

APPENDIX 5 - AER ISSUES NETWORK REVENUES DRAFT DECISION FOR NSW GAS DISTRIBUTION (JEMENA GAS NETWORKS)

The AER has issued its draft decision for Jemena Gas Networks (NSW) Ltd's 2015–20 access arrangement. The draft decision forms part of the AER's consultation process in determining an appropriate level of revenues that the business may recover from its customers.

Jemena Gas Networks (NSW) Ltd (JGN) provides gas distribution services in NSW. It is responsible for the pipelines that deliver gas to homes and businesses in NSW.

“Our draft decision, if implemented, would reduce JGN's average tariff by 21 per cent in 2015–16. Network tariffs would remain around these lower levels until we review JGN's access arrangement again in 2019,” AER Chair Ms Paula Conboy said.

Distribution charges represent about 50 per cent of a customer's annual gas bill, with wholesale, transmission, and retail costs making up the remainder.

“Our draft decision would place downward pressure on bills during the 2015–20 period as it proposes to reduce distribution charges. However, the wholesale gas price is forecast to increase significantly over the next few years, which will place upward pressure on bills,” Ms Conboy said.

“While this makes price predictions difficult, the draft decision today, if implemented, would see consumers paying only what is necessary for an efficient service.”

JGN's proposal included real price reductions, and was supported in many areas by constructive engagement with consumers. The major differences between JGN's proposal and our draft decision relate to rate of return and capital expenditure.

The AER has set a rate of return of 6.80 per cent. This is lower than when we last made our decision, reflecting lower interest rates and improved financial market conditions. This compares to JGN's 8.67 per cent.

“The investment environment has improved since our previous decision in 2010. As a consequence, the lower cost of debt and equity translates to the lower financing costs necessary to attract efficient investment,” Ms Conboy said.

The AER has also approved capital expenditure of \$988 million over 2015–20, 19 per cent less than JGN's proposal of \$1217 million. Most of the capital expenditure adjustments are to JGN's meter replacement program and the cost of new residential connections.

Table 1 Per cent difference between JGN's proposal and AER's draft decision

JGN's proposal	AER draft decision	% difference
\$2933 million	\$2477 million	-16 %

Notes: These figures reflect total nominal revenue from 2015–16 to 2019–20.

In response to the AER's draft decision, JGN may provide a revised proposal to the AER by 27 February 2015. Submissions on the AER's draft decision and the revised proposal are invited by interested parties and may be made by 27 March 2015.

The AER will make its final decision in May 2015 after considering further submissions from JGN, customers and other stakeholders.

Media inquiries

AER Media 1300 138 917
27 November 2014