Jemena Gas Networks (NSW) Ltd

Revised 2025-30 Access Arrangement Proposal

Attachment 8.1

Pricing

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Overview

This attachment outlines our response to the AER's draft decision on JGN's pricing, reference tariff setting and reference tariff variation mechanism proposal for the 2025-30 period.

AER draft decision

The AER's draft decision accepted most of JGN's proposed amendments to our gas transportation tariffs.[1] This included:

- merging our coastal and country pricing zones
- splitting volume customers into small (under 200 GJ consumption per annum) and large (over 200 GJ) tariffs
- recovering proportionally more revenue from demand customers
- increasing the fixed charge for large volume customers
- reducing the number of price blocks for volume customers from six to four; and
- flattening the declining block structure for our volume customers.

However, the AER's draft decision required more clarity on our proposed changes to recover more revenue from demand customers and to flatten the declining block tariff structure for our volume customers. The AER also outlined that:

> *"further work is required on JGN's gas transportation tariff reform pathways to achieve flat tariffs, including bill impact modelling, for all tariff classes including demand customers."*[2]

The AER's draft decision also noted that further consideration is required as to whether a 10 per cent side constraint is too broad and whether it would be appropriate for JGN to amend the side constraint to 2 per cent to align with other gas distributors.[3]

Regarding our proposed ancillary reference service tariffs, the AER's draft decision accepted all of the proposed individual tariffs except for our proposed volume customer abolishment service.[4] The AER's draft decision reduced the level of our proposed abolishment cost by 25 per cent down to $1,104 and then socialised most of this cost, producing an abolishment tariff of $250.[5]

Finally, the AER approved all aspects of JGN's proposed tariff variation mechanisms for the 2025–30 period except for the:

- annual transportation reference tariff variation mechanism, which the AER stated should not include provision for levies and licence fees; and
- proposed CPI-X adjustment for our annual ancillary reference tariff variation mechanism, which the AER stated should be revised to reflect CPI adjustments only.[6]

Table OV–1 below summarises the AER's draft decision on pricing and outlines our response to any outstanding issues.

1 AER, Draft decision – JGN (NSW) access arrangement 2025 to 2030, Attachment 9 – Reference tariff setting, November 2024, p. 1.

2 Ibid.

3 Ibid.

4 Ibid, p. 2.

5 Ibid.

6 AER, Draft decision – JGN (NSW) access arrangement 2025 to 2030, Attachment 10 – Reference tariff variation mechanism, November 2024, p. 1.

Table OV–1: JGN's response to the AER's draft decision on pricing

Topic	AER draft decision	JGN response
Declining block tariff structures for volume and demand customers	Further work is required on JGN's gas transportation tariff reform pathways to achieve flat tariffs, including bill impact modelling, for all tariff classes including demand customers.[7] The AER is not satisfied that our declining block tariffs sufficiently reflect the updated National Gas Objective (**NGO**), which now incorporates an emissions reduction element.[8]	Our Revised 2025 Plan models the bill impacts of transitioning our volume customers to a flatter declining block tariff structure over the 2025-30 period. Our Revised 2025 Plan highlights two changes that help to flatten our declining block tariff structures. These are changing from current period coastal and country tariffs (with six blocks) to small and large tariffs based on annual consumption (with four blocks), and increased fixed charges. Finally, we are not proposing to amend the tariff structures for our demand customers in the forecast regulatory period. These large industrial customers are very different to our volume customers and even minor tariff changes can result in major bill shocks, which could significantly impact their competitiveness. Further, we are not able to engage on this topic with our large demand customers in the short timeframe between the AER's draft decision and our Revised 2025 Plan. We consider a more prudent and appropriate approach is to consult with these customers on tariff transition during the 2025-30 period for implementation in the subsequent access arrangement periods. This will help to ensure that the tariff transition adequately reflects the NGO without unintended consequences impacting the operations of NSW's large industrial gas users.
JGN's side constraint	Further consideration is required on whether a 10 per cent side constraint is too broad and whether it would be appropriate for JGN to amend the side constraint to 2 per cent to align with other gas distributors.[9]	We propose to retain our existing side constraint of 10 per cent, as it supports our tariff strategy of rebalancing more revenue towards our larger demand market customers. It also enables us to adapt to evolving market dynamics during a period of significant energy market transformation. This approach is also consistent with the feedback we received from our customers during our engagement sessions on pricing and tariffs.

7 AER, Draft decision – JGN (NSW) access arrangement 2025 to 2030, Attachment 9 – Reference tariff setting, November 2024, p. 1.

8 Ibid, p. 12.

9 Ibid, p. 11.

Topic	AER draft decision	JGN response
Treatment of abolishment costs	The AER's draft decision is to reduce the level of JGN's proposed volume customer abolishment cost by 25 per cent, bringing it down to $1,104, and to socialise most of that cost, giving an abolishment tariff of $250.[10]	We propose to maintain our initial proposal abolishment charge of $1,472. We accept the partial socialisation of abolishment costs and the ancillary service abolishment charge of $250. As suggested by the AER, we are proposing to add another abolishment charge for residential customers with a partially socialised reference tariff (an increase from the two that we currently offer): • $250 per meter for a Standard Residential Connection 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 including an additional true-up factor in the tariff variation mechanism to give effect to the socialisation of abolishment costs. More details on the abolishment costs and volume forecasts are included in *JGN - RP - Att 7.1 - Abolishments - 20250115 – Public*.
Licence fee factor	JGN's transportation tariff variation mechanism should not include provisions for levies and licence fees.	We propose to maintain our current approach of including a licence fee true-up factor in the tariff variation mechanism. We believe this approach better reflects the uncontrollable nature of licence fee costs and is more consistent with the treatment in the AER's decisions for electricity distributors and the National Electricity Rules (**NER**). We discuss this in more detail in *JGN - RP - Att 5.1 - Operating expenditure - 20250115 - Public*.
Ancillary reference service tariff variation mechanism	The proposed CPI-X tariff variation mechanism for ancillary reference services should be revised to reflect CPI adjustments only.	We accept the AER's draft decision.
Volume customer block sizes	Not applicable.	In preparing our Revised 2025 Plan, we identified two minor changes to our volume customer block sizes. These changes relate to our VI large and VB tariffs, respectively, and are discussed further in section 4 below.

[10] Ibid, p. 2.

1. Flatter declining block tariff structures

1.1 AER draft decision

As noted above, the AER's draft decision required more clarity on our proposed changes to flatten the declining block tariff structure for our volume customers. The AER also outlined that "further work is required on JGN's gas transportation tariff reform pathways to achieve flat tariffs, including bill impact modelling, for all tariff classes including demand customers",[11] arguing that our declining block tariff structure for our transportation tariffs is not sufficiently reflective of the updated NGO, which now incorporates an emissions reduction element.[12]

1.2 JGN response

1.2.1 Volume customers

We held a workshop with the AER on 5 December 2024 to discuss these elements of the AER's draft decision. We highlighted that we have already proposed significant changes to our reference tariffs, including:

- separating our transportation and ancillary reference services
- changing our tariff variation mechanism to a hybrid approach where volume risk is shared outside a ± 5 per cent threshold
- separating our smaller and larger volume market customers (VI small and VI large)
- reducing the number of blocks for all of our volume market customers from 6 to 4 and
- slowly moving towards higher fixed charges, particularly for larger customers (VI large and demand customers).

