



Gas revenue smoothing across access arrangement periods

Publication of final rule determination and final rule

The AEMC has made a final rule to allow the recovery of revenue for Jemena Gas Networks (NSW) Ltd (JGN) to be shifted between two access arrangement periods. The final rule aims to minimise network price volatility for consumers.

Background

JGN operates the largest gas distribution network in New South Wales.

There has been a delay in the finalisation of the Australian Energy Regulator's (AER's) remade final decision for JGN's 2015-2020 access arrangement period (remade 2015 decision) due to judicial review and merits review proceedings. During this delay, JGN provided undertakings to the AER which set JGN's tariffs higher than what it considered would have been the case had the AER's original final decision not been set aside.

The judicial review and merits review have now been completed and the AER has started the process of remaking its final decision for the current access arrangement period.

JGN considers that, due to these delays, potential exists for network price volatility for customers over the next three years, from 2018/19 to 2020/21. JGN submits that this is because there is currently no mechanism in the National Gas Rules (NGR) to shift revenue between access arrangement periods in order to reduce network price volatility. JGN considers that there is uncertainty around the extent of network price volatility, given the range of outcomes that could result from the AER's remade final decision.

To minimise the potential for network pricing volatility, JGN submitted a rule change request to enable the AER to shift JGN's revenue between the current and subsequent access arrangement periods.

Final rule

The final rule, which is a more preferable rule, enables the AER to shift JGN's revenue between the current and subsequent access arrangement periods, to minimise network price volatility.

Objectives of the final rule

The objectives of the final rule are to:

- minimise network price volatility that may occur for JGN's customers as a result of the outcome of the remade 2015 decision
- allow JGN to recover the revenue that it is entitled to, but no more, for the current access arrangement period.

The final rule is in the long term interests of consumers because it would lead to more stable network prices for consumers.

Key features of the final rule

The final rule incorporates elements of JGN's proposed rule, and is designed to achieve the same outcome of minimising network price volatility for JGN's customers. However it differs from the proposed rule in the approach used. The final rule has these key features:

- The final rule enables the AER to determine whether any revenue adjustments (increases or decreases) should be made as a result of the remade 2015 decision to enable the timing of revenue recovery to be shifted between the current and subsequent access arrangement periods.
- The final rule incorporates a revenue recovery principle which states that JGN must be given the ability to recover the same revenue (in net present equivalent terms), but no more than it would have, had the remade 2015 decision been in force from the start of the current access arrangement period. The revenue recovery principle makes it clear that revenue can be shifted between the current and subsequent access arrangement periods, provided that it meets the NPV neutral requirement, which prevents any windfall gains or losses for JGN.
- The final rule provides the AER with discretion to make an adjustment determination. If the AER decides to make an adjustment determination, it must do it on or before 1 March 2019. The adjustment determination is a separate decision from the remade 2015 decision and can be published at the same time or a different time, from the remade 2015 decision.
- The adjustment determination will be given effect through the annual tariff variation process provided for by the access arrangement. The AER's adjustment will not affect the making of the remade 2015 decision.

Reasons for the final rule

The Commission's reasons for making the final rule are summarised below:

- **providing stable network prices** – a process that allows JGN's revenue to be shifted between the current and subsequent access arrangement periods would minimise network price volatility. This would lead to more stable network prices, allowing JGN's consumers to make better informed decisions.
- **outlining a mechanism that best minimises network price volatility** – the AER, in consultation with JGN and other stakeholders, is in the best position to make informed decisions about how to shift revenue between the current and subsequent access arrangement periods to minimise network price volatility. The final rule enables the AER to make these decisions in accordance with a set of requirements and in consultation with JGN and relevant stakeholders.
- **enabling JGN to recover the efficient costs of providing reference services** – the final rule provides JGN with a reasonable opportunity to recover its efficient costs of providing reference services. Importantly, JGN will not derive any windfall gains or losses through the shifting of revenue between two access arrangement periods.

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