



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

## **2020-25 Access Arrangement Proposal**

Attachment 9.1

Explanation of proposed revisions to the 2015-20 AA



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## Abbreviations

AA	Access Arrangement
AER	Australian Energy Regulator
CESS	Capital Expenditure Sharing Scheme
CPI	Consumer Price Index
EBSS	Efficiency Benefit Sharing Scheme
FY	Financial Year
IPART	Independent Pricing and Regulatory Tribunal
JGN	Jemena Gas Networks (NSW) Ltd
NGL	National Gas Law
NGR	National Gas Rules
ROR	Rate of Return
RSA	Reference Service Agreement
UAG	Unaccounted for Gas
WACC	Weighted Average Cost of Capital

## 1. Introduction

Jemena Gas Networks (NSW) Ltd (**JGN**) has proposed a number of changes to its current access arrangement (**2015-20 AA**) as part of its 2020 AA proposal. The changes represented in the 2020-25 AA broadly fall into the following categories:

- changes which reflect a new or changed approach to reference services and tariffs, non-reference services and incentive schemes
- changes to more closely align the drafting of particular provisions with the National Gas Rules (**NGR**) particularly where the rules have been amended since the commencement of the 2015-20 AA
- to align JGN's approach with other Australian Energy Regulator (**AER**) regulatory decisions and approaches (including harmonisation with the AER's Efficiency Benefit Sharing Scheme (**EBSS**) Guideline and AER Rate of Return (**ROR**) Instrument
- consolidating provisions across the 2020-25 AA and the Reference Service Agreement (**RSA**), remove hard-coded values (which can instead be generally expressed) and other changes to improve the readability or to remove redundant or duplicative clauses, thereby simplifying the AA document.

The key changes are outlined in the table below. This table does not include mechanical drafting or formatting changes (e.g. paragraph renumbering, new or amended subheadings) that are reflected in the mark-up provided (Attachment 9.3 of the 2020 AA proposal).

**Table 1–1: Explanation of changes to 2015 AA**

Clause	2015 AA reference	2020 AA reference	Summary of proposed change
<b>Introduction</b>			
Access Arrangement	Clause 1.1	Clause 1.1	Minor changes to remove references to 2015-20 AA and to simplify drafting.
The Network	Clause 1.2	Clause 1.2	Changes to this section include: <ul style="list-style-type: none"> <li>• updated length of network and connection numbers</li> <li>• moved the description of the Network to section 11 to remove duplication across the provisions of the AA.</li> </ul>
Other	Clauses 1.3-1.5	Clause 1.3-1.5	Updates to the Review Submission Date and Review Commencement Date, and minor changes to the interpretation provisions.

Clause	2015 AA reference	2020 AA reference	Summary of proposed change
<b>Services policy</b>			
Services	Clauses 2.1-2.3	Clause 2.1-2.3	<p>Changes to clauses 2.1 include:</p> <ul style="list-style-type: none"> <li>amended the name of the reference service from “Haulage Reference Service” to “Reference Service” to reflect that, since the 2015 AA, JGN only offers a single reference service (and consequential change made to “Haulage Reference Tariff” definition)</li> <li>clarified the wording in clause 2.1(c) given changes to section 7 (Queuing Policy) (refer to explanation provided below)</li> <li>capitalised the term “Delivery Point”, which is defined in Schedule 1 (consistent with the definition in the RSA applicable to the Reference Service and its use in relation to the “Interconnection Service” (see clause 2.5 below)</li> <li>deleted clause 2.3(b) which simply reflected the position available under the NGR.</li> </ul>
Non reference services	Clauses 2.4-2.6	n/a	<p>We have redefined the “Interconnection of Embedded Network Service” to an “Interconnection Service” to reflect that, in addition to establishing a new Delivery Point to connect a “Downstream Network”, a Prospective User may request the establishment of a new Receipt Point for injections of gas into the Network from an Upstream Facility. Definitions of “Receipt Point” and “Upstream Facility” have been added to Schedule 1. Further detail about the Interconnection Service is provided in Attachment 4.1 of the AA proposal.</p> <p>The definitions of “Embedded Network” and “Embedded Network Operator” have also been replaced with “Downstream Network” to avoid the potential for confusion with connections of embedded network providers (e.g. for high-rise buildings and shopping centres) which are performed by JGN as part of the normal connection procedures under chapter 12A of the NGR.</p> <p>In addition, we have deleted clause 2.6(b) which simply reflects the position available under the National Gas Law (NGL) and NGR.</p>
<b>Reference Tariff Schedule and Variation Mechanism</b>			
Annual Reference Tariff variation mechanism	Clause 3.2	Clause 3.2	Removed the hard-coding of the Consumer Price Index (CPI) value for Financial Year (FY) 2019-20 to simply refer to the methodology for calculating CPI.
Cost pass through events	Clause 3.4	Clause 3.4	<p>Changes to the Cost Pass Through Events include:</p> <ul style="list-style-type: none"> <li>harmonised the Natural Disaster Event, Insurance Cap Event and Service Standard Event by aligning the definitions to corresponding events approved in the AER’s recent determinations</li> </ul>

