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Jemena Gas Networks
(NSW) Ltd
ABN 87 003 004 322

Level 14
99 Walker St
North Sydney NSW 2060
PO Box 1220
North Sydney NSW 2060
T +61 2 9867 7000
F +61 2 9867 7010
www.jemena.com.au

Via online submission

Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

GPR0004 : Review into the scope of economic regulation applied to covered pipelines

Jemena Gas Networks (NSW) Ltd (**JGN**) welcomes the opportunity to comment on the Australian Energy Market Commission's (**AEMC's**) issues paper on the review into the scope of economic regulation applied to covered pipelines (**Issues Paper**). JGN is a regulated gas distribution network and therefore has a direct interest in this review.

JGN distributes natural gas to 1.3 million residential business and industrial sites in Sydney, Newcastle, the Central Coast and Wollongong, as well to customers in more than 20 regional centres across NSW, including the Central West, Central Tablelands, South Western, Southern Tablelands, Riverina and Southern Highlands regions.

JGN believes that Part 8-12 of the National Gas Rules (**Rules**) broadly promotes the National Gas Objective. These Rules have delivered positive outcomes for both JGN and our customers. Under these rules we have continued to invest in delivering safe and reliable gas network services. At JGN's 2015-20 access arrangement review we proposed to maintain our service levels while reducing our network charges for residential and small business customers by up to 40 per cent in real terms over the 5 year period commencing 1 July 2015.

The gas regulatory framework is very much aligned to the fact that gas networks transport a fuel of choice for many of our customers, particularly those networks operating in milder climates such as NSW. Gas networks need to promote "the gas brand" to attract new economic connections to our networks and mitigate the risks of our customers switching to electricity. This promotes efficient utilisation of the network, putting downward pressure on network prices and thereby promoting the long-term interests of NSW gas customers.

We have reviewed the Issues Paper and have shared our practical experience with the gas regulatory framework with Energy Networks Australia (**ENA**), who will be making a submission on the Issues Paper. We would like take this opportunity to:

- emphasise certain points we understand will be made by the ENA, with JGN-specific examples;
- suggest additional gas regulatory framework improvement opportunities for the AEMC's consideration; and

- provide potentially different perspectives on the Rules' framework than those that might be put forward by others industry stakeholders.

Future role of hydrogen

Australia is moving towards a low carbon future. The Federal Government has committed Australia to reducing carbon emissions by 26% – 28% between 2005 and 2030. The New South Wales Government has set a more ambitious target of net-zero carbon emissions for the state by 2050. Increased renewable generation is central to achieving these goals.

We are among a number of gas network owners pursuing a strategy to demonstrate the value and role gas and the gas network in supporting a net-zero-carbon economy.

We worked with ENA to publish the 'Gas Vision 2050'. This document presents the use of transformative technologies which enable the gas network to remain commercially viable in a low carbon future.

A key technology identified in the ENA Gas Vision 2050 is Power-to-Gas or P2G, which is the conversion of excess electricity generation into hydrogen, by the electrolysis of water. We are exploring opportunities to demonstrate how surplus renewable energy can effectively be integrated into gas pipelines for storage and distribution by using P2G technology.

We consider it is vital that the AEMC consider whether the economic regulatory regime reflected in Part 8-12 of the Rules, and supported by the NGL, appropriately support the potential future haulage of non-methane-based gases in regulated gas pipelines and distribution networks. In this context, we would welcome consideration of scope of the definition of "gas" in the NGL.

Applying electricity regulatory requirements

We note that the Issues Paper raises the potential of adopting the National Electricity Rules' framework and approach stage, and additional customer consultation requirements, to the Rules.

We believe it is inefficient and unnecessary to add the framework and approach stage to the gas distribution access arrangement review process because the major element of the electricity framework and approach (the classification of services) is significantly more straight-forward for gas networks. Gas networks provide fewer services than electricity networks, many of which are far less likely to become contestable.

We do not believe it is necessary for the AEMC to adopt the electricity customer consultation requirements for gas networks. Recently many gas networks, including JGN[1], have been commended for the quality of their access arrangement customer consultation efforts. Despite it not being a regulatory obligation, JGN published a series of customer-focussed documents (including customer overviews, flyers and fact-sheets) to support the 2015-20 access arrangement process. We also published a tariff structures statement to help explain our approach to tariff-setting to our customers.[2]

Should the AEMC consider this step necessary for regulated transmission pipelines, and there continues to be a single set of regulatory rules for gas transmission pipelines and

[1] For example, see: PIAC, submission to the AER's review of prices for Jemena Gas Network from 1 July 2015, 25 August 2014.

