

Jemena Gas Networks (NSW) Ltd

2014 Annual Regulatory Information Notice Submission

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2014 Annual Regulatory Information Notice Submission

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Attachment 1—AER RIN Template – CONFIDENTIAL

GLOSSARY

AA	Access Arrangement
AER	Australian Energy Regulator
AMA	Asset Management Agreement
DCI	Domestic Commercial Industrial
DPI	Delivery Point Identifiers
ESF	Enterprise Support Functions
Final Decision	Final decision: Jemena Gas Networks Access arrangement proposal for the NSW gas networks 1 July 2010 – 30 June 2015
I&C	Industrial & Commercial
JGN	Jemena Gas Networks
NGL	National Gas Law
NGR	National Gas Rules
PRS	Primary Regulating Station
RIN	Regulatory Information Notice
RUGS	Request Utility for Gas Supply
SGSPAA	SGSP (Australia) Assets Pty Ltd
SPIAA	SPI (Australia) Assets Pty Ltd (the former name of SGSPAA)
TMS	Treasury Management System
Tribunal	Australian Competition Tribunal

1. INTRODUCTION

1.1 SUBMISSION PURPOSE

This submission is the Jemena Gas Networks (NSW) Ltd (**JGN**) response to the Regulatory Information Notice (**RIN**) that the Australian Energy Regulator (**AER**) issued to JGN on 18 October 2011 under Division 4 of Part 1 of Chapter 2 of the National Gas (NSW) Law (**NGL**). This response covers the regulatory year 2013-14 ending on 30 June 2014 and is the fourth year in which a response is provided under the RIN.

The RIN requires JGN to provide and prepare certain information for the AER to use for the performance or exercise of its functions or powers conferred on it under the NGL or the National Gas Rules (**NGR**), namely:

1. to review the access arrangement proposal for the access arrangement period commencing 1 July 2015
2. to make reports relating to the financial and operational performance of the service providers

in respect of pipeline services provided by JGN.

This RIN response:

- provides the information required in the RIN templates provided by the AER and included as confidential **Attachment 1**¹
- provides reasons explaining why any information cannot be provided in accordance with Schedule 1 of the RIN
- provides the information requested in sections 1.4 and 1.5 of Schedule 1 of the RIN
- identifies and describes relevant processes, systems and procedures applied in providing the information in all RIN templates.

1.2 SUBMISSION STRUCTURE

JGN has structured this submission to demonstrate compliance with each of the RIN templates as well as the information requested in sections 1.3, 1.4 and 1.5 of Schedule 1 of the RIN:

- Section 2—Operating expenditure—operating expenditure tab of RIN templates
- Section 3—Capital expenditure—capital expenditure tab of RIN templates
- Section 4—Pass throughs—pass through tab of RIN templates
- Section 5—Extensions and expansions—extensions and expansions tab of RIN templates
- Section 6—Cost of debt—debt tab of RIN templates and sections 1.4 and 1.5 of Schedule 1 of the RIN
- Section 7—Demand, customer numbers and pipeline length—general information tab of RIN templates.

¹ JGN has separately provided a public version of the RIN templates. In addition, as part of its RIN response, JGN has also provided a confidentiality template, based on the AER confidentiality guideline, which provides summary details of the “commercial-in-confidence” information included in this RIN response, and the reasons why confidentiality is asserted over that information.

1.3 RIN DATA IS NOT AUDITED

JGN has not audited the data provided for the purposes of this submission. This is in accordance with the AER's instructions that it does not require audited data in its letter of 25 August 2011.

1.4 DESCRIPTION OF PROCESSES, PROCEDURES, MEASUREMENT SYSTEMS, INFORMATION SYSTEMS AND QUALITY CONTROL SYSTEMS

1.4.1 CAPITAL AND OPERATING EXPENDITURE

In preparing and completing the operating expenditure and capital expenditure RIN tables included as **Attachment 1**, JGN has used data sourced from its Enterprise Resource Planning (ERP) systems, SAP and GASS+. The SAP accounting system is the basis for producing the annual statutory accounts, which are signed by the Directors of JGN, and has a number of controls and checks built in to ensure the integrity and reliability of this data.

These controls include restricted access to the SAP system via specific user ID and password, and controls over who can create and approve transactions. Levels of approval are based on delegations of authority that are reviewed and monitored by management and the SGSP (Australia) Assets (SGSPAA) Group's Internal Audit department.

