Jemena Gas Networks (NSW) Ltd

Revised 2025-30 Access Arrangement Proposal

Attachment 7.1

Abolishments

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Overview

We proposed maintaining a cost-reflective, user-pays abolishment ancillary service for all customers in our Initial 2025 Plan, which was strongly supported by our customers and reflects the historical[1] approach familiar to NSW users and customers. The AER's draft decision rejected our proposal, instead reducing our proposed small customer abolishment tariff from $1,472 to $1,104 to align with the Victorian networks, and socialising most of the abolishment cost across all customers by reducing the $1,104 tariff to $250 on the basis that this will incentivise customers to opt for an abolishment over a disconnection service, to address safety concerns.

We caution the AER against relying on high level benchmarking of our abolishment costs with other gas network businesses in different jurisdictions without adequately accounting for the activities that each business must undertake to complete an abolishment in its jurisdiction. There are material differences between NSW and other jurisdictions, including due to legislative and contractual relationships with other relevant stakeholders, such as councils, energy policy, as the NSW gas decarbonisation roadmap is not due to be released until 2026, other relevant legislative rights and obligations, including safety requirements and whether there is a right to perform restoration works, and network configuration and practices. For these reasons, and consistent with the NGR, JGN submits that abolishment costs should be assessed based on the specific legislative, regulatory and operational requirements applicable to our network.

We also question how the AER has satisfied itself that a partially socialised abolishment charge is consistent with:

1. Rule 94(3) of the National Gas Rules (NGR) which requires that for each tariff class, the revenue expected to be recovered should lie on or between an upper bound (representing the stand alone cost) and a lower bound (representing the avoidable cost of not providing the reference service to those customers). Because Ancillary Reference Tariffs are based on tariff class (see schedule 2 clause 2(c) of the proposed Access Arrangement (**AA**)), we would expect such a material subsidy to drive these tariff classes' revenues below avoidable cost.

2. Rule 93(2)(a) of the NGR which requires that 'costs directly attributable to reference services are to be allocated to those services' which enshrines the causer pays principle in the NGR. JGN's Ancillary Reference Services are a different reference service to the Transportation Reference Service into which the AER's draft decision seeks to allocate these socialised costs. This raises the question of whether the NGR permits the partially socialised abolishment cost to be recovered from our Transportation Reference Service.

In response to the AER's draft decision to reduce our proposed tariff to $1,104 to align with other networks, we have provided further information to demonstrate that our proposed tariff of $1,472 accurately reflects the costs of carrying out abolishment services compliantly, safely and reliably in NSW.

In relation to its decision to socialise the abolishment tariff, we note that correspondence cited by the AER in its draft decision from the NSW safety regulator within the NSW Department of Climate Change, Energy, the Environment and Water (NSW DECEW) indicates that it supports the socialisation of abolishment tariffs, meaning that the AER is unlikely to change its draft decision on this matter. Therefore, although we disagree with AER's rationale for socialising a proportion of small customer connection abolishment costs across transportation reference service tariffs, and reserve our position as to whether this is permissible under the NGR, we have decided to accept the AER's draft decision to implement a new abolishment charge for small customers from 1 July 2026.

We propose that the new, partially socialised charge will apply from 1 July 2026, as we need to undertake a suite of system and process changes to implement the new Standard Residential Connection abolishment charge that is to be partially socialised. In the interim (i.e. for the year 1 July 2025 to 30 June 2026), we propose to maintain our cost-reflective abolishment tariff of $1,472 per standard connection residential meter with a capacity of less than or equal to 25m^3/hr. Abolishments will be individually priced for other residential customers and non-residential customers.

From 1 July 2026, there will be three separate abolishment service charges, an increase from the two currently offered by JGN, as follows:

[1] JGN has had its abolishment service applying in the NSW gas market since 2009, without any substantial concerns.

- $250 per meter for a Standard Residential Connection (as defined in the AA) where there are no current or anticipated redevelopment, renovation or other construction works. This new charge will be partially socialised for the shortfall between $1,472 and $250 per abolishment.
- $1,472 per meter for a Standard Residential Connection where there are current or anticipated redevelopment, renovation or other construction works (e.g. knockdown and rebuilding/renovating), being a fully cost-reflective user-pays tariff.
- Individually priced for all other abolishments (for example, non-residential customers or premises which have multiple meters at a single site connected to a single consumer service).

Our proposed approach to gas service abolishment charges for the 2025-30 period is set out with a focus on the following areas:

- Section 1: AER's draft decision and stakeholder feedback
- Section 2: Our response to the AER's draft decision and the cost justification for charging our abolishment service
- Section 3: The implementation requirements to introduce the new abolishment service charge structure
- Section 4: Why the socialisation of abolishment costs is not in the best interest of customers.

