the update to the return on debt cannot be done in time to be reflected in tariffs for that last year.</p>
Speculative capital expenditure and investment policy			
General	Clause 4	Clause 6	The 2015 AA retains the expansion incentive mechanism. Amendments have been made to align the expression of the provision with rule 84 of the NGR.
Capital redundancy policy			
General	Clause 5	n/a	This clause has been deleted as it replicates the requirements in rule 85 of the NGR.
Queuing policy			
General – formation of queue and procedure for making capacity available	Clause 6	Clause 7	<p>The 2015 AA retains most of the drafting in the 2010 AA but with changes to clarify that:</p> <ul style="list-style-type: none"> the general principle is that Requests will be treated in the queue on a first in, first served basis, similar to the queuing policies of other network businesses where an offer to provide a Service has been made in relation to a Request, that Request will take priority to a Request where no offer to provide a Service has been made (2015 AA, clause 7.1(b)) where an offer of capacity is made to a Prospective User in the queue, which meets in part the requirements of the Request, the position in the queue remains until the Request can be fully satisfied (2015 AA, clause 7.3(c)(ii)) the prudential requirements in relation to assignment or transfer of a Request in the queue are subject to the terms of the RSA (2015 AA, clause 7.2(d) and (e)) when administering a queue, JGN may take into account a connection contract that it has entered into under

PART B – EXPLANATION OF PROPOSED REVISIONS TO THE 2010 AA

Subcategory	2010 AA reference	2015 AA reference	Summary of proposed change
			Part 12A of the NGR, in determining that customer's priority in any queue (2015 AA, clause 7.6(c)).
Extensions and expansions policy			
General – method for determining if extension or expansion forms part of the covered pipeline	Clause 7	Clause 8	The 2015 AA makes changes to more closely align the drafting of the clause with the terminology used in rule 104 of the NGR (2015 AA, clauses 8.1(a), 8.2(a) and (b)).
Capacity trading			
General	Clause 8	Clause 9	The 2015 AA proposal does not amend the 2010 AA.
Changing receipt and delivery points			
General	Clause 9	Clause 10	The 2015 AA largely retains the drafting of the 2010 AA. An additional clause provides that JGN cannot unreasonably withhold its consent to any request made under this provision (2015 AA, clause 10.3). This is intended to reflect rule 106(2) of the NGR.
Consolidated Access Arrangement			
General	Clause 10 (titled, as "Fixed principles")	Clause 11	The 2015 AA does not amend the clause in the 2010 AA (including retaining its fixed principle character). The provision has been retitled by reference to its substantive, operative subject matter.
Operating expenditure efficiency carryover mechanism³			
General	n/a	Clause 12	JGN proposes the application of an opex efficiency carryover mechanism (ECM), which has not been provided for in the 2010 AA. The ECM is consistent recent AER's determinations and ECM guidelines. It is proposed as a fixed principle except the clause relating to the exclusion of other cost categories that are not forecast using a single year revealed cost approach and, which the AER determines (following consultation) should be excluded from the operation of the ECM as it would not promote the National Gas Objective (2015 AA, clause 12.1(h)(vi)). A definition of National Gas Objective has been inserted into Schedule 1 – the definition simply refers to section 23 of the

³ Please note that this clause was titled "Operating expenditure efficiency benefit scheme" in the AA proposal. The heading has been amended to reflect the carryover mechanism in the clause.

PART B – EXPLANATION OF PROPOSED REVISIONS TO THE 2010 AA

Subcategory	2010 AA reference	2015 AA reference	Summary of proposed change
			National Gas Law. Further information on the ECM is set out in chapter 8 of the AAI and section 9 of the JGN response to the AER draft decision.
Reference Service Agreement			
General	Schedule 3	Schedule 4	Appendix 1.5 of the JGN response to the AER draft decision provides background information to the RSA, including changes proposed for the 2015-20 AA period and in response to the AER's draft decision.