Accounting policies and procedures are maintained and issued by the SGSPAA Group's finance department and compliance is monitored throughout the year as part of the regular review of financial results. The JGN annual statutory accounts, which are produced from the data in the SAP general ledger, are audited by JGN's external auditors for consistency and compliance with both Australian Accounting Standards and the SGSPAA Group's internal Accounting Standards.

For those specific line items where the data in SAP is not available in the format required for the RIN, such as for individual Enterprise Support Functions (ESF), JGN has utilised a mapping table to produce this data.

1.4.2 INFLATION OF AER APPROVED CAPITAL AND OPERATING EXPENDITURE FORECASTS

The AER approved forecast values in Tables 1 and 2 of the RIN templates at **Attachment 1** must be expressed in 2013-14 nominal dollars to be comparable with actual costs. The amounts approved by the AER in its *Final decision: Jemena Gas Networks Access arrangement proposal for the NSW gas networks 1 July 2010 – 30 June 2015*, published in June 2010 (**Final Decision**) (as varied by the Australian Competition Tribunal (**Tribunal**)) are expressed in 2009-10 dollars. Those values were in turn based on actual inflation up to 2008-09, which was applied with a one year lag such that inflation to 31 December 2009 (i.e. the mid-point of the 2009–10 year) was treated as inflation to 31 December 2010.

In order to convert the approved values to 2013-14 dollars, the approved values were inflated using actual inflation from 31 December 2009 to 31 December 2013. To do this, a conversion factor of 1.11 to the approved values was applied.²

² The exact conversion factor is 1.11143348644191. This is calculated as $1 \times (1 + \text{Inflation rate}_{(t=2009-10 \text{ to } t=2010-11)}) \times (1 + \text{Inflation rate}_{(t=2010-11 \text{ to } t=2011-12)}) \times (1 + \text{Inflation rate}_{(t=2011-12 \text{ to } t=2012-13)}) \times (1 + \text{Inflation rate}_{(t=2012-13 \text{ to } t=2013-14)})$ with inflation rates sourced from ABS, all groups CPI inflation series A2325846C weighted average for the eight capital cities (Dec quarter). CPI index was rebased between the Jun 2012 and Sep 2012 releases.

1.4.3 DEMAND AND CUSTOMER NUMBERS

JGN has calculated consumption demand for volume customers³ as the consumption volumes charged to retailers in respect of each retailer's volume customers each month, which are sourced from the GASS system. Consumption volumes are calculated for both residential and business customers classified as volume customers at the time the report is run.

JGN has calculated consumption demand for demand customers⁴ with reference to a report from the bespoke CABS system called Volume Report – Consumption. The report sums up all consumption for customers that were demand sites during the nominated period, and includes customers that may have come from the volume market or gone to the volume market, but only includes their consumption for the period they were classified as demand customers.

Customer number reporting utilises the Domestic Commercial Industrial Flag (**DCI**) indicator in the GASS database which identifies D-domestic, C-commercial and I-industrial consumers as the basis for consumer counts in the relevant period. The aggregate customer total remains the number of Delivery Point Identifiers (**DPI**)⁵ currently active in the network. The residential and business subtotals are calculated as the previous year's count plus new connections and less disconnections.

1.4.4 COST OF DEBT

In preparing and completing the weighted average cost of debt in the cost of debt tab of the RIN templates at **Attachment 1**, JGN has used data sourced from the SGSPAA Group's Treasury Management System (**TMS**).

The TMS is used to collate all data relating to debt and financial derivatives including interest rate and foreign exchange derivatives. It does not store data relating to upfront borrowing fees amortised over the life of the debt.

The TMS has a number of controls and checks built-in to ensure the integrity and reliability of this data. These controls include restricted access to the system via specific user ID and password, and controls over who can create and approve transactions with levels of approval based on delegations of authority that are reviewed and monitored by management and the SGSPAA Group's Internal Audit department.

The annual weighted average cost of debt is the mean average of all the monthly weighted average cost of debt plus the annual upfront borrowing costs.

The annual upfront borrowing cost is the mean average of the upfront costs on all facilities.

