Jemena Gas Networks (NSW) access arrangement 2025 to 2030

Submission to AER on draft decision

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Introduction

Energy Consumers Australia welcomes the opportunity to provide feedback to the Australian Energy Regulator's (AER) draft decision on Jemena Gas Networks' access arrangement 2025 to 2030.

As households and small businesses electrify and leave the gas network, Jemena is facing the real risk that there will be very few customers left from whom to recover their $2 billion regulatory asset base (RAB), leaving it physically and economically stranded.[1]

In our response to Jemena's Draft Plan, we argued their Plan was internally inconsistent. Their request for accelerated depreciation is a clear acknowledgement of the reality of gas network decline. However, the remainder of their proposal does little to meaningfully reduce the risk of stranded assets, demonstrated particularly in their large capital expenditure requests. We would expect, having acknowledged that use of their network will decline, a rational response would be to take all possible steps to limit any further expansion or investment. For any accelerated depreciation to be approved, Jemena must be taking action across their entire proposal to reduce costs in order to minimise the risks associated with stranded assets.

We advocated in our previous submission that the AER:

- Reduce metering replacement expenditure to a minimum;
- Require connecting customers to pay full connection costs;
- Reject the costs associated with connecting biomethane;
- Align abolishment costs to Victorian prices; and
- Disallow Jemena's request for accelerated depreciation.

We are pleased to see the AER has not accepted Jemena's proposed capex and substituted it with a lower estimate, particularly regarding meter replacement and by rejecting costs related to connecting eight biomethane production facilities. These decisions demonstrate that Jemena must begin planning for a network in decline. However, there remains significant risk to consumers inherent in the AER's decision, much of which cannot be avoided through the AER's actions alone. This highlights that there is a growing need for broad action to ensure consumers pay a fair and affordable price for gas for as long as they need it.

In this submission, we argue that the AER:

- should not allow Jemena to accelerate the depreciation of any of its assets in this proposal;
- encourage upfront costs are charged whenever possible and only approve capital for new connections that is absolutely necessary under the existing rules;
- require Jemena to provide more information on opportunities for strategic decommissioning;
- continue to disallow any expenditure for biomethane connections; and,
- not consider Jemena's engagement a sufficiently broad representation of consumer sentiment.

[1] ECA and Dynamic Analysis, *Turning down the gas: Minimising consumer risk,* September 2024.

Accelerated depreciation must only be allowed if there is a broader policy framework to protect consumers

It has previously been argued that accelerated depreciation transfers the costs of recovering stranded assets from future customers to the existing customer base by recovering a greater proportion of Jemena's RAB while there are still a significant number of consumers using their network.[2] However, as we stated in our submission to Jemena's Draft Plan, this framing is incorrect. Accelerated depreciation is a payment from today's consumers to network businesses to reduce their overall RAB and the business's exposure to potential financial losses.

The AER has raised the fundamental question that must be resolved before accelerated depreciation is approved. Their draft decision says: "accelerated depreciation will not remove the need to resolve the broader policy question involving consumers, network businesses and governments on who should pay for the costs of stranding risk associated with past capital investments, or when, and how this will occur." Given this acknowledgement, the AER should not allow Jemena to accelerate the depreciation of any of its assets in this proposal – or any further ones – until there has been significantly more work done to answer this "broader policy question".

The AER is limited in the tools it has available to deal with stranded asset risk and has rightfully acknowledged that accelerated depreciation is not a silver bullet. However, we disagree that it should be viewed even as a "temporary" tool, at least until broader action is taken.

Networks continue to make large requests for capital expenditure, there is no policy to discourage consumers from connecting the gas network in the first place, and governments (both state and Commonwealth) have made no clear indication of how the over $2 billion RAB Jemena can expect to have in 2055 will be recovered.[3] By allowing accelerated depreciation while there are no active steps being taken to tackle the issue holistically, the AER endorses consumers being the only stakeholder actively paying to reduce this risk.

Accelerated depreciation should only be approved if there is a broader policy framework in place to protect consumers from the risk of stranded gas network assets. It is unfair to ask households and small businesses to be making additional contributions to Jemena's RAB while there is no clear demonstration that other parties have come to the table. Further, the $156M contribution this draft decision would require customers to make provides no benefit whatsoever for them – either via reduced prices or equity ownership – with the funds simply being distributed to the company's investor ledger.

