



# **Jemena Gas Networks Carbon price repeal Negative cost pass through**

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Inquiries about this publication should be addressed to:

Australian Energy Regulator  
GPO Box 520  
Melbourne Vic 3001

Tel: (03) 9290 1444  
Fax: (03) 9290 1457

Email: [AERInquiry@aer.gov.au](mailto:AERInquiry@aer.gov.au)

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# 1 Summary

Jemena Gas Networks (JGN) operates the natural gas distribution network in and around Sydney, Newcastle, Wollongong and regional centres.

On 19 November 2014, JGN applied to the AER, for a negative Carbon Pollution Reduction Scheme (CPRS) pass through event as a result of the carbon tax repeal on 17 July 2014.

The proposed negative pass through amount is around \$8.793 million. JGN proposed to back date its reference tariff variation to 1 July 2014 for its demand tariffs and 1 August for its volume tariffs.

For customers, there is no impact from this negative pass through. This is because JGN ceased recovering the carbon component of its reference tariffs effective on the dates listed above. The cost pass through application will simply mean JGN's formal reference tariffs, which we must approve, will reflect the prices actually charged to customers.

We have determined that a negative carbon cost pass through event has occurred and we have approved the proposed pass through amount.

We note JGN intends to return to customers in 2015—16 around \$700 000 in over recovered carbon related revenues, accrued from volume tariff customers in July 2014. This return to customers is not subject to JGN's cost pass through application and is therefore not further considered by this paper.

## 2 Background

The Australian Energy Regulator is responsible for the economic regulation of covered natural gas distribution and transmission pipelines in all states and territories except Western Australia. Our functions and powers are set out in the National Gas Law and the National Gas Rules.

The carbon tax was repealed by the Australian parliament on 17 July 2014 and received royal assent the same day, removing JGN's carbon liability for 2014–15. As a result, JGN no longer has an obligation to purchase and surrender carbon units as a liable entity under the *Clean Energy Act 2011*.

Prior to this, JGN had an obligation under the *Clean Energy Act 2011* to purchase and surrender carbon units for each tonne of carbon pollution emitted. JGN had established the carbon component of its reference tariffs as a stand-alone volumetric charge of \$0.110/GJ. This matches the way its carbon price liability was determined, so that an increase in its liability was exactly matched by an increase in its carbon related cost recovery. Further, JGN recovered its carbon related costs in the same year it incurred its carbon liabilities.

### 3 Factors considered

In making a decision as to how much of the Cost Pass-Through Event should be passed through, we must take into account factors listed in clause 3.4(f)(iii) of the access arrangement:

**A. the matters and proposals set out in any statement given to the AER by the Service Provider under paragraph (iii)**

We have considered JGN's negative cost pass through application.

**B. the change in the costs in the delivery of Pipeline Services arising as a consequence of the Cost Pass-Through Event**

We accept that JGN's proposal to change the current \$0.110/GJ carbon component of its reference tariffs to \$0.00, matches the change in costs experienced by JGN as a result of carbon price repeal. Also, that its proposal to back date its reference tariff variations matches the dates on which it effectively ceased collecting carbon related revenues from customers.

**C. the efficiency of the Service Provider's decisions and actions in relation to the risk of the Cost Pass - Through Event, including whether the provider has failed to take any action that could reasonably be taken in respect of that event and whether the Service Provider has taken or omitted to take any action where such action or omission has increased the magnitude of the amount in respect of the event**

JGN was unable to mitigate its carbon tax costs until the tax was repealed.

**D. the time cost of money based on the WACC for the Service Provider**

There is no time cost of money adjustment. JGN had been recovering its carbon costs in the same year in which it incurred carbon price liabilities.

**E. the need to ensure that the Service Provider only recovers any actual or likely increment in costs to the extent that such increment is solely as a consequence of a Cost Pass-Through Event**

We are satisfied JGN proposes to reduce its reference tariffs to match the effective dates on which it ceased collecting carbon tax revenues from customers.

**F. whether the costs of the Cost Pass-Through Event have already been factored into the calculation of the Service Provider's annual revenue requirement**

The proposed adjustment to JGN's reference tariffs has not been factored into its annual revenue requirement.

**G. any other factors the AER considers relevant and consistent with the National Gas Law and National Gas Rules.**

While there is no impact to customers from JGN's cost pass through application, having received the application we consider it should be approved. This may assist in providing clarity to customers.

## 4 Determination

We determine that a negative CPRS event has occurred and that the proposed adjustments to JGN's reference tariffs are appropriate. In effect, we consider the proposed negative pass through amount is appropriate.