1. AER's draft decision and stakeholder feedback

1.1 AER's draft decision

The AER's draft decision rejected our proposed ancillary reference service tariff for abolishments, citing safety concerns and inconsistency with charges levied by other gas distributors. Its safety concerns centred on the following:

> *Small customer connection abolishment involves the removal of gas from the pipe connecting a customer's premises to the mains pipeline, sealing the mains and making the site safe. Small customer connection abolishment is priced by JGN at a proposed $1,472 in 2025-26. The alternative cessation of service option is to cap supply at the meter (a disconnection). This alternative is considerably cheaper than abolishment.*
>
> *Therefore, a disconnection is a lower cost option for customers. However, it raises issues such as the safety aspect of live gas pipelines remaining underground and the costs to maintain this unused service*.[2]

The AER was also concerned about whether our proposed charges truly reflected underlying costs:

> *We have assessed the proposed small customer connection abolishment charges proposed by JGN. Based on both our benchmarking analysis and cost build up assessment, the proposed charges are not reasonable with respect to abolishing small customer connections. They are inconsistent with small customer connection abolishment charges levied by other gas distributors.*
>
> *The components of the proposed JGN abolishment service charge are almost entirely opex and do not include additional cost recovery. That is, JGN's proposed abolishment charges reflect the labour cost of staff attending the customer's premises to perform the task. They do not incorporate any contribution to shared network cost recovery – they are not exit fees. Rather, JGN's small customer connection abolishment charges have been proposed by JGN on a cost recovery basis.*[3]

Recognising abolishments historically have tended to be requested due to customers undertaking building works on-site (e.g. renovations, knock down rebuilds or redevelopment of sites) and that approximately two-thirds of current abolishments typically return to our network as a new connection following completion of building works, the AER suggested splitting the residential abolishment service charge into two categories:

- An abolishment service priced at $1,104 for renovation and knock-down rebuild sites. These customers cannot opt for disconnection as abolishment is considered necessary for safety purposes before significant works commence. Maintaining cost-reflective pricing for this category of abolishment would reduce the burden on remaining gas customers.
- An abolishment service priced at $250 for customers permanently leaving the gas network (i.e. those who abolish with the exception of those described above). This heavily socialised fee applies when customers are leaving the gas network. The lower price aims to encourage customers to acknowledge that they do not intend to reconnect gas supply.

Further, the AER suggested that we adopt new terminology, changing the name of our current abolishment service to a "Permanent disconnection (abolishment)". [4] The AER defined this service as a "*permanent decommissioning of a delivery point by sealing the main at the T intersection, removing gas from the connecting pipe, removing the meter and removing the service line/pipe where possible to prevent the withdrawal of gas at the delivery point from the pipeline at the street.*"

[2] AER, Draft Decision: Jemena Gas Networks (NSW) Access Arrangement 2025-2030, Attachment 9: Reference tariff setting, p 13.

[3] AER, Draft Decision: Jemena Gas Networks (NSW) Access Arrangement 2025-2030, Attachment 9: Reference tariff setting, p 14.

[4] See AER, Draft Decision: Jemena Gas Networks (NSW) Access Arrangement 2025–30, Attachment 9: Reference tariff setting p.19.

1.2 Submissions to our 2025 Plan

Energy Consumers Australia (ECA) raised concerns about JGN's abolishment costs compared to other networks, viewing them as barriers to electrification. It highlighted safety risks from increasing dormant connections where customers stop using gas without formal disconnection. ECA recommended aligning NSW with Victoria's $220 abolishment charge to address both safety concerns and electricity transition barriers.

The Justice and Equity Centre (JEC) supported JGN's approach and advocated for cost-reflective pricing where abolishment charges only recover costs from the specific consumer leaving the network. It explicitly opposed including street-side infrastructure costs in abolishment charges. The JEC argued that the abolishment service should provide consumers with the least-cost, efficient option to make their connection safe.

Aeris Capital and Arena Energy Consulting jointly proposed that the AER adopt a two-tier approach: adopting Victoria's $220 fee for single residential connections, and for hot water meters in residential strata schemes, capping charges at $84 with $0 charge for centralised hot water gas meter abolishment where residents maintain other gas usage. They argued this approach supports the energy transition while protecting consumer choice.

We address stakeholder concerns regarding safety risk, cost reflective pricing and the abolishment of hot water meters in residential strata schemes in the following sections.

2. Our response

As suggested by the AER, we are proposing to add a partially socialised abolishment charge for residential customers to the two existing charges:

- $250 per meter for a Standard Residential Connection[5] where there are no current or anticipated redevelopment, renovation or other construction works. This new charge will be partially socialised for the shortfall between $1,472 and $250 per abolishment.
- $1,472 per meter for a Standard Residential Connection where there are current or anticipated redevelopment, renovation or other construction works (existing charge).
- Individually priced for all other abolishments (existing charge).

We propose that the new, partially socialised charge will apply from 1 July 2026, as we need to undertake a suite of system and process changes to implement the two separate Standard Residential Connection abolishment charges, and users will also need time to implement the changes. In the interim (i.e. for the year 1 July 2025 to 30 June 2026), we propose to maintain our cost-reflective abolishment tariff of $1,472 per meter for all Standard Residential Connections. All other abolishments will be individually priced.