The monthly weighted average cost of debt is calculated with reference to the nominal base interest rates, margins, and commitment fees for each facility weighted as a portion of the total month-end debt position, plus the net cost of those interest rate derivatives which qualified for hedge accounting. The calculation excludes the impact of derivatives classified as "held for trading" under hedge accounting guidelines.

The cost of debt has changed over the regulatory year in line with changes in base rates, margins and the debt composition.

³ Volume customers are customers assigned to a volume tariff as defined in section 1.1.A of JGN's reference tariff schedule.

⁴ Demand customers are customers assigned to a demand tariff as defined in section 1.1.A of JGN's reference tariff schedule.

⁵ In NSW, the DPI is a ten-digit number, plus a one-digit checksum, that uniquely identifies the address at which a retailer agrees to supply a customer with gas in accordance with their retail contract. A DPI can be found on the gas bill from the retailer. The DPI number may also be referred to as a Meter Installation Reference Number (MIRN) and is a useful reference when a customer wants to switch from one retailer to another.

The SGSPAA Group funds its operations utilising a centralised funding portfolio.

c-i-c

It is vital that this information be used with caution. JGN does not consider the SGSPAA Group's cost of debt is a reasonable proxy for JGN's cost of debt. The SGSPAA Group's debt incurs a credit margin set by lenders on the basis it is supported by non-regulated and regulated operations. Consequently the SGSPAA Group's credit margin will not in and of itself, provide any relevant information as to the margin lenders might apply to the benchmark efficient entity with a similar degree of risk as that which applies to the service provider in respect of the provision of reference services.⁶

1.5 SUBMISSION VALUES AND TERMINOLOGY

This submission employs the following standards and terminology:

- Unless otherwise indicated, all numbers are expressed in nominal \$2014 Australian dollars.
- Regulatory year is the 2013-14 regulatory year ending on 30 June 2014 and the fourth year of the 2010-15 JGN Access Arrangement (**AA**).
- SPIAA means SPI (Australia) Assets Pty Limited, the former corporate name of SGSPAA⁷.
- SPIAA Group is the former name of the SGSPAA Group.
- SGSPAA means SGSP (Australia) Assets Pty Limited.
- SGSPAA Group means the corporate group comprising SGSPAA and all of its wholly owned subsidiaries.

⁶ National Gas Rule, rule 87.

⁷ SPIAA was re-named SGSP (Australia) Assets Pty Ltd effective from 3 January 2014, and accordingly the SPIAA Group became the SGSPAA Group at that time.

2. OPERATING EXPENDITURE

In this section JGN responds to the operating expenditure tab of the RIN templates.

2.1 OPERATING EXPENDITURE FOR THE 2013-14 REGULATORY YEAR

Table 1 of the RIN requires JGN to compare its actual operating expenditure for the regulatory year against the forecast approved by the AER in its Final Decision adjusted for the impact of any determinations by the Tribunal and actual inflation. JGN has completed Table 1 in the operating expenditure tab of the RIN templates at **Attachment 1**.

2.2 EXPLANATION OF MATERIAL DIFFERENCES (WHERE THE DIFFERENCE SHOWN IS GREATER THAN 5 PER CENT) BETWEEN THE AER APPROVED FORECAST (AS AMENDED BY THE TRIBUNAL) AND THE ACTUAL OPERATING EXPENDITURE

2.2.1 ADMINISTRATION & OVERHEADS

The variance shown in the RIN for administration and overheads is 25.75 per cent, or \$5.9M, underspent compared to allowance.

The costs reported represent JGN's actual indirect costs that have been incurred by Jemena in managing the JGN business.

As a whole, they are lower than the AER allowance, due to lower ESF costs in non-O&M due to the impact of the new operating structure detailed in JGN's 2013 RIN response and improvements in timewriting by Jemena employees that have made it easier to identify direct costs.⁸

2.2.2 GOVERNMENT LEVIES

The variance shown in the RIN for government levies is 14.99 per cent, or \$0.51M, overspent compared to allowance.

This is due to increased mains tax fees.

2.2.3 UNACCOUNTED FOR GAS

The variance shown in the RIN for unaccounted for gas (**UAG**) is 6.51 per cent, or \$0.94M, underspent compared to allowance.