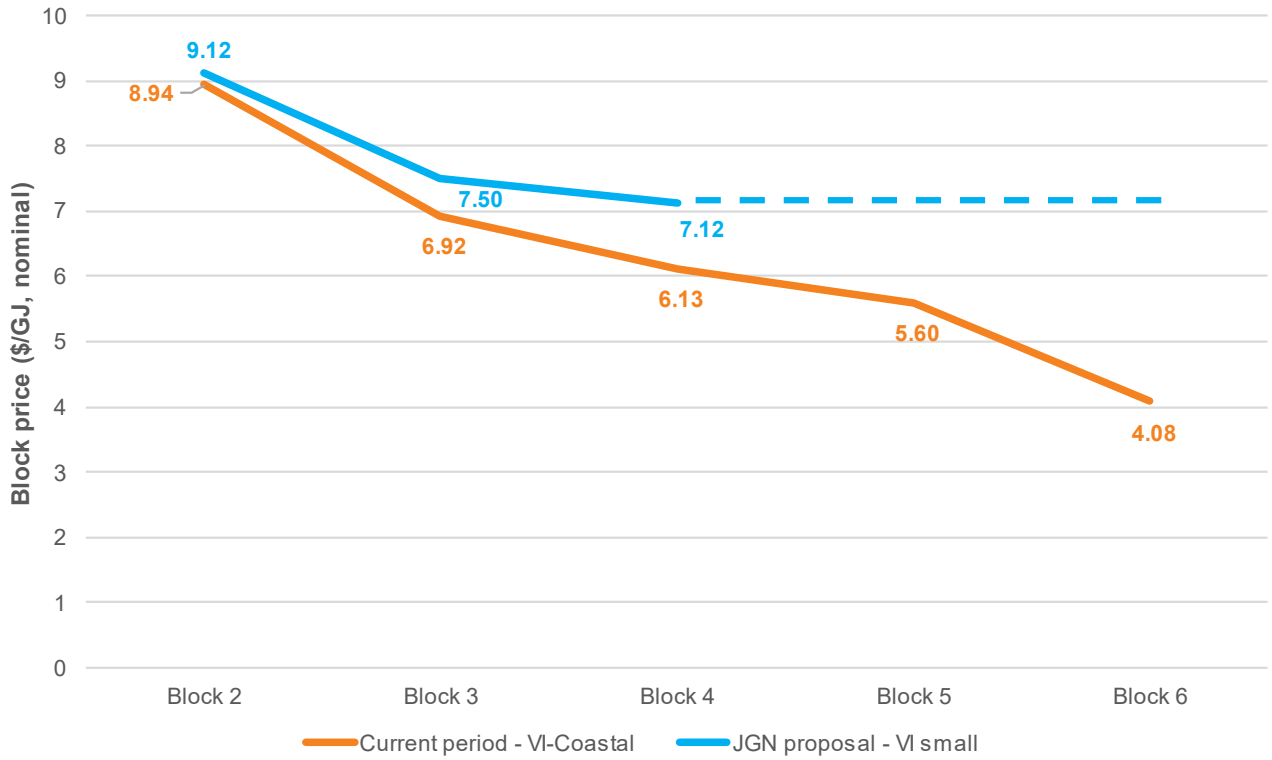
During the workshop, we also presented bill impact analysis of our initial proposal prices to highlight how our volume customers are likely to be affected by flattening their declining block tariff structures over the 2025-30 period. This analysis has been further refined based on our discussion with the AER and is presented below.

Firstly, Figure 1–1 below demonstrates that our proposed volume individual (**VI**) small tariff significantly flattens the declining block structure for our smaller volume customers. It compares the 2025-26 block 2 to 6 prices of our current VI Coastal tariff with the 2025-26 block 2 to 4 prices of our proposed VI small tariff. The dashed light blue line in blocks 5 and 6 shows where the blocks 5 and 6 prices would have been sitting if the current period structure was retained. This illustrates that our proposed VI small tariff incorporates a much flatter declining block structure than our existing VI Coastal tariff.

[11] AER, Draft decision – JGN (NSW) access arrangement 2025 to 2030, Attachment 9 – Reference tariff setting, November 2024, p. 1.

[12] Ibid, p. 12.

Figure 1–1: VI Coastal and VI small block price comparison for 2025-26



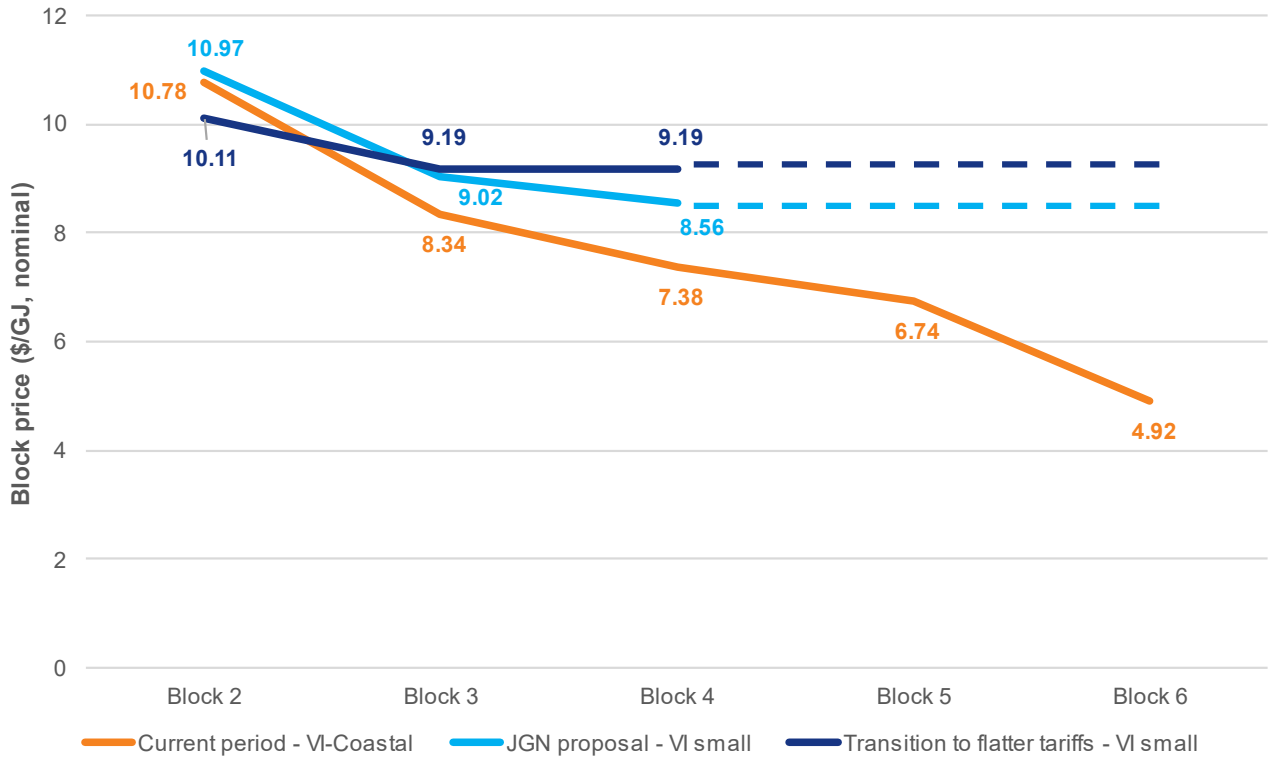
Source: JGN analysis based on initial proposal tariffs.

