

Market expansion (ME) capital expenditure remittal

18 Jan 18

v1.1

Our approach to the ME capex remittal

- We appreciate the AER's engagement on its new approach.
- Since August last year we have provided updated data and additional information.
- We have also reviewed the AER's new model and given comments and suggestions.
- We are committed to working constructively with the AER and CCP to get an in principle agreement on ME capex allowance as soon as practicable.

Recap of market expansion model basics

To connect new customers to gas (market expansion capex) we need to install new mains, services and meters.



We forecast market expansion separately for different market segments:

- Electricity to gas (E-G) – Installing a new gas connection into existing homes
- New estates
- Medium density/high-rise
- Industrial and commercial customers (I&C)

Market expansion capex lowers bills

Connecting customers allows us to spread out the cost of the gas network.

We check to ensure each connection lowers the average cost per customer. If a connection doesn't we ask for a contribution towards the connection cost.

Comparison of AER and Jemena's method

Jemena method

Unit rates: Built up using actual 2013/14 contracted unit rates

Volume mix: average using the 2009-13 period

AER method

Unit rates: An average unit rate using data over the 2009-14 period

Uplift the average unit rate to reflect increase in contracted prices

Volume mix: average using the 2009-14 period

What's happening now

- We forecast an increase in connections (based on BIS and HIA projections) but have since seen greater numbers for new estates and medium density/high-rise.
- Our actual unit rates are higher than what the AER's revised model forecasts.
- We have seen a greater number of connections in highly urbanised areas. These are more costly as they require:
 - Higher restoration costs
 - Non-standard costs (e.g. boring)
 - Tariff management
 - Night work

Real \$2017, direct escalated	ME capex
JGN submission	406.7
AER FD	299.8
AER current model	319.7
Current JGN forecast	384.5

We have reviewed the AER's model

- We acknowledge that the AER intends to adopt its approach rather than the more granular method we proposed.
- Accordingly, we have reviewed the AER's model to see whether it correctly implements the AER's preferred approach.
- We agree that the model implements the AER's preferred approach, which is based on the AER's Final Decision model.
- We will work constructively with the AER as it finalises its review of ME capex.
- We look forward to further engagement and collaboration with consumers and the AER as we move into JGN's 2020-25 Access Arrangement review project.