We set out below the activities that must be undertaken in NSW as part of an abolishment service, including those completed by JGN and the activities completed by local councils, which they charge us for.

We do not propose to adopt the AER's suggestion to rename abolishments as permanent disconnections (abolishments) (PDA) or how it has been described for the reasons set out in section 2.4.

2.1 Our abolishment service

JGN's abolishment service is made up of various activities and cost components, which are detailed in Section 5 of our Initial 2025 Plan Ancillary Reference Services attachment.[6] Abolishments involve multiple operational elements that contribute to the overall cost structure.

We currently process approximately 3,000 to 4,000 abolishments per year. An abolishment may be necessary for safety reasons, such as property knockdown and rebuild, and site renovations or redevelopments. The abolishment service also gives customers a choice to permanently disconnect from the network when they are no longer using any gas appliances.

The works required for an abolishment will depend on elements including the characteristics of the area (e.g. the level of traffic congestion in main versus non-main roads), where the network is located (where the mains could be located under footpaths or roads) and the mix of activities that are required (e.g. the level of restoration works or traffic management required for safety purposes).

The table below sets out a summary of the key steps that JGN must complete in carrying out an abolishment service according to current requirements.

[5] The Standard Residential Connection is defined in the Access Arrangement as a Residential Customer connection to the Network where: (a) the relevant meter has a capacity of less than or equal to 25m3/hr; and (b) the connection is standard with only one Delivery Point on the property (which includes no battle axe blocks, apartments or other circumstances which resulted in multiple Delivery Points at the property).

[6] Jemena Gas Networks (NSW) Access Arrangement 2025–30, Attachment 7.2: Ancillary Reference Services.

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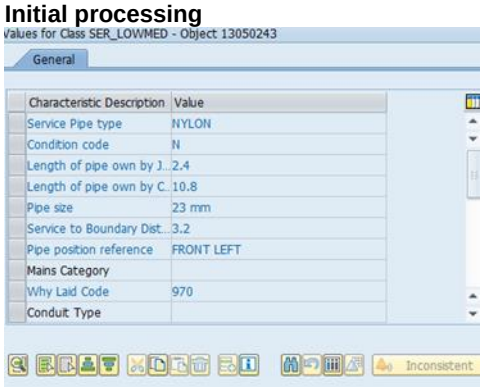
Table 2-1: Steps we undertake to carry out an abolishment service

Stage of abolishment	Steps
Initial processing 	• Process begins when JGN receives an abolishment request from a retailer • Site verification and planning occurs, including confirmation of site vacancy and assessment of neighbouring properties. • Underground service locations are identified and documented • Work schedule is established, including traffic management.
Site safety assessment and excavation 	• Crew conducts site safety assessment and documents initial conditions • Underground services are located and potholed through careful hand digging and excavation.
Cutting of service line and meter removal 	• Gas flow is controlled using squeezers on the nylon service line • Adjacent properties are checked to confirm continued gas supply • Service line is cut and capped near the main • Purging the service to remove all gas traces • Meter is removed, and the final reading recorded.
Temporary site restoration process (stage 1)	• Completed immediately by crew • Involves backfilling with sand, soil, cold mix asphalt and/or a road plate • Ensures site is left safe and serviceable • Excess soil removed from site.

	
Permanent site restoration process (stage 2)	• For the majority of sites, this is scheduled separately and performed by local councils at JGN's expense • The provision of permanent restoration works is a jurisdictional difference and pursuant to NSW legislation is outside of JGN's direct control. [7] • Work orders are raised but timing depends on each council's schedule • Involves final surface finishing (e.g., concrete, asphalt, or landscaping).
Post-work processing	• Site plans updated to show abolishment location • Job marked as abolished in the asset management system, with measurements and final readings • MIRN removed from AEMO system • Retailer charged through B2B transaction.

The costs associated with the above activities relate to factors including field and non-field based labour, materials, contractor services, and overheads. Our non-field based labour costs primarily involve operational management, such as scheduling work and coordinating with contractors. For materials, we maintain specific inventory items essential for the decommissioning process.

2.1.1 Restoration process and jurisdictional differences

The legislative jurisdictional differences between NSW and Victoria explain why the Victorian network service providers have lower restoration costs than JGN. This is because Victorian service providers have the legislative right to perform the restoration works, providing them with significantly more control over restoration costs, as well as the ability to benefit from efficiencies.[8] In NSW, the relevant legislation grants the relevant authority (usually the local council) the right to determine what restoration works are required and to elect to perform these works

[7] As discussed in section 2.1.1.

[8] See in particular, Schedule 7, clause 12 of the *Road Management Act* 2004 (Vic), also paragraph (b) of the definition of "infrastructure manager", the definition of "non-road infrastructure" and ss6 and 348.

itself at a time of their own convenience at JGN's cost, or to direct JGN to perform the works the authority considers necessary. [9][10]

Due to the size of our network across NSW, we are required to liaise with a large number of councils (noting there are many more councils in NSW than in Victoria, and Victoria has much lower requirements to liaise with local councils) and the majority prefer to arrange their own permanent restorations. This limits any potential efficiency benefits across or networks and our ability to control how such works are performed or to otherwise minimise these costs. It also means that as shown in the table in section 2.1 above, our restoration process involves a two-stage approach where we (or our contractors) first perform temporary restorations, followed by permanent hard surface restorations carried out by local councils at JGN's expense.