We have also analysed how to continue transitioning our volume customers to flatter declining block tariff structures over the 2025-30 access arrangement period to further address the concerns raised by the AER regarding our declining block tariff structures. We have considered several approaches, including merging the blocks 3 and 4 prices for VI small and VI large customers by year 3 of the 2025-30 period and then slowly moving this price towards the block 2 price.

Figure 1–2 below outlines the same tariff comparison as Figure 1–1 and also includes indicative prices by 2029-30 based on the tariff transition strategy outlined above. Figure 1–2 demonstrates that this transition strategy would further flatten the declining block structure from blocks 2 to 4 for our VI small customers. As part of our revised access arrangement proposal, we are proposing to gradually transition our VI small tariffs (currently proposed tariffs shown as the light blue line in Figure 1–2) to this flatter block structure over the course of the 2025-30 period (this structure is shown as the dark blue line in Figure 1–2).

We consider that the best way to achieve this transition is through our annual tariff variation proposal, which will be submitted to the AER for approval each March before the beginning of the new regulatory year on 1 July. Importantly, these block prices are all indicative and subject to change due to year-to-year market dynamics during the annual tariff variation process (e.g. inflation, return on debt, unaccounted for gas (**UAG**) true-ups, etc).

Figure 1–2: Illustrative tariff transition strategy – Comparison by 2029-30



Source: JGN analysis based on initial proposal tariffs.

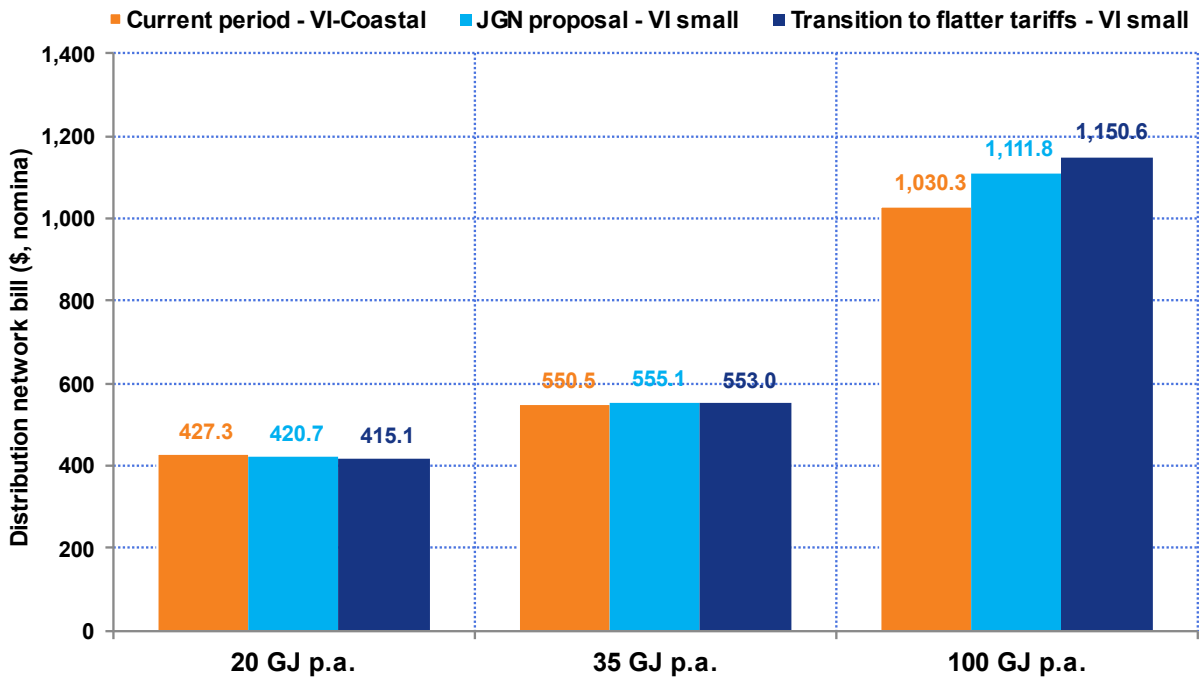
Bill impact analysis

This section discusses how our different customer segments are likely to be affected by this transition over the 2025-30 period. As noted above, the following analysis and distribution network bills are all indicative and subject to change due to year-to-year market dynamics during the annual tariff variation process (e.g. inflation, UAG true-ups etc).[13]

Figure 1–3 below outlines bill impact analysis for smaller volume customers, typically residential customers, consuming 20 GJ and 35 GJ per annum, respectively, and also larger VI small customers consuming 100 GJ per annum. Approximately 99 per cent of our total customer base is on the VI small tariff, while approximately 78 per cent of our VI small customers consume 24 GJ or less per annum.

[13] The analysis has been conducted to ensure revenue neutrality at the individual tariff level. For example, the revenue we would expect to recover from VI small under this transition is the same as the revenue we proposed to recover from VI small in our initial proposal.

Figure 1–3: Illustrative 2029-30 bill impact analysis for different volume customers



Source: JGN analysis based on initial proposal tariffs.

Figure 1–3 highlights that transitioning to flatter declining block tariff structures is expected to result in very minor distribution network bill changes for small volume customers. Compared with our current period VI Coastal tariff, households consuming around 20 GJ per annum would expect to save around $12 per annum in nominal terms by the end of the 2025-30 period. In contrast, customers consuming 35 GJ per annum would expect to pay around $2.50 per annum more in nominal terms by the end of the period.