[2] Available online at: http://jemena.com.au/home-and-business/price-reviews/gas/presentations-and-submissions; The tariff structure statement is available here: https://jemena.com.au/documents/gas/tariff-structures-statement.aspx

distribution networks going forward, we would be comfortable with these rules applying to JGN. We effectively follow (and exceed) these expectations already, without a regulatory obligation applying.

The capital contributions framework should be more flexible

Part 12A applies to JGN and sets out the new connection capital contribution calculation requirements in rule 119M.

The effect of rule 119M(2)(a) is that the discount rate that must be used to calculate the present value of incremental revenue is that discount rate implicit in the reference tariff used to calculate incremental revenue, per rule 79(4). This is likely to be interpreted as the regulated rate of return determined at the previous access arrangement final decision.

We believe that gas networks should be afforded greater flexibility in determining the appropriate discount rate for connecting new customers, recognising that gas networks already have a strong incentive to connect:

- new customers to the network, to promote network utilisation;
- only new *economic* connections, given that uneconomic connections create cross subsidies and put upward pressure on network tariffs, damaging the competitiveness of gas as a fuel of choice for many customers.

We also note that the final access arrangement decision regulatory rate of return—particularly the regulatory return on equity—can fluctuate significantly from one access arrangement period to the next. It has done so historically. This results in significantly different capital contributions requirements for similar connections across access arrangement periods. We would question whether this outcome is appropriate in terms of promoting efficient investment in, and utilisation of, the JGN network.

We recommend that the AEMC consider a more flexible requirement for setting the discount rate relative to the status quo, perhaps framed in broader terms and de-linked from the prevailing access arrangement decision.

Rule 40 and response to draft decision timeframes

Rule 40 provides three levels of discretion for the AER on elements of the access arrangement proposal. Certain rules apply "no discretion" or "limited discretion" requirements on the AER.

In our view, should multiple potential decisions exist on a particular access arrangement proposal matter that are consistent with the Rules, the AER should be empowered to make the decision that promotes the NGO to the greatest degree. If the AER has persuasive evidence before it that there is a decision available that better promotes the NGO than the proposal put forward by the service provider, we have no difficulty with the proposition that the AER should be allowed to adopt that decision.

Should the network business disagree with the AER as to whether its proposal or the AER's draft decision better promotes the NGO (on the presumption they both meet the Rule requirements), the network should (re)engage with the AER and its customers on the relevant issue in preparing its revised access arrangement proposal.

To this end, we would recommend that the current 15 business day minimum requirement for a revised access arrangement proposal be amended to 45 business days. This provides the business a more realistic opportunity to re-engage with its customers on relevant matters arising from the draft access arrangement decision. Some stakeholders have indicated to us the relatively limited customer engagement that occurs after the publication of an AER draft decision. This extension would also provide a far more realistic timeframe to respond to the draft decision, prepare revised access arrangement documentation, and apply appropriate internal governance.

Light regulation

For many years, JGN has considered that its future involves an eventual move away from full regulation to light regulation. This reflects the increasing competition we have faced for new customers and to retain existing customers. We are very conscious that, when the time comes to demonstrate the merits of JGN moving to light regulation, we will need to show how competitive forces have been driving our business to deliver services that our customers value at lowest sustainable cost.

In this way, the existence of a lighter-handed regulatory model provides an additional incentive on JGN to deliver safe, reliable and cost-effective services to our customers today. If light regulation is removed from the coverage framework, this additional positive incentive would be lost.

We understand the potential implications of the new arbitration and information disclosure requirements for uncovered pipelines. We have commissioned a report from an independent expert on the role of light regulation for gas distributors in the coverage framework, in light of the new requirements for uncovered pipelines. We expect that this report will be completed by the end of August, and we will submit it to the AEMC as soon as it is available.

Please feel free to contact Alex McPherson on 02 9867 7229 if you have any questions in relation to our submission.

Yours sincerely

Usman Saadat
General Manager Regulation