JGN has to replenish the gas lost as UAG on its system and must do so by estimating what actual UAG will be. Actual UAG depends on a number of factors, including consumption levels, which cannot be accurately predicted at the time JGN's forecasts its UAG needs. As a result, a UAG forecast will inevitably be subject to some error. The forecast error means that sometimes JGN will overspend and sometimes underspend compared to allowance. The underspend in 2013-14 is primarily due to correcting JGN's historical over-

⁸ Jemena Gas Networks, 2013 Annual Regulatory Information Notice submission, 15 Nov 13, section 1.4.1.

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purchasing of UAG prior to 2013-14. This previous period of over-purchasing was primarily a result of 'non-reading meters' (i.e. customer meters that are not reading the gas being used). Once JGN corrected non-reading meters in its systems by allocating some load and charging the customer, the result was that actual UAG in 2013-14 was lower than the assumption of UAG used to make purchases prior to 2013-14.

2.2.4 DEBT RAISING

The variance shown in the RIN for debt raising is 100 per cent or \$1.51M underspent compared to the allowance.

As in previous RIN responses, JGN has outlined that the SGSPAA Group (previously the SPIAA Group) funds its regulated and non-regulated operations utilising a centralised funding portfolio. Debt raising is not asset specific and the costs of it are not allocated out to each asset within the group. This means that JGN itself does not carry debt and does not bear any debt raising costs either directly or indirectly via an allocation.

Consistent with the requirements of the NGR, in its Final Decision the AER provided JGN an allowance for debt raising costs based on a benchmark efficient firm in JGN's circumstances.

2.2.5 SELF INSURANCE

No cost has been reported against self insurance because to date JGN has not separately job costed for self insurance. Costs that are incurred that relate to a self insurable event (including below deductible amounts on insured events) are recorded against the activity to which the task relates and therefore form part of total O&M expenses.

JGN notes that the AER did not approve any allowance for self insurance costs in its Final Decision.

2.3 OPERATING EXPENDITURE THAT RELATES TO CORE OPERATING AND MAINTENANCE SERVICES PROVIDED BY AN OUTSOURCED ENTITY

2.3.1 DETAILS OF THE ENTITY PROVIDING THE CORE SERVICES AND AN OUTLINE OF THE ENTITY'S RELATIONSHIP WITH JGN

Throughout the regulatory year, JGN continued to procure core network operations and maintenance services by way of its Asset Management Agreement (**AMA**) with JAM.⁹ As described in previous JGN RIN responses, in 2012 the restructure of SGSPAA Group's (previously SPIAA Group) business brought specialist services within its assets, such that, while JAM is still an outsourced entity of JGN, they are both part of the assets business called Jemena. JGN's relationship with JAM is governed by the AMA, under which JAM provides services to JGN on a cost pass-through basis.

JAM does not therefore recover a commercial margin on the cost of delivering the services to JGN under the AMA. JAM is entitled to recover only its actual costs and the risk benefit sharing mechanism under the AMA is no longer enforced (effective from 1 April 2012).

JAM holds key supply and services contracts, which it relies on to deliver some of the AMA services to JGN. This includes a field services agreement with Zinfra, a services business also owned by the SGSPAA Group

⁹ This is the outsourcing arrangement described in the 2012 JGN RIN and set out in the revised AMA and Change Notice issued by JGN which were included in the 2012 JGN RIN submission. Copies of these documents were provided as attachments 2 and 3 respectively of JGN's 2012 RIN submission.

that operates independently in the construction, operation and maintenance services market. The 2012-13 and 2013-14 JAM-JGN RIN responses detail the outsourcing arrangements between JAM and Zinfra.

2.3.2 DETAILS OF THE SERVICES UNDERTAKEN BY THE OUTSOURCED ENTITY

JGN undertakes outsourcing for activities where contracted asset managers can achieve economies of scale and scope that are not available to JGN on a stand-alone basis. The scope of network operations and maintenance services provided by JAM is set out in Schedule 4¹⁰ of the AMA. The scope of services provided by JAM to JGN under the AMA has remained unchanged throughout the regulatory year.

2.3.3 THE COST OF PROVIDING THE SERVICE AND HOW THIS COST WAS CALCULATED

The cost of the outsourced services forms a significant element of the cost included in the O&M expenditure line in Table 1 of the RIN templates at **Attachment 1**. This line includes costs for:

- services outsourced to JAM—which are also reported directly in the JAM-JGN RIN response, and
- the remaining O&M-related services that are incurred directly by JGN.