Customers consuming at the higher end of the VI small tariff (i.e. up to 200 GJ per annum) would expect to see network bill increases as a result of transitioning to a flatter declining block structure. This is because these customers would consume gas into blocks 3 and 4, both of which would have slightly higher prices compared with our proposed VI small prices as the declining block structure transitions to a flatter profile (this is best illustrated in Figure 1–2). Table 1–1 below provides a bill impact analysis summary for VI small customers, including the average bill variance between our initial proposal VI small tariff and the VI small tariff transition discussed.

Table 1–1: Illustrative bill impact analysis summary table – VI small customers

Customer type		Annual consumption (GJ)	2029-30 distribution network bill ($, nominal)				Proportion of VI customers (%)
			Current period VI Coastal	JGN initial proposal VI small	Transition to flatter tariffs VI small	Variance with VI Coastal	
	Medium home (Cooking, hot water and heating)	20 GJ p.a.	$427.26	$420.67	$415.14	-$12.12 -2.8%	78% (0 – 24 GJ)

Customer type		Annual consumption (GJ)	2029-30 distribution network bill ($, nominal)				Proportion of VI customers (%)
			Current period VI Coastal	JGN initial proposal VI small	Transition to flatter tariffs VI small	Variance with VI Coastal	
	Large home (Cooking, hot water and heating)	35 GJ p.a.	$550.46	$555.08	$553.04	$2.58 0.5%	15% (24 – 42 GJ)
	Small business (Cafés and restaurants)	100 GJ p.a.	$1,030.27	$1,111.81	$1,150.60	$120.34 11.7%	1% (80 – 120 GJ)

Source: JGN analysis based on initial proposal tariffs.
Notes: Numbers may not add due to rounding. Green text indicates bill savings, while red text indicates bill increases.

Table 1–2 below provides an equivalent bill impact analysis summary for our VI large customers. It highlights that transitioning to a flatter declining block structure would result in bill increases for all VI large customers, compared with our current period VI Coastal tariff.

Table 1–2: Illustrative bill impact analysis summary table – VI large customers

Customer type		Annual consumption (GJ)	2029-30 distribution network bill ($, nominal)				Proportion of VI customers (%)
			Current period VI Coastal	JGN initial proposal VI large	Transition to flatter tariffs VI large	Variance with VI Coastal	
	Small business (Larger restaurant)	300 GJ p.a.	$2,506.61	$2,690.39	$2,841.75	$335.14 13.4%	0.64% (240 – 1000 GJ)
	Medium business (Supermarkets and hotels)	3,000 GJ p.a.	$21,163.18	$21,791.36	$21,322.62	$159.44 0.8%	0.16% (1000 – 3600 GJ)
	Large business (Cleaning services and manufacturing)	7,000 GJ p.a.	$44,502.52	$49,723.75	$48,666.23	$4,163.71 9.4%	0.02% (5600 – 10000 GJ)

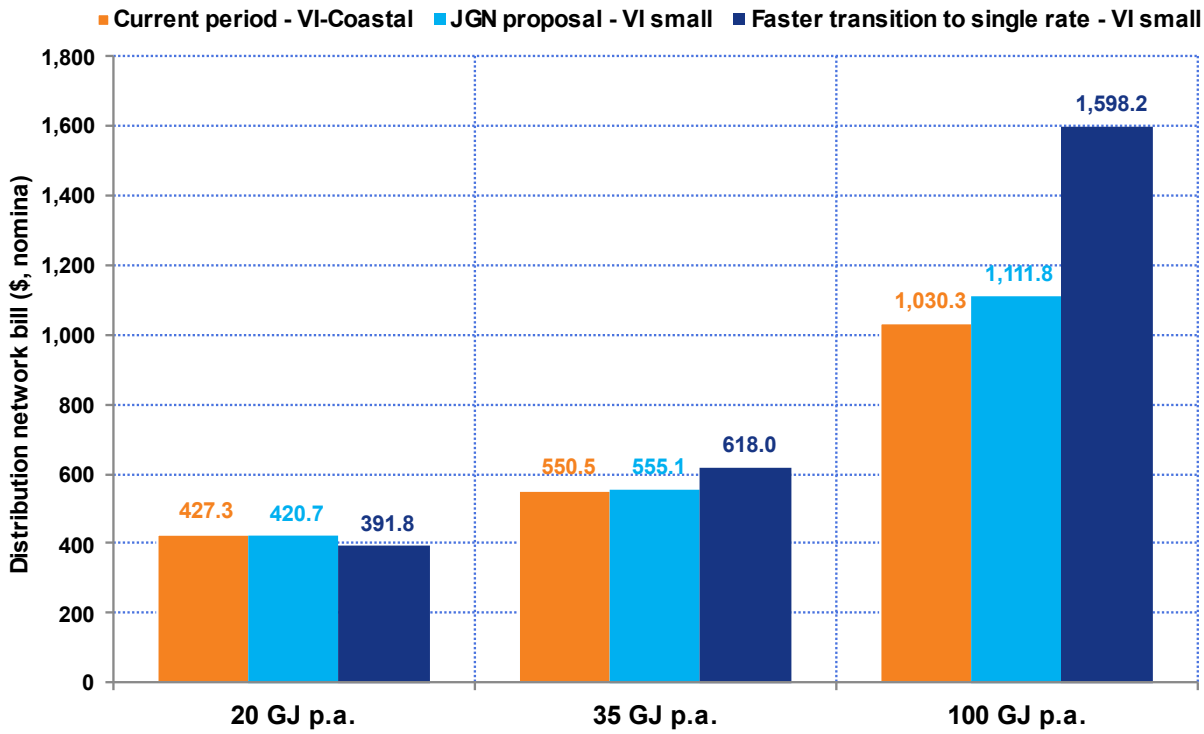
Source: JGN analysis based on initial proposal tariffs.
Notes: Numbers may not add due to rounding. Green text indicates bill savings, while red text indicates bill increases.

A faster transition to a single-rate tariff

The AER's draft decision also asked us to consider a range of options to flatten our declining block tariff structure, including moving to flat tariffs.[14] Therefore, we have also analysed moving to a completely flat single-rate tariff for our VI small customers. This includes making changes to our VI small block 1 price, which contrasts with the analysis above where we only adjusted the block 2 to 4 prices. Figure 1–4 below compares the analysis presented above in Figure 1–3 with this faster transition scenario.

[14] AER, Draft decision – JGN (NSW) access arrangement 2025 to 2030, Attachment 9 – Reference tariff setting, November 2024, p. 12.

Figure 1–4: A faster transition – Illustrative 2029-30 bill impact analysis for different volume customers



Source: JGN analysis based on initial proposal tariffs.

Figure 1–4 demonstrates that implementing a faster transition to a single-rate tariff will result in larger bill savings for smaller customers on the VI small tariff and significant bill increases for larger VI small customers.

Further, our VI large tariff is priced based on our VI small block prices to ensure that customers consuming around the 200 GJ per annum threshold are indifferent between the VI small and VI large tariffs. However, moving to a single-rate tariff structure for VI small results in significant changes to the block prices for VI large customers. In addition, to ensure revenue neutrality within the tariff class, the fixed charge required increases by over four times in 2026-27. These dynamics are summarised below in Table 1–3.