Accordingly, the jurisdictional differences between the NSW and Victorian operating environments result in JGN incurring higher costs than Victorian networks, as JGN:

- incurs the costs of at least one temporary restoration performed by JGN to make the site safe, as well as the permanent restoration costs charged by the council;
- has little to no ability to manage or minimise permanent restoration costs; and
- has little ability to create efficiencies in permanent restoration work across our network.

Temporary restoration process (stage 1)

JGN completes temporary restorations to ensure that the site is left safe and serviceable. For example, if any footpath paving is removed, we are required to backfill with sand, soil, cold mix asphalt and/or a road plate. We also remove any excess soil from the site. Figure 2–1 shows an example of temporary restoration work on a footpath paving, which is later remedied back to its original status by the relevant council in the stage 2 restoration process. Where there is a delay, more than six months, by the council in performing the permanent restoration, it may be necessary for JGN to perform further temporary restoration works.

Figure 2–1: Example of restoration work after the abolishment service

Permanent restoration process (stage 2)

The cost of permanent restoration in the JGN delivery area varies based on local council charges set in accordance with Section 608 of the *Local Government Act 1993* (NSW) and as published on their respective websites.

The average cost to JGN of permanent restoration is approximately 22% of total costs incurred in completing an abolishment. In discussion with the Victorian network businesses, we understand that their permanent restoration costs are between 10% to 18% of total abolishment costs. As stated above, JGN considers that the higher NSW costs are because JGN is not permitted to undertake permanent restorations unless directed by the respective

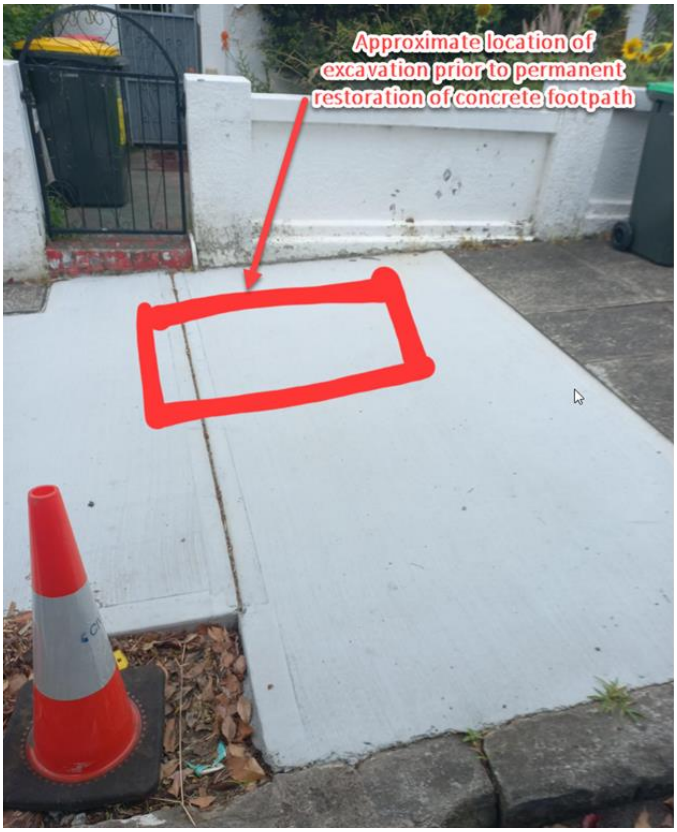
[9] s101(1) *Roads Act 1993* (NSW).

[10] s101(4) *Roads Act 1993* (NSW)

council, whereas the Victorian network businesses have the legislative right to perform such works and accordingly, a greater ability to minimise the costs.

Figure 2–2 shows the same site from Figure 2–1, after it has been permanently restored by the local council.

Figure 2–2: Permanent restoration undertaken by local council



Examples of current permanent restoration charges JGN is subject to include:

- The City of Sydney applies various fees and charges based on the service type, location, and complexity. Its fee could include a site establishment fee of $380 per site (note that this pricing is for 2024-25).[11] For footpath work, costs vary: an asphalt footpath with concrete base is charged at $655 per square metre, while strip and resurface work on an asphalt footway costs $225 per square metre. Kerb restoration work has its own pricing tier, with standard kerb stone relaying priced at $790 per linear metre. Premium materials like trachyte kerb stone command a higher rate of $1,900 per linear metre. For roadway restoration, an asphalt-surfaced roadway with concrete base (including dowelling) costs $1,416 per square metre. Additionally, the City of Sydney imposes a 40% surcharge above standard rates for works in high-traffic areas within the CBD, State or Regional Roads, or where transport restrictions apply.
- Camden Council charges $452 per square metre for restoring roads up to 5m² and $358 per square metre for areas exceeding 20m², applicable to roads with a thickness of 100mm (all costs in $2024).[12]
- The Sutherland Shire Council charges an establishment fee of $695 for road opening and restoration of footpath asphaltic concrete, with an additional fee of $151 per square metre (all costs in $2024-25).[13]

