



Jemena Gas Networks (NSW) Ltd

Revised 2020-25 Access Arrangement Proposal

Attachment 15.1

Response to the AER's draft decision - Explanation of proposed revisions to 2020 AA



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Abbreviations

AA	Access Arrangement
AER	Australian Energy Regulator
CESS	Capital Expenditure Sharing Scheme
ECM	Efficiency Carryover Mechanism

Overview

As part of our 2020-25 Access Arrangement (**AA**) Proposal submitted on 30 June 2019, we proposed a number of changes to the provisions of our current 2015-20 AA (**2020 AA**). Many of these revisions have been accepted by the Australian Energy Regulator (**AER**) in its draft decision.

The AER identified limited matters where it required changes or further clarification to the drafting of our proposed 2020 AA, before it is capable of being approved. This attachment summarises the AER's draft decision on those matters, which, in summary, relate to our reference service offering, reference tariff variation mechanism and the operation of both the operating expenditure efficiency carryover mechanism (**ECM**) and capital expenditure sharing scheme (**CESS**). This attachment also sets out our response to the draft decision as it relates to the drafting of the AA, cross-referencing other components of our Revised 2020 Plan containing further detail where applicable.

This document should be read in conjunction with Attachment 15.2, which sets out the additional changes to the 2020 AA in response to matters raised in the draft decision (**Revised 2020 AA**). For simplicity, it does not show the 2020 AA track changes which have already been considered by the AER as part of its draft decision.

Please note that the explanation of changes to the Reference Service Agreement (which comprises Schedule 4 of the AA) is set out in Attachments 15.3 and 15.4 of our Revised 2020 Plan.

1. JGN's response to the draft decision

Table 1–1: Explanation of response to AER's draft decision on JGN's 2020 AA proposal

Subject	2020 AA Ref.	AER draft decision / Stakeholder Feedback	Summary of drafting changes in response to AER Draft Decision
Introduction			
General	Section 1	The AER accepted our updates to the review submission and revision commencement date. Refer to: <i>AER draft decision, Attachment 11, Non-tariff components.</i>	We have accepted the AER's draft decision. No further drafting changes required.
Services policy			
Services	Clauses 2.1-2.3	The AER accepted JGN's single reference service, with the exception of JGN's boundary metering strategy and requiring further explanation as to some of JGN's proposed ancillary activities (explained below under Sch 2). Refer to: <i>AER draft decision, Attachment 1, Services covered by the AA.</i>	We have accepted the AER's draft decision. Our commentary on the AER's draft decision on boundary metering is included within Chapter 14 of our Revised 2020 Plan. Amendments have been made in Schedule 2 of the AA to address AER draft decision (see explanation below).
Non reference services	Clauses 2.4-2.6	The AER accepted JGN's proposal in respect of Non Reference Services. Refer to: <i>AER draft decision, Attachment 1, Services covered by the AA.</i>	We have accepted the AER's draft decision. No further drafting changes required.
Reference Tariff Schedule and Variation Mechanism			
Initial Reference Tariffs	Clause 3.1	The AER draft decision did not specify any modifications to this section.	We have accepted the AER's draft decision. No further drafting changes required.
Annual and Intra-year Reference Tariff variation mechanism	Clauses 3.2 – 3.3	The AER did not accept some aspects of JGN's reference tariff variation mechanism which impacts the drafting of the automatic adjustment in Schedule 3 (as discussed below in that section). The AER accepted the weighted average price cap formula and other aspects of the tariff variation mechanism, and therefore did not require any changes to clauses 3.2-3.3. Refer	Refer to our response to the AER's draft decision on the automatic adjustment in Schedule 3 below. Otherwise, we have accepted the AER's draft decision. No drafting changes required to this section.