Prior to 1 April 2010, almost all services were outsourced to JAM (and included in the JAM-JGN RIN response). Since then, JGN has incurred costs directly for direct ESFs, IT, technical asset management, asset strategy, compliance and engineering, among other services.

2.3.4 DETAILS OF WHICH OPERATING EXPENDITURE CATEGORIES (CONSISTENT WITH TABLE 1) THE OUTSOURCED EXPENDITURE RELATES TO

The services provided under the revised AMA are included in the O&M Expenditure category in Table 1 Operating Expenditure that is included at **Attachment 1**.

2.3.5 A COPY OF THE AGREEMENT BETWEEN JGN AND THE ENTITY PROVIDING SERVICE

JGN has previously provided¹¹ two documents that make up the agreement between JGN and JAM that continued to apply during the regulatory year. These are:

- Revised AMA from 1 April 2011
- AMA Change Notice.¹²

2.4 COSTS RELATING TO NON-REFERENCE SERVICES DURING THE REGULATORY YEAR

2.4.1 TOTAL COSTS RELATING TO NON-REFERENCE SERVICES

For the same reasons as provided in previous years, the activities performed and procured by JGN to operate and maintain its distribution pipeline are not scoped or separated into reference and non-reference services and

¹⁰ Schedule 4 of the AMA is named *Services and Reporting Metrics*.

¹¹ JGN provided these documents with the 2011-12 RIN response on 15 Nov 2012.

¹² Not dated.

therefore JGN does not incur distinct costs for the provision of non-reference services. The costs of these services are already included as part of JGN's overall operating costs and cannot be compiled separately.

JGN's tariffs for its reference services over the regulatory year were calculated by deducting forecast revenues for non-reference services from the building blocks revenue requirement. Therefore, the regulatory operating and capital expenditure allowances are inclusive of costs for non-reference services. This makes the aggregate non-reference services and reference services cost reporting approval consistent with the basis of the allowance.

2.4.2 VOLUMES OF GAS TRANSPORTED TO CUSTOMERS RELATING TO NON-REFERENCE SERVICES

The annual quantity of gas transported to end customers relating to non-reference services was c-i-c . These customer delivery points were those priced on non-reference pricing as at 30 June 2014.

2.5 DETAILS OF JEMENA ASSET MANAGEMENT'S PERFORMANCE IN RELATION TO INCENTIVE PROVISIONS SET OUT IN THE ASSET MANAGEMENT AGREEMENT DURING THE PREVIOUS FINANCIAL YEAR

2.5.1 APPLICATION OF RISK AND BENEFIT SHARING MECHANISM AND ANY COST OVERRUN OR COST SAVING ALLOCATED BETWEEN THE PARTIES INCLUDING THE AMOUNT (\$NOMINAL)

As noted in section 2.3.1, the risk and benefit sharing mechanism of the AMA has not been enforced for the 2013-14 regulatory year. The mechanism ceased to apply from 1 April 2012.

2.5.2 DETAILS OF HOW THE SERVICE PERFORMANCE MEASURES HAVE BEEN APPLIED AND THE RESULTANT MARGIN PAID TO JAM (\$NOMINAL)

JGN has not applied service performance measures to JAM and has not paid JAM any margin.

3. CAPITAL EXPENDITURE

In this section JGN responds to the capital expenditure tab of the RIN templates.

3.1 CAPITAL EXPENDITURE FOR 2013-14 REGULATORY YEAR

Table 2 of the RIN requires JGN to compare its actual capital expenditure for the regulatory year against the forecast approved by the AER in its Final Decision adjusted for the impact of any determinations of the Tribunal. Table 2 has been completed in the capital expenditure tab of the RIN templates at **Attachment 1**.

3.2 EXPLANATION OF MATERIAL DIFFERENCES (WHERE THE DIFFERENCE SHOWN IS GREATER THAN 5 PER CENT) BETWEEN THE AER APPROVED FORECAST AS AMENDED BY THE TRIBUNAL AND THE ACTUAL CAPITAL EXPENDITURE

3.2.1 TOTAL CAPITAL EXPENDITURE

The variance shown in the RIN for total capital expenditure is 10.78 per cent, or \$19.1M underspent compared to allowance.