11 City of Sydney (2004), Revenue policy: Fees and charges, accessed at <https://www.cityofsydney.nsw.gov.au/policies/revenue-policy-fees-charges>

12 Camden Council (2024), Public Road Activity, Restoration & Private Works', accessed at <https://www.camden.nsw.gov.au/payments-and-forms/fees-and-charges/section-7/>

13 Sutherland Shire Council (2024), Pricing Policy: Access Across Reserves and Community Land, accessed at <https://www.sutherlandshire.nsw.gov.au/__data/assets/pdf_file/0026/82574/2024-2025-FEES-AND-CHARGES-ADOPTED.pdf>

- Inner West Council has a road opening application fee of $128.40 per application (all costs in 2023-24). Traffic control costs are applied as a surcharge on the scheduled fee, varying based on location and scope of work, and are set at 20% of the calculated restoration cost based on the council's published fees and charges. Restoration costs include $695.60 per square metre for a reinforced concrete road (225mm thick), $419.20 per square metre for an asphalt concrete footpath (AC10/AC20, up to 150mm thick) on an existing base, and $346.90 per square metre for a concrete footpath (80mm thick)[14]. A 25% surcharge may apply in some areas for work carried out on public holidays or at night.

Charges can vary from a few hundred to thousands of dollars. For example, JGN was recently invoiced by an Inner West Council $1,164 for the permanent restoration (stage 2) of a 1.33m² concrete footpath following a service abolishment. The invoiced amount excludes stage 1 restoration works, internal costs such as crew coordination and management, site verification, work scheduling and safety assessments.

The restoration process demonstrates why high level benchmarking of our abolishment costs with other gas network businesses may be inappropriate, particularly given JGN is a **price taker** of NSW council charges for permanent restoration works. Any comparison must account for jurisdiction differences, including the ability the network has to control certain works, the activities that each network must undertake, and how these activities may vary across networks. Therefore, we submit that the AER's proposed reduction of our small customer abolishment tariff from $1,472 to $1,104 to align with networks operating under different circumstances in other jurisdictions is not appropriate.

2.2 Our proposed abolishment tariff is cost reflective

The average total cost of an abolishment based on our cost build up is $1,472[15]. The actual costs vary depending on the complexity of the work and local council, however using a uniform unit rate across all residential jobs reduces the administrative cost of costing out each abolishment service on a case-by-case basis.

As noted in *JGN-Attachment 7.2-Ancillary Reference Services*, we have used a combination of data sources as appropriate to ensure accuracy in our cost projections for abolishment services, including:

- Field costs and restoration expenses are based on historical cost data averages
- Back office costs reflect current operational estimates
- Material costs are derived from current inventory costs.

This approach to cost estimation provides a robust foundation for our pricing model, allowing us to maintain consistent and cost reflective pricing for our abolishment services while ensuring all necessary components of the service are adequately covered.

Importantly, we note that the AER has deemed JGN's proposed charges for other ancillary reference services (such as disconnections) to be reasonable, including the overhead allocation.[16] Given that JGN has built up its abolishment costs based on an average cost incurred to undertake the abolishment services and has applied the same overhead calculation methodology across all ancillary services, including abolishments, the AER's rejection of the calculations for abolishment services appears inconsistent with its acceptance of the cost methodology for other services, particularly for overheads, as well as the longstanding historical approach to abolishment charges.

2.3 Pricing for sites with multiple meters connected to a single service

In response to the concerns raised by Aeris Capital and Arena Energy Consulting in their submission to the AER's issues paper regarding the provision of abolishment services in residential strata schemes, our current individual

[14] Inner West Council (2024), Fees and charges, Inner West Council, accessed at <https://www.innerwest.nsw.gov.au/about/policies-plans-and-regulations/fees-and-charges>

[15] JGN-Attachment 7.2-Ancillary Reference Services

[16] AER, Draft Decision *Attachment 9 – Reference tariff setting*, p19

pricing approach will be applied to the abolishment per meter at sites with multiple meters supplied by a single service, which would include both gas and hot water meters in strata developments.

Carrying out abolishment services in multi-density developments – both medium and high density – present unique challenges that make establishing a standard cost impractical. The actual costs vary significantly based on several factors:

1. Building size and complexity create substantial differences in economies of scale - the process and requirements differ markedly between buildings with few units versus those with 100 units or more.

2. Meter accessibility varies considerably, particularly in older buildings where meters are often located within individual apartments or behind locked doors, requiring additional coordination.

Given the wide variations in complexity, individual pricing ensures charges accurately reflect each job's specific requirements. This approach also provides flexibility when building management chooses to handle certain aspects of the abolishment process themselves. For example, abolishing hot water meter connections in a medium/high-density block might cost less than the standard $1,472 abolishment charge per meter, as a number of the steps outlined in section 2.1, such as traffic management, may only be required once rather than for each meter while some steps are required for each meter such as recording the final meter read.