		to: <i>AER draft decision, Attachment 10, Reference tariff variation mechanism.</i>	
Cost pass through events	Clause 3.4	The AER accepted JGN's changes to the cost pass through definitions, except it required minor changes to the Natural Disaster Event to remove the term "major" in accordance with its other decisions. Refer to: <i>AER draft decision, Attachment 10, Reference tariff variation mechanism.</i>	We have accepted the AER's draft decision and accordingly amended the definition of "natural disaster event".
Cross-period pass through mechanism	Clause 3.5	The AER accepted our proposal in respect of this clause. Refer to: <i>AER draft decision, Attachment 10, Reference tariff variation mechanism.</i>	We have accepted the AER's draft decision. No further drafting changes required.
Variation Notice Assessment	Clauses 3.6-3.9	The AER accepted our proposal in respect of this clause. Refer to: <i>AER draft decision, Attachment 10, Reference tariff variation mechanism.</i>	We have accepted the AER's draft decision. No further drafting changes required.
Other matters	Clause 3.10	The AER required that clause 3.10(b) specify that depreciation used to roll forward the capital base as at 1 July 2025 be based on the approved depreciation schedules (straight line) based on forecast capex at asset class level. Refer to: <i>AER draft decision, Attachment 2, Capital Base.</i>	We have accepted the AER's draft decision by making the specified drafting changes to clause 3.10(b).
Tariff Classes			
Tariff Class Assignment	Section 4	The AER draft decision did not specify any modifications to this section.	We have accepted the AER's draft decision. No further drafting changes required.
Return on debt			
Return on debt formula	Section 5	The AER accepted our proposal in respect of the return on debt. Refer to: <i>AER draft decision, Attachment 3, Rate of Return.</i>	We have accepted the AER's draft decision. No further drafting changes required.
Speculative capex and investment policy			

Speculative capex and investment policy	Section 6	The AER draft decision did not specify any modifications to this section.	We have accepted the AER's draft decision. No further drafting changes required.
Queuing			
Queuing	Section 7	The AER accepted our changes to simplify the queuing provision. Refer to: <i>AER draft decision, Attachment 11, Non-tariff components</i> .	We have accepted the AER's draft decision. No further drafting changes required.
Extensions and expansions policy			
Extensions and expansions	Section 8	The AER accepted our changes to the extensions and expansions section. Refer to: <i>AER draft decision, Attachment 11, Non-tariff components</i> .	We have accepted the AER's draft decision. No further drafting changes required.
Capacity trading			
Capacity trading	Section 9	The AER accepted our changes to the capacity trading section. Refer to: <i>AER draft decision, Attachment 11, Non-tariff components</i> .	We have accepted the AER's draft decision. No further drafting changes required.
Changing receipt and delivery points			
Changing receipt and delivery points	Section 10	The AER accepted our changes to the changing receipt and delivery points section. Refer to: <i>AER draft decision, Attachment 11, Non-tariff components</i> .	We have accepted the AER's draft decision. No further drafting changes required.
Consolidated Access Arrangement			
Consolidated AA	Section 11	The AER draft decision did not specify any modifications to this section.	We have accepted the AER's draft decision. No further drafting changes required.
Incentive mechanisms			
Incentive mechanism	Section 12	The AER's draft decision approved the application of an ECM for the 2020-25 AA period, but required the following amendments:	We have accepted the AER's draft decision and made the specified drafting changes. The forecast opex specified in clause 12.1(i) reflects our revised forecast opex (refer to Attachment 5.1 of our Revised 2020 Plan – Opex Model).