Within this total there were underspent and overspent categories that resulted in an overall underspend against the AA allowance as described in sections 3.2.2 and 3.2.3 below.

3.2.2 REINFORCEMENT, RENEWAL AND REPLACEMENT CAPITAL EXPENDITURE

The variance shown in the RIN for reinforcement, renewal and replacement capital expenditure is 27.28 per cent or \$14.8M underspent compared to the allowance.

Within this category, there were a number of underspent (and overspent) projects that resulted in the overall underspend against the AA allowance. The most material of these at a RIN sub-category level are:

- expenditure against Tariff Meters of \$17.0M compared with an AA allowance of \$25.7M, equating to an underspend of \$8.7M during the regulatory year. This underspend relates to the following areas:
 - Industrial & Commercial (**I&C**) regulator (<15kPa) planned aged replacement and I&C aged meter replacement underspent by \$5.9M, primarily due to lower volumes than forecast following statistical sampling and life extension
 - residential aged regulator replacement underspent by \$3.7M due to lower than average replacement requirements
- expenditure against Fixed Plant of \$3.0M compared with an AA allowance of \$8.1M, equating to an underspend of \$5.1M during the regulatory year. This underspend relates to the following areas:
 - pigging facilities for Licence 2b underspent by \$1.4M as the integrity of the Licence 2b pipeline infrastructure is being managed via integrity digs and a lower maximum operating pressure
 - Banksmeadow primary regulating station (**PRS**)—regulator/instrumentation upgrade underspent by \$1.7M as this project has been reprioritised to the next AA period
 - Haberfield PRS—regulator/instrumentation upgrade underspent by \$1.7M as this project has been reprioritised to the next AA period

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3.2.3 NON-SYSTEM CAPITAL EXPENDITURE

The variance shown in the RIN for non-system capital expenditure is 24.25 per cent or \$8.2M underspent compared to the allowance.

Within this category, there were a number of underspent (and overspent) projects that resulted in the overall underspend against the AA allowance. The most material of these at a RIN subcategory level is expenditure against the systems replacement project for customer service, billing and metering of \$6.1M compared with an AA allowance of \$14.2M, equating to an underspend of \$8.2M during the regulatory year. This underspend relates to the prudent deferral of customer-related projects to accommodate the NSW Government delay to implement transitional arrangements for the National Energy Customer Framework.

3.3 CAPITAL CONTRIBUTIONS

Instruction/question 3 of the capital expenditure worksheet of the RIN requires JGN to provide the value of the capital contributions during the regulatory year for each asset class consistent with Table 2. JGN has inserted a new Table 2a that provides the required information in the new capital contributions tab of the RIN templates at **Attachment 1**.

JGN notes there is a \$10.8M positive variance for capital contributions compared to the amount forecast by JGN for the regulatory year in the 2010 AA. The variance is primarily a result of outcomes of mine subsidence claims settlement and significant contributions from a number of large customer-initiated projects.

3.4 ASSET DISPOSALS

Instruction/question 4 of the capital expenditure worksheet of the RIN requires JGN to provide the value of any asset disposals during the regulatory year for each asset class consistent with Table 2. JGN has inserted a new Table 2b that provides the required information in the new asset disposals tab of the RIN templates at **Attachment 1**.

3.5 CAPITAL EXPENDITURE THAT RELATES TO SERVICES PROVIDED BY AN OUTSOURCED ENTITY?

3.5.1 DETAILS OF THE ENTITY PROVIDING THE SERVICES AND AN OUTLINE OF THE ENTITY'S RELATIONSHIP WITH JGN

Throughout the regulatory year, JGN continued to procure core capital works services by way of its AMA with JAM. This is the outsourcing agreement described in previous JGN RIN responses and set out in the AMA and Change Notice issued by JGN.

As outlined in section 2.3.1, the SGSPAA Group's assets business brought specialist services within its assets, such that, while JAM is still an outsourced entity of JGN, they are both part of the assets business called Jemena.

JAM does not therefore recover a commercial margin on the cost of delivering the services to JGN under the AMA. JAM is entitled to recover only its actual costs and the risk benefit sharing mechanism under the AMA is no longer enforced (effective from 1 April 2012).