Clause	2015 AA reference	2020 AA reference	Summary of proposed change
			<ul style="list-style-type: none"> <li>removed the Network User Failure Event – in February 2017, the Australian Energy Market Commission approved a rule change which enhanced the operation of the retailer insolvency cost pass through provisions in the NGR to enable distributors to collect unpaid network charges and any costs associated with a retailer default, regardless of the size of the retailer default. As a result of these changes, there is no longer a need to include a Network User Failure Event</li> <li>minor changes to the Regulatory Change Event to clarify that it may be triggered by the introduction of a new obligation, as well as a change to an existing obligation.</li> </ul> <p>Further detail on the proposed Cost Pass Through Events is provided in Attachment 4.2.</p> <p>In addition, and for consistency, changed references from “regulatory year” to “Financial Year” and from “total revenue” to the capitalised term across the document for consistency.</p>
Cross-period pass through mechanism	Clause 3.5	Clause 3.5	In the 2010-15 AA period, the automatic adjustment factor was included within the definition of "cost pass through events" so the current wording of this fixed principle relating to cross period events and costs worked effectively. However, in the 2015-20 AA period, the automatic adjustment factor was carved out from the definition of a "cost pass through event" and therefore, it needs to be specifically referred to in the fixed principle to ensure that recovery of costs which are not incurred in the prior AA period, and which are to be included in the calculation of the automatic adjustment factor in accordance with Schedule 3, may be passed through in the subsequent period.
Variation Notice Assessment	Clauses 3.8-3.10	Clauses 3.8-3.10	We note that the 2015-20 AA contained a typo in clause 3.8(f) with respect to the calculation of the tariff variation mechanism for CPI (in that, CPI should be added not deducted when determining the annual update to reference tariffs). Minor simplifying changes to clause 3.10(a) to improve the readability.
<b>Tariff Classes</b>			
Tariff Class Assignment	Section 4	Section 4	<ul style="list-style-type: none"> <li>Inserted introductory clause 4.1 to clarify that this section applies to all Delivery Points that receive the Reference Service and added capitalised term of “Tariff Assignment Criteria” to simplify the drafting in this section.</li> <li>In clause 4.3(b), capitalised terms of Customer and End Consumer are referenced. These terms have been defined in the RSA. Refer to Attachment 9.2 which provides an explanation of the proposed revisions to the 2015 RSA.</li> <li>Simplifying changes in clause 4.3(c) to improve readability.</li> </ul>
<b>Return on debt</b>			
Return on debt formula	Section 5	Section 5	This section has been amended to:

Clause	2015 AA reference	2020 AA reference	Summary of proposed change
			<ul style="list-style-type: none"> <li>update the trailing average formula for calculating the return on debt</li> <li>delete the provisions relating to the calculation of the annual return on debt observation to refer to the AER's ROR Instrument</li> <li>for simplicity, remove hard-coded cell references to the JGN Revenue Model for the return on debt estimates.</li> </ul> <p>Further detail about JGN's rate of return proposal is set out in Attachment 7.7. We have also harmonised the definition of Weighted Average Cost of Capital (<b>WACC</b>) across the document.</p>
<b>Queuing Policy</b>			
Queuing policy	Section 7	Section 7	The queuing policy in the 2015-20 AA reflects drafting that was approved by the Independent Pricing and Regulatory Tribunal ( <b>IPART</b> ) in 2005 (under the superseded Gas Code), and since that time, there has not been cause for a queuing process to be required. On this basis, we have deleted the policy, and included words to refer to rule 103 of the NGR. If, during this AA period, the AER has cause to require JGN to include queuing requirements, JGN will respond accordingly. The terms "Priority Date" and "Developable Capacity" have been removed from Schedule 1 as not otherwise used in this document.
<b>Extensions and expansions policy</b>			
Extensions and expansions	Section 8	Section 8	Drafting has been improved to align the wording with rule 104 of the NGR and make clear that all expansions and all extensions (other than new network sections determined by the AER not to form part of the Network) will form part of the Network. "Network" has been defined by reference to section 11 which sets out each of JGN's four Covered Pipelines.
<b>Capacity trading</b>			
Capacity trading	Section 9	Section 9	We have included additional wording to reflect that currently the RSA does not provide for contracted capacity. If it were to be provided, then JGN would perform its obligations to the User in accordance with the capacity trading requirements in the NGR and any applicable market procedures consistent with rule 105 of the NGR.
<b>Changing receipt and delivery points</b>			
Changing receipt and delivery points	Section 10	Section 10	Minor changes for consistency with defined terms.
<b>Consolidated Access Arrangement</b>			
Background	Clause 11.1	n/a	Moved the description of the Network from Section 1 to this Section 11 to remove duplication. We have consolidated the definitions relating to the description of the Network across the AA and RSA (see definitions of "Network", "Network