Table 1–3: Illustrative VI large prices under a faster transition

Tariff component	2025-26	2026-27	2027-28	2028-29	2029-30
Fixed charged	420.00	1,729.60	1,821.01	1,918.29	2,023.01
Block 1	6.06	4.66	4.83	5.00	5.17
Block 2	5.96	4.66	4.83	5.00	5.17
Block 3	5.86	4.66	4.83	5.00	5.17
Block 4	5.76	4.66	4.83	5.00	5.17

Source: JGN analysis based on initial proposal tariffs.

The bill impacts for our VI large customers are summarised below in Table 1–4. This analysis indicates that a faster transition to a flat single-rate tariff will result in significant distribution network bill changes for our VI large customers. Importantly, our analysis shows that larger VI large customers would benefit from substantial bill savings at the expense of smaller VI large customers due to the reduced block prices and increased fixed charges. This is inconsistent with the overall strategy to recover more revenue from the larger customers on our network, which was supported by our customers during our engagement program.

Table 1–4: Illustrative 2029-30 VI large bill impacts under a faster transition

Customer type		Annual consumption (GJ)	2029-30 distribution network bill ($, nominal)				Proportion of VI customers (%)
			Current period VI Coastal	JGN initial proposal VI large	Faster transition to flatter tariffs	Variance with VI Coastal	
	Small business (Larger restaurant)	300 GJ p.a.	$2,506.61	$2,690.39	$3,573.50	$1,066.89 42.6%	0.64% (240 – 1000 GJ)
	Medium business (Supermarkets and hotels)	3,000 GJ p.a.	$21,163.18	$21,791.36	$17,527.89	-$3,635.29 -17.2%	0.16% (1000 – 3600 GJ)
	Large business (Cleaning services and manufacturing)	7,000 GJ p.a.	$44,502.52	$49,723.75	$38,201.06	-$6,301.46 -14.2%	0.02% (5600 – 10000 GJ)

Source: JGN analysis based on initial proposal tariffs.
Notes: Numbers may not add due to rounding. Green text indicates bill savings, while red text indicates bill increases.

Overall, we do not consider a faster transition to a flat single-rate tariff to be in the long-term interests of our customers. Therefore, for our volume customers, we propose to retain the higher-priced first block and gradually transition the blocks 2 to 4 prices to a flatter structure over the 2025-30 period, as shown by the light blue line in Figure 1–2 above.

1.2.2 Demand customers

We are not proposing to amend the declining block tariff structures for our demand customers. These large industrial customers are very different to our volume customers and even minor tariff changes can result in major bill shocks, which could potentially threaten their competitiveness. Further, we have not engaged on this topic with our large demand customers and any change to our demand tariffs will require significant analysis and customer consultation. We consider a more measured and slower transition to flatter declining block tariff structures over the next two access arrangement periods to be the most appropriate approach for these customers.

As noted above, the AER's draft decision outlined that it was not satisfied that our declining block tariff structure for our transportation tariffs is sufficiently reflective of the updated NGO, which now incorporates an emissions reduction element.[15] While smaller volume customers may be able to reduce their gas consumption by transitioning to alternative fuel sources such as renewable electricity, this may not necessarily be the case for our larger industrial customers. In many instances, these customers use gas as a means to transition away from even higher carbon-emitting fuels such as coal or diesel.

[15] AER, Draft decision – JGN (NSW) access arrangement 2025 to 2030, Attachment 9 – Reference tariff setting, November 2024, p. 12.

2. JGN's side constraint

2.1 AER draft decision

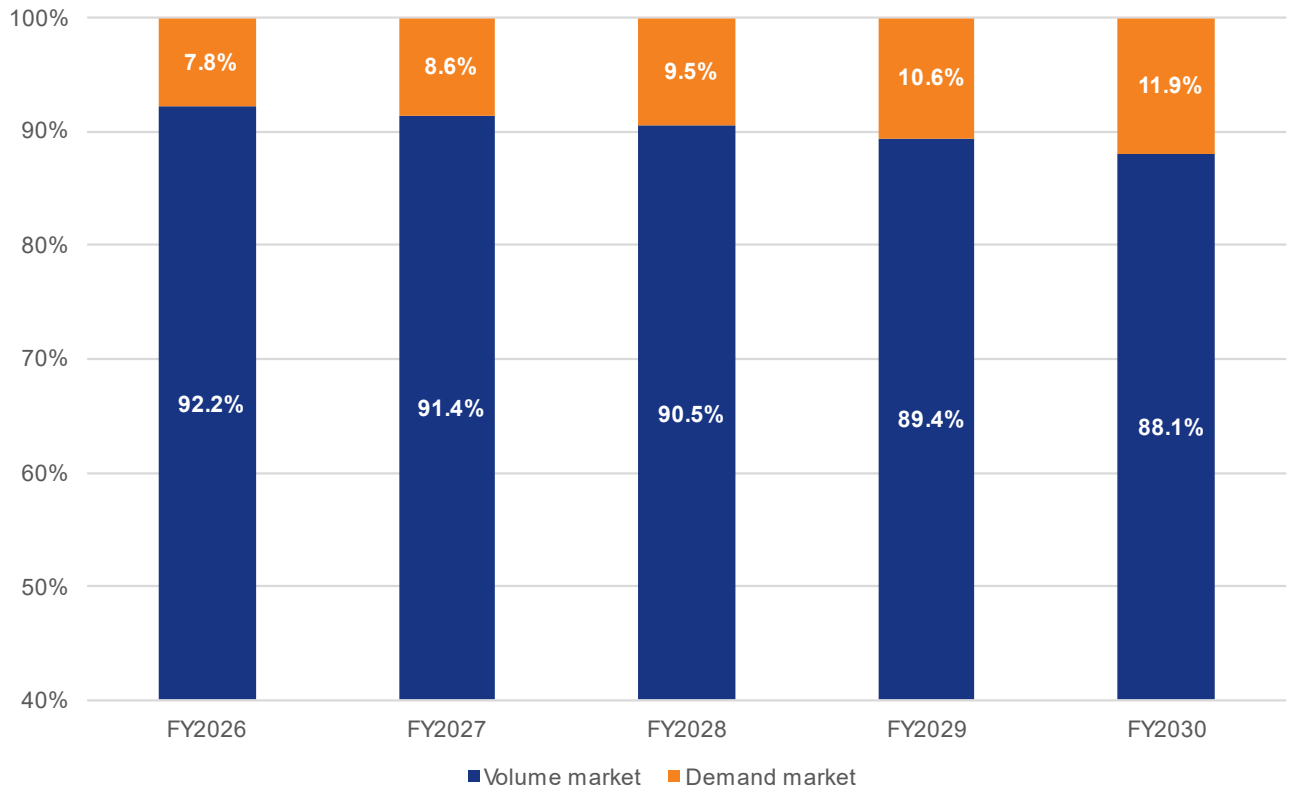
The AER's draft decision outlined that further consideration is required on whether a 10 per cent side constraint is too broad and whether it would be appropriate for JGN to amend the side constraint to 2 per cent to align with other gas distributors.[16]

2.2 JGN response

We propose to retain our existing side constraint of 10 per cent to enable us to continue rebalancing more revenue towards our larger demand market customers. This approach is consistent with the feedback we received from our customers during our engagement sessions on pricing and tariffs.