JAM holds key supply and services contracts, which it relies on to deliver some of the AMA services to JGN. This includes a field services agreement with Zinfra, a services business owned by the SGSPAA Group that operates independently in the construction, operation and maintenance services market. The JAM-JGN RIN response details the arrangements between JAM and Zinfra.

3.5.2 DETAILS OF THE SERVICES UNDERTAKEN BY THE OUTSOURCED ENTITY

The scope of capital works services provided by JAM is set out in Schedule 4¹³ of the AMA.

The scope of capital works includes the provision of routine capital works, which are high-volume jobs with a standard scope and standard construction requirements. They are charged on a unit rate basis for the volume of activity that is delivered each month. The AMA capital works services also include the provision of non-routine capital works, which are typically lower-volume, higher value-projects that can involve significant planning, design and project management. Non-routine capital works are charged on an actual cost basis and require a business case with a committed cost estimate for approval of each project.

The scope of capital works services provided by JAM to JGN under the AMA did not change during the regulatory year.

3.5.3 THE COST OF PROVIDING THE SERVICE AND HOW THE COST WAS CALCULATED

The cost of providing the capital works services is set out in Table 2 of the JGN RIN templates.

3.5.4 DETAILS OF WHICH CAPITAL EXPENDITURE CATEGORIES (CONSISTENT WITH TABLE 2) THE OUTSOURCED EXPENDITURE RELATES TO

The services provided under the AMA relate to the categories in Table 2 on the Capital Expenditure tab of the RIN templates which are:

- market expansion
- reinforcement, renewal and replacement
- non-system.

3.5.5 A COPY OF THE AGREEMENT BETWEEN JGN AND THE ENTITY PROVIDING SERVICE

JGN has previously provided¹⁴ two documents that make up the agreement between JGN and JAM that continued to apply during the regulatory year. These are:

- Revised AMA from 1 April 2011
- AMA Change Notice.¹⁵

¹³ Schedule 4 of the AMA is named *Services and Reporting Metrics*.

¹⁴ JGN provided these documents with the 2011-12 RIN response on 15 Nov 2012.

¹⁵ Not dated.

3.6 DETAILS OF JEMENA ASSET MANAGEMENT'S PERFORMANCE IN RELATION TO INCENTIVE PROVISIONS SET OUT IN THE ASSET MANAGEMENT AGREEMENT DURING THE PREVIOUS FINANCIAL YEAR

3.6.1 APPLICATION OF RISK AND BENEFIT SHARING MECHANISM AND ANY COST OVERRUN OR COST SAVING ALLOCATED BETWEEN THE PARTIES INCLUDING THE AMOUNT (\$NOMINAL)

As noted in section 3.5, the risk and benefit sharing mechanism of the AMA has not been enforced for the regulatory year. The mechanism ceased to apply from 1 April 2012.

3.6.2 DETAILS OF HOW THE SERVICE PERFORMANCE MEASURES HAVE BEEN APPLIED AND THE RESULTANT MARGIN PAID TO JAM (\$NOMINAL)

JGN has not applied service performance measures to JAM and has not paid JAM any margin.

4. PASS THROUGH

In this section JGN responds to the pass through tab of the RIN templates.

4.1 PASS THROUGH FOR 2013-14 REGULATORY YEAR

Table 3 of the RIN requires JGN to provide details of cost pass through events that have occurred during the regulatory year. JGN has completed Table 3 in the pass through events tab of the RIN templates at **Attachment 1**.

5. EXTENSIONS AND EXPANSIONS

In this section JGN responds to the extensions and expansions tab of the RIN templates.

5.1 EXTENSIONS AND EXPANSIONS FOR 2013-14 REGULATORY YEAR

Table 4 of the RIN requires JGN to detail pipeline extensions of low or medium pressure pipelines and expansions to the capacity of the network during the regulatory year, where such an extension or expansion incurred a total project cost greater than \$100,000 (\$nominal where applicable). Table 4 has been completed in the 'Extension and Expansion' tab of the RIN templates at **Attachment 1**.

5.2 UPDATE TO FORECAST PROJECT COSTS FOR 2013-14 REGULATORY YEAR

The Request Utility for Gas Supply (**RUGS**) system is JGN's management system that controls workflow and approval for distribution capital works. Costs reported in the "estimated cost" column of the RIN extensions and expansions worksheet have historically been sourced as the total cost estimate calculated/entered in the RUGS system at the point of raising the project. This may not represent the final estimate for the project.