The proposed individual pricing approach sets appropriate charges based on specific circumstances. For example, abolishment of a gas connection where other premises are maintaining gas connections or abolishment of the hot water meter supply where the gas connections are being maintained, do not require street-level gas supply line abolishment. Similarly, some situations may not require physical removal of the hot water meters by JGN as they may be purchased by the strata.

2.3.1 Non-Residential customers

Similarly, for non-Residential customers (including Demand customers), the abolishment service will be priced individually as is currently the case for Demand customers and those with a meter capacity greater than 25m^3/hr, as these sites are more likely to have more complex requirements.

2.4 Why terminology is important to avoid confusion

The AER suggested the following change to the terminology of the abolishment service:

> *Permanent disconnection (abolishment) – permanent decommissioning of a delivery point by sealing the main at the T intersection, removing gas from connecting pipe, removing the meter and removing the service line/pipe where possible to prevent the withdrawal of gas at the delivery point from the pipeline at the street.*

We propose not to use this terminology as we are concerned that the name is likely to cause confusion and the description is not consistent with the abolishment service offered by JGN.

Continuing to use the term abolishment better describes the service provided to customers and clearly differentiates it from the JGN disconnection service. The following description is proposed to be applied to the abolishment service –

> *Permanent decommissioning of a Delivery Point, typically including the removal of the meter. A request for abolishment is also a request to remove the Delivery Point from the Customer List under the User's Service Agreement. The specific method of abolishment will be at the discretion of the Service Provider to ensure the site is safe and complies with any applicable law."*

Whilst we appreciate the AER's intention of having "alignment of terminology" across gas distributors we note that the suggested terminology is not consistent with that used currently in Victoria, NSW or the ACT. For example, the use of abolishment has been adopted in the Gas Distribution Code of Practice in Victoria. Moreover, JGN has had its 'abolishment' service applying in the NSW gas market since 2009, without any substantial concerns. .

Further, experience has shown that using the terms temporary and permanent disconnections can result in both services being referred to disconnections leading to confusion in terms of understanding what is considered an abolishment versus a temporary disconnection.

Retaining the existing terminology ensures we mitigate any risks of unintended consequences such as accidently providing a temporary disconnection service instead of an abolishment service and vice versa. It also ensures consistency of language within the AA and better accounts for those circumstances where a disconnection service is provided to only one customer in a strata residential complex, meaning the service is not physically removed (i.e., abolished) to retain service to existing customers.

3. Implementing the abolishment service as three charges

3.1 AER's rationale for splitting our abolishment service

As noted in section 2, the AER's draft decision requires us to implement a new abolishment charge for residential customers with a partially socialised reference tariff. It has also suggested that we could retain a cost-reflective tariff for customers seeking an abolishment, but who intend to reconnect to our network at a later stage.[17] It suggested that this approach will:[18]

- Encourage permanent abolishments (over disconnections) in instances where customers are seeking to permanently leave the gas network
- Reduce the price burden created for remaining gas customers via socialisation, by levying a cost reflective abolishment tariff on customers undertaking renovations or knock down rebuilds
- Prevent people from falsely claiming they won't reconnect to the network just to get the cheaper tariff (what the AER calls "moral hazard").

3.2 Implementing a new abolishment service charge

As noted in section 2, we propose that the new, partially socialised charge will apply from 1 July 2026, as we need to undertake a suite of system and process changes to implement the two separate Standard Residential Connection abolishment charges. The rollout will involve technical updates by us and retailers across multiple platforms including modifications to retailer interactions with our services. Below, we provide an outline of our implementation plan, detailing system requirements, timelines, and critical considerations.

Implementation plan for adding a new abolishment service charge

Process changes
- Notification to Retailers to submit abolishment requests through Jemena's Gas Portal rather than direct B2B including all relevant information to enable tier-specific pricing and billing
- Retailers commence submitting abolishment requests via the Gas Portal
- Jemena assesses applications and provides cost based on new tariff structure
- Retailers then raise B2B service orders using provided quote reference numbers

Key system requirements
- Updates to Jemena Gas Portal interface
- Modifications to our internal systems handling SAP integration, customer and retailer communications, service operations, and contractor coordination
- New work order codes in SAP
- End-to-end testing with internal and retailer B2B systems

Implementation cost and timelines
- Estimated cost: One-off capital expenditure of $900,000 to be incurred in RY26
- Timeline: Will commence in April 2025 due to new customer service portal update
- Expected completion: 30 June 2026 (new tariffs to commence 1 July 2026)

Key considerations
The new process adds administrative steps for retailers who currently use direct B2B service orders.

3.3 Abolishment service volume forecast and true-up mechanism

Our reference tariff mechanism includes an automatic adjustment factor as detailed in Schedule 4 of our AA which is used for true-ups such as unaccounted for gas (UAG), licence fees, carbon costs including safeguard mechanism costs. Consistent with this approach we propose to include an additional item in the automatic

[17] Approximately two thirds of customers that seek an abolishment service later re-connect to our gas network.