Clause	2015 AA reference	2020 AA reference	Summary of proposed change
			Section, “Northern Trunk”, “Southern Trunk”, “Wilton Network Section”, “Wilton-Newcastle Network Section”, and “Wilton-Wollongong Network Section”).
<b>Operating expenditure efficiency carryover mechanism</b>			
Incentive mechanism	Section 12	Section 12	<p>We have made the following adjustments to the operating expenditure incentive mechanism:</p> <ul style="list-style-type: none"> <li>adjustment to the calculation of the 2020-21 incremental efficiency gain (or loss) to remove the impact of one-off costs in the base year (2018-19) to fully harmonise the mechanism to the AER’s EBSS Guideline and variation approved by the AER to JGN’s 2015-20 AA on 8 April 2019</li> <li>updated subclause (h)(vii) so that any cost category not forecast using a single year revealed cost approach in the AA period following the 2020-25 AA period will be automatically excluded from the operation of the EBSS consistent with other gas business’ AAs and included a catch-all for costs otherwise agreed with the AER to be excluded</li> <li>to ensure consistent treatment of expenditure across the EBSS and Capital Expenditure Sharing Scheme (<b>CESS</b>) (discussed below), we have deleted clauses 12.1(j) and (k), which dealt with changes to the classification of costs as either capex or opex during the AA period</li> <li>general updates to the relevant Financial Years and forecast operating expenditure amounts.</li> </ul> <p>Further explanation of the incentive scheme changes is set out in Attachment 7.11.</p>
Capital expenditure incentive mechanism	n/a	Section 13	JGN is proposing a capital expenditure incentive mechanism (referred to as the CESS) which is further described in Attachment 7.11. New definitions of “CESS”, “Contingent Payment Factor”, “Contingent Payment Index”, “SAIDI” and “SAIFI” have been added.
<b>Definitions</b>			
Definitions	Sch 1	Sch 1	<p>In addition to other definition changes explained elsewhere in this document, Schedule 1 has been updated to:</p> <ul style="list-style-type: none"> <li>redefined “UAG Costs” to reflect that Unaccounted for Gas (<b>UAG</b>) may, in the future, be replenished by means other than purchasing gas via the market (for example, procuring replacement gas by utilising hydrogen gas generated by electrolysis and stored in the Network)</li> <li>harmonise definitions with the RSA such as “Customer”, “End Consumer” “Energy” and “Load Shedding”;</li> <li>include or improve definitions to provide clarity throughout the document e.g. see “Determined Pass Through Amount” which is referred to in clause 3; “Service Provider” used throughout; “Total Revenue” and “Tariff Class”</li> </ul>



Clause	2015 AA reference	2020 AA reference	Summary of proposed change
			<ul style="list-style-type: none"> <li>removed duplicative or unused definitions such as “Charge”, “Coverage Determination”, “Month”, “National Gas Objective”, “Negotiated Service Agreement” (which is covered by “Service Agreement”), “RBA”, “Relevant Minister”, “Service” (which simply is a Pipeline Service e.g. a Reference Service or a Non-Reference Service), “Tariff” etc.</li> </ul>
<b>Initial Reference Tariff Schedule</b>			
Introduction	Sch 2, part 1	Sch 2, part 1	Minor updates to provide for consistency in defined terms and better readability. An explanation of the key changes to this Schedule is set out in Attachment 4.1.
Tariff Assignment Criteria and Initial Tariff Classes	Parts 2 - 3	Parts 2 - 3	<p>Key changes include:</p> <ul style="list-style-type: none"> <li>changes to improve readability of grandfathered tariffs DCFR and DMFTR to make clear when those tariff categories are/are not available</li> <li>amended the VI tariff category to exclude eligibility for centralised hot water developments that received their Construction Certificates after 1 July 2020</li> <li>removed duplication from description of VB tariff category (see paragraph 2.2(b)(ii)(C))</li> <li>lowered the threshold for VRT tariff category from 50TJ to 25TJ to facilitate uptake by customers</li> <li>added new post codes in paragraph 2.4</li> <li>in part 3, paragraph (e) now references DCFR-1 (which should have been referred to in 2015-20 AA)</li> <li>other minor updates for consistency.</li> </ul>
Initial Reference Tariffs	Part 4	Part 4	Updated unit rates and amended the ancillary activities schedule (paragraph 4.1(j)). An explanation of the changes to the ancillary activities and charges is set out in Attachment 4.1.
Initial Chargeable Demand	Part 5	Part 5	<p>Changes include:</p> <ul style="list-style-type: none"> <li>updated the calculation of the Initial Chargeable Demand (further explanation of the chargeable demand reset is set out in Attachment 4.1)</li> <li>deleted paragraph 5.2 since grandfathering of these tariffs is already set out in Part 2 of this Schedule</li> <li>deleted clause 5.3 since the reassignment of those Country Tariff Classes occurred from the effective date for the 2015-20 Access Arrangement, and therefore, is not relevant for the 2020-25 AA period.</li> </ul>