Figure 2–1 and Figure 2–2 below illustrate JGN's potential revenue recovery by market over the 2025-30 period under 10 per cent and 2 per cent side constraints, respectively. We would have the scope to increase our revenue recovery from demand market customers to approximately 12 per cent by retaining our current 10 per cent side constraint. This would decrease to around 9 per cent of total revenue if our side constraint was changed to 2 per cent.

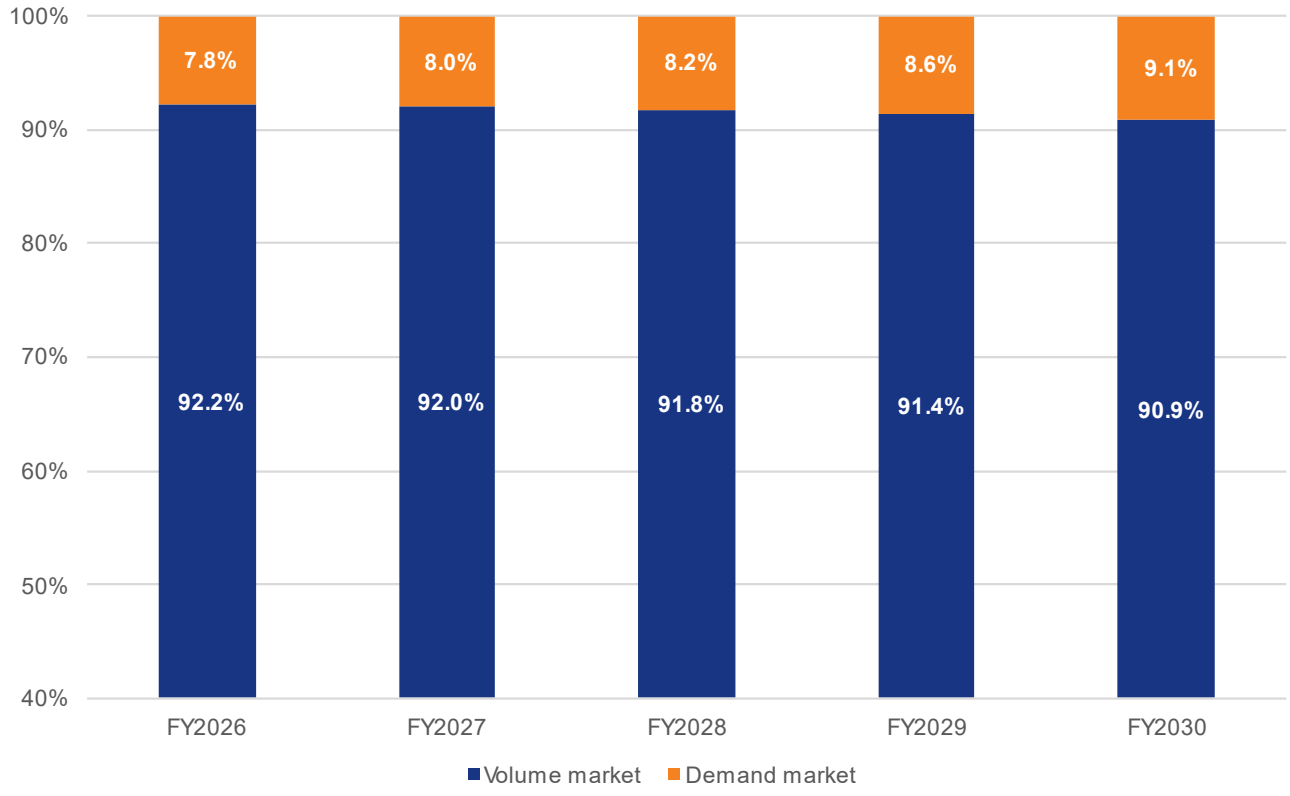
Figure 2–1: JGN potential revenue recovery by market – 10 per cent side constraint



Source: JGN analysis based on initial proposal tariffs.

[16] AER, Draft decision – JGN (NSW) access arrangement 2025 to 2030, Attachment 9 – Reference tariff setting, November 2024, p. 1.

Figure 2–2: JGN potential revenue recovery by market – 2 per cent side constraint



Source: JGN analysis based on initial proposal tariffs.

3. Tariff variation mechanism

3.1 Socialisation of small customer abolishment costs

3.1.1 AER draft decision

The AER's draft decision is to socialise a portion of abolishment costs across transportation tariffs. The abolishment service would include an upfront discounted ancillary reference service charge, with the majority of the costs recovered from all gas customers as part of the transportation tariff. The socialised portion of the abolishment costs will be provided in the form of an ex-ante allowance as an opex category-specific forecast with a true-up in the tariff variation mechanism.[17]

The AER also suggested splitting the abolishment service into two categories: a cost-reflective abolishment service for renovation or rebuild sites, and a partially socialised abolishment service ($250) to encourage households to permanently leave the network to opt for abolishment.[18]

The AER requested us to:

- comment on the option of partially socialising small customer abolishment costs
- provide updated forecasts of small customer abolishment numbers per year
- provide estimated bill impacts of partially socialising small customer abolishment costs through transportation tariffs
- comment on the option of two abolishment services, a temporary abolishment service and a permanent abolishment service.

3.1.2 JGN response

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 DCCEEW) 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, we have decided to adopt the option of adding a new abolishment service charge for a Standard Residential Connection where there is no current or anticipated redevelopment, renovation or other construction works. The difference between the $250 charge for this abolishment service and our standard charge for other abolishment services of $1,472 will be socialised.

This section focuses on the true-up mechanism of the socialised portion of the abolishment costs in the tariff variation mechanism and the estimated bill impacts of this socialisation. Our response to other aspects of the abolishment service is provided in *JGN - RP - Att 7.1 - Abolishments – 20250115 – Public*.

3.1.2.1 True-up for socialised abolishment costs

Our reference tariff mechanism includes automatic adjustment factors as detailed in Schedule 4 of our Access Arrangement (**AA**). The automatic adjustments are traditionally used to ensure that only the actual costs incurred during the period for the various items are passed on to consumers. Currently, the automatic adjustment factor

[17] AER, Draft decision – JGN (NSW) access arrangement 2025 to 2030, Attachment 10 – Reference tariff variation mechanism, November 2024, p. 7.