[18] AER, Draft Decision *Attachment 9 – Reference tariff setting*, p19

adjustment factor to give effect to the socialised abolishment costs. As it is a new service we introduce from 1 July 2026, it has zero volume in the current AA period and the first year of the next AA period. The true-up for socialised abolishment costs will take effect from year 2026-27.

Please refer to:

- *JGN - RP - Att 6.1 - Demand forecast* for a volume forecast of abolishment services
- *JGN - RP - Att 8.1 - Pricing* for more details on the true-up mechanism
- *JGN – RP – Att 5.1 – Operating Expenditure* for details on the forecast socialised abolishment costs as a category specific forecast.

4. Why the socialisation of abolishment costs is not in the best interest of customers

JGN considers that a cost-reflective, user-pays abolishment ancillary service for all customers is the appropriate approach because it:

- is consistent with the causer pays principles enshrined in the NGR cost allocation rules (93(2)(a)), and
- this position received strong customer support in our engagement and in JEC's submission.

We disagree with AER's rationale for socialising a proportion of small customer connection abolishment costs across transportation reference service tariffs. While we note the AER's intent to align with Victorian approaches and address safety concerns, this decision creates several issues that may create significant unintended consequences for us and our customers in the long term. Our rationale for considering that a user-pays abolishment tariff is a more appropriate approach and better aligns with the NGR pricing and cost allocation rules is outlined in section 4.1 and 4.2 below.

We also commissioned expert economists Houston Kemp to consider the AER's draft decision regarding socialisation of abolishment costs. In its report (*Att 3.1 JGN - Houston Kemp - Smoothing cost recovery when gas demand is declining*), Houston Kemp find that "the AER's draft decision on abolishment costs is inconsistent with the NGR and NGL".[19] Houston Kemp's report explains its findings that the AER's draft decision:

- *leads to prices that are below avoidable cost;*
- *is not in the long term interests of gas consumers; and*
- *reduces JGN's opportunity to recover its efficient costs.*[20]

4.1 National abolishment service harmonisation is not needed

JGN's safety system eliminates the need for Victorian-style abolishment reforms

While the AER's decision aims to align with Victorian approaches and address safety concerns, this position is based upon an assumption that alignment between jurisdictions is appropriate. There are fundamental regulatory and legislative differences between the Victorian and NSW markets and for this reason, the Victorian approach is unnecessary for NSW and alignment between the jurisdictions is not necessarily desirable or appropriate. JGN maintains a comprehensive safety system, including physical controls (meter maintenance), monitoring controls (quarterly readings and Picarro vehicle-based monitoring), and regulatory controls (Before You Dig Australia process). For these reasons, the safety concerns relevant to Victoria do not apply to the same extent in NSW.

4.2 Pricing below avoidable cost is not in customers' long-term interests and is not permitted in the NGR

Socialising abolishment costs undermines efficient network use outcomes

The socialisation of abolishment costs is likely to have significant negative consequences for the provision of gas services because it may inefficiently incentivise customers to leave the gas network faster than if they faced the efficient incremental operating cost consequences of choosing to do so. This can be expected to reduce our rate of recovery for existing assets and potentially bring forward the timing of network shutdown, thus preventing future gas customers from enjoying the use of their gas appliances that have remaining service life, which appears inconsistent with the NGO requirement to have regard to the long-term interest of consumers

[19] Att 3.1 JGN - Houston Kemp - RP - Att 3.1 - Smoothing cost recovery when gas demand is declining - 20250110 – Public, p.45.

[20] Att 3.1 JGN - Houston Kemp - RP - Att 3.1 - Smoothing cost recovery when gas demand is declining - 20250110 – Public, section 6.1.2.

Subsidising electrification is rightfully a policy decision to be taken by each jurisdiction, not by an economic regulator who is bound by rules requiring cost reflective pricing and cost reflective cost allocations among services.

Non-compliance with direct cost allocation Rule 93(2)

Rule 93(2) of the NGR requires that 'costs directly attributable to reference services are to be allocated to those services' which enshrines the causer pays principle in the NGR. JGN's Ancillary Reference Services are a different reference service to the Transportation Reference Service into which the AER's draft decision seeks to allocate the socialised abolishment costs.

It is unclear how the AER has satisfied itself that the socialised abolishment cost can be recovered from our Transportation Reference Service under a proper application of this rule.

Non-compliance with efficient pricing bounds Rule 94(3)

Rule 94(3) of NGR requires that for each tariff class, the revenue expected to be recovered should lie on or between an upper bound (representing the stand alone cost) and a lower bound (representing the avoidable cost of not providing the reference service to those customers). This is commonly referred to as the efficient pricing bounds.

The lower bound of avoidable cost is specifically intended to avoid uneconomic cross subsidies within regulated networks' customer bases, so that customers are not provided a service where the price received from those customers is less than what the network would incur to provide it.