Clause	2015 AA reference	2020 AA reference	Summary of proposed change
<b>Reference Tariff Adjustment Factors</b>			
Automatic adjustment factor	Sch 3	Sch 3	<p>Changes to the adjustment factors to:</p> <ul style="list-style-type: none"> <li>unwind the changes required to the automatic adjustment factor as a result of the JGN 2015-20 Remittal Decision published by the AER in February 2019 and which are no longer relevant for this 2020 AA period</li> <li>remove any hard-coded CPI and WACC parameters so that value is consistent with the methodology prescribed in the AA and as approved by the AER</li> <li>provide for consistency in the description of the factors, remove duplication in the UAG factor with respect to the target rates and updates to those rates.</li> </ul> <p>Further detail is provided in Attachment 4.1.</p>
<b>Other Schedules</b>			
Embedded Network Service (now Interconnection Service)	Sch 5	Sch 5	<p>This Schedule provides the basis upon which JGN will provide the Interconnection Service. It has been updated to:</p> <ul style="list-style-type: none"> <li>apply to interconnections of a Downstream Network and an Upstream Facility in accordance with the term “Interconnection Service” (as further described in Attachment 4.1)</li> <li>move any operational provisions relating to Delivery Points (i.e. metering, Delivery station and Delivery point, Cathodic Protection, Installation/Operation and Abandonment/Disconnection) to Part 4 of the Operational Schedule (i.e. Schedule 7)</li> <li>move provisions relating to charges from the Operational Schedule (and relevant to Interconnection Service) to this Schedule (see paragraph 1.2 of Schedule 5).</li> </ul>
Request for service	Sch 6	Sch 6	<p>Process for requests for service now expanded to cover requests for a Non-Reference Service. Also included legal status creditworthiness requirements for new requests for a Reference Service and Non-Reference Service. Definition of “Request” has been added.</p>
Operational Schedule	Sch 7, part 1	Sch 7, part 1	<p>Updates to the priority schedule for Load Shedding to respond to changes in customer types and tariff classes and other minor drafting changes to improve clarity in drafting or consistency in terminology.</p>
	Part 2	Part 2	<p>This part relates to new Receipt Points which are established under an Interconnection Service, and sets out the minimum technical and operational requirements for those Receipt Points. The original paragraphs (a)-(b), (c)(ii) have been deleted as those provisions related to access to service and charges now set out in Schedule 5.</p> <p>Clause 2.3 incorporates the requirements for Receipt Stations set out in Part 3 which are also applicable to new Receipt Points.</p>

Clause	2015 AA reference	2020 AA reference	Summary of proposed change
			New paragraphs 2.5-2.8 reflect provisions lifted from the RSA and relevant to new Receipt Points established under an Interconnection Service. Refer to Attachment 9.2 for further detail.
	n/a	Part 3	This new part relates to new and existing Receipt Stations (under an Interconnection Service and the Reference Service) and represents a lift and shift from clauses of the RSA under the 2015-20 AA. Refer to Attachment 9.2 for further detail.
	n/a	Part 4	This part reflects technical provisions moved from Schedule 5 and which are relevant to a new Delivery Point being established under an Interconnection Service.
Return on debt extrapolation	Sch 8	n/a	Deleted this schedule as the extrapolation methodology for return on debt is now set out in the ROR Instrument.
Receipt Point Pressures	Sch 9	Sch 8	Updates to maximum and minimum receipt pressures and new receipt points added.
CESS Contingent Payment Index	n/a	Sch 9	Refer to Attachment 7.11 which provides a description of the proposed new incentive scheme applying to capital expenditure.
Maps	Sch 10	Sch 10	Maps have been updated.