[18] AER, Draft decision – JGN (NSW) access arrangement 2025 to 2030, Attachment 9 – Reference tariff setting, November 2024, p. 12.

accounts for the annual true-up of four items, including UAG, licence fees, changes in taxes and carbon costs (including safeguard mechanism costs).

We propose to include an additional item in the automatic adjustment factor to give effect to the socialised abolishment costs (S_t) for the 2025–30 period. This is set out in Box 3-1 below. (The additions are shown in blue)

Box 3-1: Automatic adjustment factor including S_t

$$A_t = \frac{(1 + A'_t)}{(1 + A'_{t-1})} - 1$$

where

A'_t is the value of A'_t determined in the financial year $t - 1$;

and

$$A'_t = \frac{(L_{t-2} + U_{t-2} + C_{t-2} + T_{t-2} + R_{t-2} + S_{t-2})[(1 + realWACC_{t-1})(1 + realWACC_t)(1 + CPI_{t-1})]}{(1 - X_t)\sum_{x=1}^{n}\sum_{y=1}^{m} p_{t-1}^{xy} q_{t-2}^{xy}}$$

where

L_{t-2} is the licence fee factor amount, as defined in the AA, for financial year $t - 2$;

U_{t-2} is the UAG factor amount, as defined in the AA, for financial year $t - 2$;

C_{t-2} is the carbon cost factor amount, as defined in the AA, for financial year $t - 2$;

T_{t-2} is the change in tax factor amount, as defined in the AA, for financial year $t - 2$;

R_{t-2} is the revenue true-up factor amount, as defined in the AA, for financial year $t - 2$;

when $t - 2$ is financial year 2023-24 or financial year 2024-25, $R_{2023-24} = 0$ and $R_{2024-25} = 0$

S_{t-2} is socialised abolishment factor amount, as defined in the AA, for financial year $t - 2$;

when $t - 2$ is financial year 2023-24, 2024-2025 or 2025-26, $S_{2023-24} = 0$, $S_{2024-25} = 0$ and $S_{2025-26} = 0$

$realWACC_t$ is the real vanilla weighted average cost of capital for financial year t as per that set out in the AER's Final Decision and updated annually within the JGN Revenue Model

$realWACC_{t-1}$ is the real vanilla weighted average cost of capital for financial year $t - 1$ as per that set out in the AER's Final Decision and updated annually within the JGN Revenue Model

CPI_t means, for financial year t;

i. the CPI for the December quarter immediately preceding the start of the relevant financial year; divided by

ii. the CPI for the December quarter immediately preceding the December quarter referred to in paragraph (i)

iii. minus one

CPI_{t-1} is the value of CPI_t determined for financial year $t - 1$;

X_t means the *X* factor for each financial year, determined in accordance with the JGN revenue model, updated for the annual return on debt calculated for the relevant financial year;

p_{t-1}^{xy}	is the proposed tariff for component y of reference tariff x that is being charged at the time the variation notice is submitted to the AER for assessment;
q_{t-2}^{xy}	is the quantity of component y of reference tariff x that was sold in financial year $t-2$.

We propose that the socialised abolishment amount be calculated as the product of:

- the difference in tariffs between the fully cost-reflective abolishment service[19] and the partially socialised abolishment service[20] for residential customers
- the difference between the forecast volumes in the AER's final decision and the actual outturn volumes for the partially socialised abolishment service on a $t-2$ basis.

Our proposed calculation is set out in Box 3-2 below.

Box 3-2: Socialised abolishment factor amount

$$\boldsymbol{S_{t-2} = \left(P_{t-2}^{C} - P_{t-2}^{N}\right) \times \left(V_{t-2}^{A} - V_{t-2}^{F}\right)}$$

where

P_{t-2}^{C}	is the tariff of the cost-reflective abolishment Ancillary Reference Service as defined in Schedule 3 of the AA for financial year $t-2$;
P_{t-2}^{N}	is the tariff of the partially socialised abolishment Ancillary Reference Service as defined in Schedule 3 of the AA for financial year $t-2$;
V_{t-2}^{A}	is the actual volume of partially socialised abolishments for financial year $t-2$;
V_{t-2}^{F}	is the forecast volume of partially socialised abolishments included in the AER's relevant final decision for financial year $t-2$;

When $t-2$ is 2023-24, 2024-25 or 2025-26, S_{t-2}=0.

We note that our proposed approach aligns closely with the mechanism the AER suggested in its draft decision, where the true-up applies to both quantity and price.[21] However, we are proposing that the true-up applies to actual volumes for year $t-2$ rather than incorporating both $t-1$ estimate and $t-2$ actual volumes.

True up for t-2 actual volumes

Unlike the Victorian gas distribution networks, JGN's tariff variation mechanism includes an existing term for adjusting various annual true-up amounts—the automatic adjustment factor (A_t). This factor has been applied on a year $t-2$ basis across multiple regulatory periods for items such as UAG, carbon costs and licence fees. Integrating the socialised abolishment true-up factor into the existing A_t term requires minimal adjustments to our existing formula and ensures consistency in the true-up approach across multiple items and regulatory periods within our tariff variation mechanism.

19 This is defined in Schedule 3 of the AA as: the Request relates to a Standard Residential Connection and there are current or anticipated redevelopment, renovation or other construction works.

20 This is defined in Schedule 3 of the AA as: the Request relates to a Standard Residential Connection and there are no current or anticipated redevelopment, renovation or other construction works.

21 AER, Draft decision – JGN (NSW) access arrangement 2025 to 2030, Attachment 10 – Reference tariff variation mechanism, November 2024, p. 8.

In contrast, introducing a separate term for abolishments outside the A_t factor—while allowing for t-1 estimates (as in the Victorian approach)—would require more extensive modifications to our existing price control formula, models and processes. The additional step of truing up for t-1 estimates offers limited value to customers as any discrepancy would ultimately be adjusted for when actual volumes become available.

We believe incorporating the abolishment true-up within our existing A_t term on a t-2 basis offers greater benefits than implementing a separate true-up factor for both t-1 estimates and t-2 actuals.

3.1.2.2 Indicative bill impacts for socialising abolishment costs

Table 3–1 below outlines our indicative bill impact analysis for VI small customers. This analysis compares the annual distribution network bills for VI small customers consuming 20 GJ per annum for the following two scenarios:

- when JGN's abolishment costs are socialised with all VI small customers
- when abolishment costs are not socialised at all.

It outlines that our VI small customers could expect bill savings of between $1 and $5 per annum over the next regulatory period if JGN's abolishment costs are not socialised among customers.