6. COST OF DEBT

In this section JGN responds to the debt tab of the RIN templates and also sections 1.4 and 1.5 of Schedule 1 to the RIN.

6.1 COST OF DEBT

Table 5 of the RIN requires JGN to provide SGSPAA Group's weighted average cost of debt for the financial year¹⁶ and to describe the method of calculation. Table 5 has been completed in the debt tab of the RIN templates at **Attachment 1**. A description of the calculation methodology is provided in section 1.4.4 of this submission.

6.1.1 THE SGSPAA GROUP'S COST OF DEBT IS NOT A REASONABLE PROXY FOR JGN

The SGSPAA Group funds its operations utilising a centralised funding portfolio. c-i-c

As noted in section 1.4.4, it is vital that this information be used with caution as JGN does not consider the SGSPAA Group's cost of debt to be a reasonable proxy for JGN's cost of debt.

6.2 DEBT INSTRUMENTS

Section 1.4 of Schedule 1 to the RIN requires JGN to provide information on debt instruments that were effective at the conclusion of the regulatory year and are used or will be used to fund, directly or indirectly, the provision of pipeline services by JGN in respect of its gas distribution networks. Accordingly, JGN has inserted a new table 5a that provides the required information in the new debt instruments tab of the RIN templates at **Attachment 1** of this submission.

6.2.1 ALTERATION OF INTEREST RATE THROUGH USE OF FINANCIAL INSTRUMENTS

The use of financial instruments to manage interest rate exposures is performed on a portfolio basis, not at the facility level. The interest rates and fees referenced in columns Q to W (labelled as columns 17-23) of table 5a of the RIN templates at **Attachment 1** are provided on a stand alone basis, i.e. exclusive of financial instruments.

For full details of all financial instruments, see section 6.3.

6.2.2 SCHEDULE FOR PAYMENTS OF INTEREST AND PRINCIPAL

See columns X to AI (labelled as columns 24-35) of table 5a of the RIN templates at **Attachment 1** for a list of the month-end debt position throughout the regulatory year.

Details of individual debt draw-downs, rollover and interest payments have not been provided on the basis that:

¹⁶ JGN has interpreted "financial year" to mean regulatory year from 1 July 2013 to 30 June 2014.

- c-i-c
- interest on bank debt is paid at the maturity of each interest period
- the source of core debt alters as facilities are rolled on and off due to maturity and change in lenders
- interest on bonds was paid as is described in columns Q and R (labelled as columns 17 and 18) of table 5a of the RIN templates at **Attachment 1**.

6.3 FINANCIAL INSTRUMENTS

Section 1.5 of Schedule 1 to the RIN requires JGN to provide information on financial instruments that alter or will alter the SGSPAA Group's exposure to a debt instrument, and was effective at the conclusion of the regulatory year. JGN has inserted 2 tables that provide the required information in the new financial instruments tab of the RIN templates at **Attachment 1** of this submission:

- table 5(b)(i) contains the required information on Australian dollar interest rate swaps
- table 5(b)(ii) contains the required information on cross-currency interest rate swaps.

7. DEMAND, CUSTOMER NUMBERS AND PIPELINE LENGTH

In this section JGN responds to the general information tab of the RIN templates.

7.1 ACTUAL DEMAND

Table 6 of the RIN requires JGN to provide actual demand (in terajoules) and the maximum daily quantity for the regulatory year. Table 6 has been completed in the general information tab of the regulatory RIN templates at **Attachment 1**.

7.2 CUSTOMER NUMBERS

Table 7 of the RIN requires JGN to provide customer numbers for each customer type. Table 7 has been completed in the general information tab of the RIN templates at **Attachment 1**.

The aggregate customer total remains the number of DPI currently active in the network as at 30 June 2014. The residential and business subtotals are calculated as the previous year's count plus new connections and less disconnections.

7.3 PIPELINE LENGTH

Table 8 of the RIN requires JGN to provide total length of mains (in km). Table 8 has been completed in the general information tab of the regulatory RIN templates at **Attachment 1**.

7.3.1 TOTAL PIPELINE LENGTH

JGN's total length of mains at 30 June 2014 was 25,693km as reported to the NSW Department of Trade and Investment, Regional Infrastructure and Services in JGN's 2014 annual compliance report.