		<ul style="list-style-type: none"> • update the base year to 2017-18 rather than 2018-19 • exclude the licence fee costs which correspond to the costs accounted for in the licence fee factor as an automatic adjustment • minor change to clause 12.1(f)(ii) relating to the price indices used in the calculation being consistent with that to forecast opex • update the forecast opex specified in clause 12.1(i) to reflect the AER draft decision. <p>Refer to: <i>AER draft decision, Attachment 8, Efficiency carryover mechanism.</i></p>	
Capital expenditure incentive mechanism	Section 13	<p>The AER's draft decision approved the application of a CESS for the 2020-25 AA period, but required the following amendments:</p> <ul style="list-style-type: none"> • remove the fixed principle (in clause 13.2 of the AA) • update the capex forecast in clause 13.1(h)(iv) to reflect the draft decision capital expenditure forecast for the 2020-25 AA Period • add a new clause 13.1(i)(iv) that clarifies the application of a discount rate for deferred capex projects • revise the proposed targets in Schedule 9 to remove outliers and review targets against internal targets • revise the mathematical formulas in clause 13 to ensure that they operate as intended <p>The AER also requested further rationale for the proposed target range of 80-100 in Sch 9.</p>	<p>Our detailed response, and explanation of the mark up to this clause, is set out in Attachment 11.1 of our Revised 2020 Plan. In summary we have:</p> <ul style="list-style-type: none"> • instead of deleting the fixed principle in clause 13.2 as proposed by the AER, we have limited its scope to enable the realisation of rewards or penalties which arise because of the approved application of the CESS in the 2020-25 AA period in subsequent AA periods consistent with the CESS methodology • updated the forecast capex in accordance with Attachment 4.1 of our Revised 2020 Plan (excluding connections capex). • not included the proposed new clause 13.1(i)(iv) because it is already included in clause 13.1(b)(vi) • in para (g) of schedule 9, we have updated the target measures to remove the outlier for unplanned SAIDI and included a note in para (j) with respect to removing impact of material events to the arithmetic average of annual unplanned SAIDI <p>We have also clarified clause 13.1(b)(A) to tie the terminology of the exclusion for connections capex to the National Gas Rules.</p> <p>In addition, the AER on 10 December 2019 provided suggested revisions to the CESS formula to align with our illustrative CESS Model. We have largely accepted all of the suggested revisions, except making changes to better align the drafting with the CESS model and for consistency in terminology used across the AA. Our changes were reviewed and confirmed by the AER on 23 December 2019.</p>

		Refer to: <i>AER draft decision, Attachment 13. Capital expenditure sharing scheme.</i>	
Definitions			
Definitions	Sch 1	The AER draft decision did not specify any modifications to this section, other than to the definition of natural disaster event. Refer to <i>AER draft decision, Attachment 10, Reference tariff variation mechanism.</i>	<p>Amendments proposed:</p> <ul style="list-style-type: none"> • update to “natural disaster event” in accordance with the draft decision • for consistency, updated the definition of UAG Costs to link it to the costs which are incurred in procuring Replacement Gas as required under the Reference Service Agreement • we have removed the words “as amended from time to time” in the definition of Rate of Return Instrument noting that any changes to the Rate of Return Instrument determined by the AER during the 2020-25 AA period will only be implemented in the subsequent AA period. This is consistent with the intent that the version in place at the time of the AER regulatory determination is to apply for the duration of the AA period, with the output of the four-year review cycle of the instrument to bind subsequent regulatory determinations only. • for consistency, remove the reference to “real” in the definition of weighted average cost of capital (WACC) (given that the CESS uses both nominal and real WACC as part of its formulae). We have also updated other references to cost of capital to reference “WACC” for example in Schedule 3
Initial Reference Tariff Schedule			
Introduction	Sch 2, part 1	The AER draft decision did not include any requirements to modify this section.	We have accepted the AER’s draft decision. No further drafting changes required.
Tariff Assignment Criteria and Initial Tariff Classes	Parts 2 - 3	The AER rejected JGN’s boundary metering strategy which involved ceasing to offer individual metering for hot water supplied through centralised residential gas hot water system for new developments after 1 July 2020. Refer to: <i>AER draft decision, Attachment 1, Services covered by the AA.</i>	We have accepted the AER’s draft decision to continue individual hot water metering to new high rise customers. Drafting changes proposed to the tariff categories under para 2.3(c) to allow high rise customer to be assigned to the volume individual tariff class. Our commentary on the AER’s draft decision on boundary metering is included within Chapter 14 of our Revised 2020 Plan.
Initial Reference Tariffs	Part 4	The AER accepted JGN’s ancillary charges, except for requiring further details as to the process and parameters for applying the wasted visit charge. Refer to: <i>AER draft decision, Attachment 1 Services covered by the AA.</i>	<p>We have updated the initial reference tariffs consistent with Chapters 12 and 14 of our Revised 2020 Plan.</p> <p>As requested by the AER, we have provided further clarity for when the wasted visit charge will be applied (para 4.1(j)). We have also provided further guidance around the appointments process, in particular the process for cancellations.</p> <p>We have made other amendments to clarify:</p>