Table 3–1: Socialising abolishment costs – Indicative bill impacts for VI small customers ($, nominal)

Scenario	2025-26	2026-27	2027-28	2028-29	2029-30
Abolishment costs socialised	n/a	$379.68	$401.77	$425.13	$449.86
Abolishment costs not socialised	n/a	$377.91	$398.95	$421.17	$444.62
Variance ($)	n/a	-$1.77	-$2.81	-$3.96	-$5.24
Variance (%)	n/a	-0.5%	-0.7%	-0.9%	-1.2%

Source: JGN analysis

Notes: For a VI small customer consuming 20 GJ per annum. Proposed socialisation starts from 2026-27.

3.2 True-up for licence fees

The AER's draft decision rejected our proposal to treat licence fees as a category-specific forecast in opex with a true-up in the tariff variation mechanism. As a result, the AER requested that we remove the licence fee factor from our tariff variation formula.

In our Revised 2025 Plan, we are reproposing the licence fees as a category-specific forecast in opex and therefore retaining the licence fee factor in the tariff variation formula. Treating licence fees as part of base year opex is not in the long-term interest of our customers. It distorts the incentives, and it does not reflect actual efficiency improvements. Furthermore, it is inconsistent with the treatment of similar costs in electricity distribution networks, where these costs are trued up via jurisdictional schemes and excluded for EBSS purposes. We provide more details on our licence fees proposal in section 6.1 of *JGN - RP - Att 5.1 - Operating expenditure – 20250115 - Public* in our revised 2025 Plan.

Modifications to the licence fee true-up factor if the AER maintains its draft decision

We note that if the AER maintains its position to treat licence fees as part of base opex in the final decision, the licence fee true-up factor should be retained for the amounts attributable to the remaining two years of the current regulatory period (2023-24 and 2024-25). This is necessary because the change in treatment only applies from

the start of the next regulatory period (2025-26). To ensure consistency, the removal of the licence fee factor should only affect true-up amounts from 2025-26 onwards.

The true-ups for 2023-24 and 2024-25 are typically included in the tariff variation for the second year (2026-27) of the next regulatory period. If the licence fees were to be incorporated into the base opex for the next regulatory period, we believe the licence fee factor should be adjusted as illustrated in Box 3-3 below (the modifications to the AA are shown in blue).

Box 3-3: Licence fee true-up factor amount if licence fees were to be treated as base opex for 2026-30

Schedule 4 of JGN's AA:

L_{t-2} is the licence fee factor amount, as defined in part 2 of this **Error! Reference source not found.**, for Financial Year *t-2*.

When *t-2* is Financial Year 2024-25, L_{t-2} is:

$$L_{2023\text{-}24} \times (1+realWACC_{2024\text{-}25}) \times (1+CPI_{2024\text{-}25}) + L_{2024\text{-}25}$$

where:

$L_{2023\text{-}24}$: is the licence fee factor amount for Financial Year 2023-24;

$L_{2024\text{-}25}$: is the licence fee factor amount for Financial Year 2024-25;

$realWACC_{2024\text{-}25}$: is the real vanilla weighted average cost of capital determined for Financial Year 2024-25; and

$CPI_{2024\text{-}25}$: is the value of CPI_t determined for the Financial Year 2024-25;

When *t-2* is Financial Year 2025-26, 2026-27, 2027-28, 2028-29, or 2029-30, $L_{t-2} = 0$.

4. Minor changes to our initial proposal

In preparing our Revised 2025 Plan, we identified two minor changes to our volume customer block sizes. These changes relate to our VI large and VB tariffs, respectively, and are discussed further below.

4.1 VI large block sizes

We are proposing a minor amendment to the block sizes for our new VI large tariff for ease of implementation. For billing purposes, we typically set the block thresholds to be divisible by 12 (as customers are billed monthly). Table 4–1 below outlines the VI large block sizes we proposed in our initial proposal[22] and our amended block sizes. The revised upper block thresholds for blocks 2, 3 and 4 are consistent with the blocks 4, 5 and 6 thresholds under our existing VI-Coastal and VI-Country tariffs.[23]

Table 4–1: Initial proposal vs Revised 2025 Plan VI large block sizes (GJ per block per annum)

VI large	Block 1	Block 2	Block 3	Block 4
Initial 2025 Plan	0 – 300 GJ	300 – 1000 GJ	1000 – 5000 GJ	5000+ GJ
Revised 2025 Plan	0 – 300 GJ	300 – 1002 GJ	1002 – 5004 GJ	5004+ GJ

Source: JGN analysis

4.2 VB block 3 size

In preparing our Revised 2025 Plan, we also identified a discrepancy in our Access Arrangement relating to the block three size of our VB tariff. This block size was listed as the next 124.90 GJ per quarter.[24] However, this per-quarter block size should equal three times the monthly block size of the next 41.66 GJ per month, which is 124.98 GJ per quarter. This is summarised below in Table 4–2.

Table 4–2: Initial proposal vs Revised 2025 Plan VB block sizes (GJ per block per month and per quarter)

VI large	Billing period	Block 1	Block 2	Block 3	Block 4
Initial 2025 Plan	Per month	First 20.83 GJ	Next 20.83 GJ	Next 41.66 GJ	All additional
	Per quarter	First 62.49 GJ	Next 62.49 GJ	Next 124.90 GJ	
Revised 2025 Plan	Per month	First 20.83 GJ	Next 20.83 GJ	Next 41.66 GJ	All additional
	Per quarter	First 62.49 GJ	Next 62.49 GJ	Next 124.98 GJ	

Source: JGN analysis

We have updated our revised access arrangement to reflect this change.[25] We also noticed this minor discrepancy in the tariff schedules we submit as part of our annual tariff variation notice (**TVN**) process.[26] We will also update this block size in our annual tariff schedule in our next TVN update.

22 See Table 4-1 of JGN - 2025-30 access arrangement proposal - Att 10.1 – Pricing, 28 June 2024, p. 14.

23 See Figure 9.4 of JGN - Draft 2025 Plan, February 2024, p. 108.

24 JGN - Access arrangement 2025-30 - Schedule 3 Initial Reference Tariff Schedule, 29 June 2024, p. 53.

25 JGN - Att 9.3 Revised access arrangement 2025-30 - Schedule 3 Initial Reference Tariff Schedule, 15 January 2025, p. 54.

26 JGN - Reference tariff schedule - 1 July 2024 to 30 June 2025, 15 April, 2024, p. 13.

5. Summary of proposed revisions to Initial Proposal AA

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

Clause	2020 AA reference	2025 AA reference	Summary of proposed change
Initial Reference Tariffs and Variation Mechanism			
Annual Ancillary Reference Tariff variation mechanism	3.3(b)	3.3(b)	The X factor has been amended for each Financial Year during the Access Arrangement Period to zero, consistent with the AER's draft decision, which JGN has accepted.
Automatic adjustment factor	Sch 3	Sch 4	The formula has been amended to include the Socialised Abolishment True-up factor amount.
Socialised Abolishment cost true-up factor amount	N/A	Sch 4, 2.6	The Socialised Abolishment true-up factor amount calculation has been inserted.