Ancillary Reference Tariffs are a tariff class in schedule 2 clause 2(c) of our AA. Because we have incrementally costed the direct costs of these Ancillary Reference Services consistent with rule 93(2), such a material subsidy will drive this tariff class' revenues below avoidable cost.

For abolishment services, the avoidable cost is the cost incurred by our contractors, plus council restoration costs, without overhead allocation. This is approximately $1,075 on average per abolishment service. This represents the average direct costs that would be avoided by JGN, if we did not provide the abolishment service to these customers.

The AER's proposed $250 abolishment fee falls significantly below the unitised avoidable cost of $1,075, with the remainder being socialised across other customers via a different service. This pricing structure is inconsistent with the requirements of Rule 94(3)(b), as it recovers less than the avoidable cost of providing the service.

It is unclear from the draft decision whether, and if so how, the AER satisfied itself that its proposed socialisation of abolishments complies with rule 94(3).

Inconsistency in restricting depreciation while socialising abolishment costs compounds future customer harm

While the AER's draft decision has constrained accelerated depreciation to $156 million, it simultaneously approved increasing prices through $66.4 million in operating expenditure to socialise abolishment costs, providing subsidies to certain abolishment customers. This shows an inconsistent approach to the real price path outcome it has targeted in its depreciation decision.

It creates an adverse compounding effect on prices - not only will the decreasing number of future customers face higher costs due to the reduced depreciation allowance - but they will also bear the additional burden of subsidising a separate non-transportation reference service to former customers who had already abolished their connection at a price below our avoidable cost. This approach appears to work against the very price path outcomes the AER seeks to uphold through its accelerated depreciation decision.

As Houston Kemp observes, together these decisions will result in compounding harm to future customers remaining on JGN's gas network, who must pay for:

- residual abolishment costs created by customers who disconnect; and
- residual sunk costs that are no longer recovered from departing customers.[21]

[21] Att 3.1- JGN - Houston Kemp - RP - Att 3.1 - *Adjusting regulatory depreciation when gas demand is declining*- 20250110 – Public, pp.47-48.

5. Summary of proposed revisions to Initial Proposal AA and RSA

Table 5-1: Explanation of proposed relevant revisions to the Initial Proposal AA

In addition to the correction of a small number of non-material typographical errors, the table below summarises all changes to the AA proposed in the Revised Proposal.

Clause	2020 AA reference	2025 AA reference	Summary of proposed change
Definitions and interpretation			
Definitions	Sch 1	Sch 1	A definition of the term "Standard Residential Connection" used for the purposes of the abolishment services has been inserted.
Initial Reference Tariff Schedule			
Transportation Reference Tariffs	Sch 2, 4	Sch 3, 2	The Transportation Reference Tariffs have been updated based on the rebalanced Revised Proposal prices.
Ancillary Reference Tariffs	Sch 2, 4	Sch 3, 3	The Abolishment charges have been amended to reflect the proposed approach of two charges for Standard Residential Connections.

Table 5-2: Explanation of proposed relevant revisions to the Initial Proposal RSA

In addition to the correction of a small number of non-material typographical errors, the table below summarises all changes to the RSA proposed in the Revised Proposal.

Clause	2020 RSA reference	2025 RSA reference	Summary of proposed change
Definitions and interpretation			
Definitions	Cl 1	Cl 1	A definition of the term "Standard Residential Connection" used for the purposes of the abolishment services has been inserted. Clarifying amendments have been made to the definitions of "Volume Customer List" and "Demand Customer List".
Ancillary Reference Service - Abolishment			
Abolishment of Standard Residential Connection Delivery Points	18.1	18.1	Clause 18.1 is proposed to be amended to reflect the proposed new distinction between abolishment tariffs depending on the characteristics of the customer and the delivery point and the circumstances of the request, in particular: • by changing the reference to "Volume Customer" to "Standard Residential Connection Delivery Point"; • to insert the construction element; and • to provide more flexibility where no date is specified, which may facilitate efficient scheduling of abolishment works.
Abolishment of Other Delivery Points	18.2	18.2	Clause 18.2 is proposed to be amended: • to reflect the proposed new distinction between abolishment tariffs depending on the characteristics of the customer and the delivery point and the circumstances of the request, in particular by changing the reference to "Demand Customer" to catch all abolishments not caught by clause 18.1; and

Clause	2020 RSA reference	2025 RSA reference	Summary of proposed change
			• to provide that JGN must use reasonable endeavours to provide the abolishment offer within the specified timeframes or as agreed and to perform to abolishment services. This provides some additional flexibility in case necessary (for example, due to changing regulatory requirements or due to a higher volume of requests than anticipated).
Ancillary Reference Service - General provisions relating to abolishment, disconnection and reconnection			
User Obligations	22.1	22.1	Clause 22.1 is proposed to be amended to reflect the proposed new distinction between abolishment tariffs, in particular by changing: • the reference to “Volume Customer” to “Standard Residential Connection Delivery Point”; and • by changing the reference to “Demand Customer” to catch all other abolishments.