			<ul style="list-style-type: none"> that disconnection relates to activities occurring at the meter by including the words “by wadding or locking the meter” in the description (it does not include, for example, works in the street which typically would involve an abolishment) that the wasted visit charge may apply to either disconnection and/or reconnection depending on which part of that activity the Service Provider is unable to perform that what was intended by the words “attempted reconnection” for expedited reconnection is a wasted visit which is the same charge as a successful Expedited Reconnection the activities which may be arranged by appointment. JGN will offer appointments for reconnection, abolishment and special meter read activities. We note that the reference to disconnection in the 2020 AA should have referred to reconnection only, and we have added in abolishment. that the appointments may be made up to 4 PM and not, as previously indicated 5 PM. This was a typographical error.
Initial Chargeable Demand	Part 5	The AER draft decision did not specify any modifications to this section.	We have accepted the AER's draft decision. No further drafting changes required.

Reference Tariff Adjustment Factors

Automatic adjustment factor and factor amounts	Sch 3	<p>The AER:</p> <ul style="list-style-type: none"> accepted changes to UAG factor calculation, to accommodate the 2015-20 AA remittal outcome and our “as incurred” timing basis for licence fees amended the scope of the licence fee factor to remove references to EWON, AER, and AEMO fees, and instead limit the factor amount to licence authorisation fees, charges levied under s 611 of the <i>Local Government Act 1993</i> and annual licence fees charged by Department of Planning and Environment <p>Refer to: <i>AER draft decision, Attachment 10, Reference tariff variation mechanism.</i></p>	<p>We have applied the AER's more narrowed scope of the licence fee factor, save for retaining the reference to AEMO fees. We consider this is appropriate because even though there are no current AEMO fees, fees may be applicable in the future given AEMO's evolving role in gas markets. It is appropriate to include any such AEMO fees in the true-up as they would be uncontrollable to JGN.</p> <p>We have also made a minor change to the UAG factor for consistency with the contractual obligation to purchase Replacement Gas as required under the Reference Service Agreement.</p>
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Other Schedules

Reference Service Agreement	Sch 4	Please refer to explanation of the AER's draft decision in respect of the Reference Service Agreement as set out in Attachment 15.3 of our Revised 2020 Plan.	Please refer to Attachment 15.3 of our Revised 2020 Plan which explains the changes made to the Reference Service Agreement in response to the AER's draft decision.
Interconnection Service	Sch 5	The AER accepted JGN's proposal in respect of Non-Reference Services. Refer to: <i>AER draft decision, Attachment 1.</i>	We have accepted the AER's draft decision. No further drafting changes required.
Request for service	Sch 6	The AER draft decision did not specify any modifications to this section.	We have accepted the AER's draft decision. No further drafting changes required.
Operational Schedule	Sch 7	The AER draft decision did not specify any modifications to this section.	We have accepted the AER's draft decision. No further drafting changes required.
Receipt Point Pressures	Sch 8	The AER draft decision did not specify any modifications to this section.	We have accepted the AER's draft decision. We have made a minor change to the description of Minimum Receipt Pressure for Coastal Network Sections to explain that this represents the minimum system pressure. Users may be able to deliver up to the maximum pressure as a minimum to ensure the gas is receipted into the network.
CESS Contingent Payment Index	Sch 9	Refer to summary of AER draft decision above (clause 13).	Refer to summary of our response to AER draft decision above (clause 13).
Maps	Sch 10	The AER draft decision did not specify any modifications to this section.	We have accepted the AER's draft decision. No further drafting changes required.