Further, our report with Dynamic Analysis finds that accelerated depreciation will have a very minimal impact on the risk of stranded assets. It finds that, even with the larger amount requested by Jemena in its proposal, Jemena's RAB would reduce by only 10% by 2055, leaving a further $2.1 billion to be recovered.[4] Minimising discretionary expenditure, such as new connections and meter replacement, was found to have a greater impact.

The draft decision acknowledges that the policy direction for the future of gas in NSW is still developing, with, for example, no explicit policy to stop new connections to the gas network. This environment has contributed to the AER's decision to decrease the level of accelerated depreciation from Jemena's

[2] Jemena Gas Networks, Draft 2025 Plan, February 2024.; Australian Energy Regulator, Regulating gas pipelines under uncertainty (November 2021), p. 31.
[3] ECA and Dynamic Analysis, *Turning down the gas: Minimising consumer risk,* September 2024.
[4] Ibid.

proposal and maintain a real price increase limit of 0%. Reducing the level of accelerated depreciation is an improvement on Jemena's proposal; however, we are concerned that the AER has described this as a "measured start". If the NSW government introduces a clearer direction for the future of residential and small business gas use, this must be accompanied by a plan for how the costs of stranded assets will be fairly recovered before accelerated depreciation is considered.

We also note the AER has recently decided against allowing for increased levels of accelerated depreciation in its draft decision on AusNet's variation proposal to its 2023-28 Access Arrangement. This variation proposal was lodged in response to the Victorian Government's introduction of more explicit policies stopping new connections to the gas network. In its decision, the AER states that accelerated depreciation must be employed carefully as it will have a material impact on affordability and stability for consumers. It highlights the need for predefined limits to avoid "large and repeated increases in future gas prices" and reiterates that "while accelerated depreciation can help reduce asset stranding risk, it has limitations and on its own cannot resolve the issues faced by the gas networks and customers from a declining network".[5] We would expect the AER maintain this position across all networks in its jurisdiction and exercise its discretion on accelerated depreciation with great care in an evolving policy landscape.

Charging upfront connection costs

New connections to the gas network increase the risks to consumers of declining gas network by:

- Adding to the overall RAB as connection costs are shared among the existing customer base (the AER has estimated $273.9 million for new connections in its draft decision which makes it the largest capex category);
- Exposing new customers to the risk of rising gas bills; and,
- Exposing new customers to the upfront costs of and barriers to electrification when they do choose to electrify.

NSW is yet to introduce regulation limiting new connections to the gas network. In the absence of clear policy direction on new connections, charging new consumers the full cost of upfront connections will ensure new connections do not add to the stranded asset risk and act as a disincentive for potential new customers to connect at all. We recognise that under the existing National Gas Rules, existing consumers are likely required to pay some amount for new connections. However, our previous submission noted Jemena still has significant discretion when determining how connection costs are allocated. We would expect Jemena to be using this discretion to minimise the costs socialised with the existing customer base. Accordingly, we recommend that the AER encourage upfront costs are charged whenever possible and only approve capital for new connections that is absolutely necessary under the existing rules.

While the AER must do what is within its powers to limit the impact of new connections on the existing customer base and Jemena's RAB, we recognise that amending the existing rules to that limit the upfront costs networks are able to charge to connecting customers is a more effective solution. Energy Consumers Australia is currently exploring this option through a potential rule change with the Australian Energy Market Commission.

[5] AER, Draft decision on AusNet Gas Services (Victoria) 2023-28 access arrangement variation proposal, January 2025, p. 29.

Jemena submitted changes to its Model Standing Offer concurrently with their Draft Plan, which would require more customers to make up-front contributions to connect to the gas network. While a decision on this will form part of a separate AER determination, we support this change and the AER taking steps to limit the impact of new connections on the risk of stranded assets.

Identifying opportunities for strategic decommissioning

The AER has approved Jemena's mains replacement expenditure, including $23.6 million for costs related to their Newcastle MP1 30kPa rehabilitation program. The Newcastle City Council has required all new residential and small commercial buildings to be all-electric,[6] and the AER should be wary of committing any consumer money to a future network in such an area unless it is absolutely necessary for safety reasons.

While these costs may be necessary to maintain required levels of safety for gas customers in the Newcastle region, we remain concerned about investment in a network Jemena has already acknowledged is in decline and the impact this will have on an already significant risk of stranded assets. As we stated in our previous submission, Jemena should be required to develop a long-term asset management plan that provides greater information on parts of the network that will soon be needing large replacement programs, and actual and forecast demand for each asset up to 2050.

Providing this information publicly will enable Jemena to prioritise where replacement programs are needed and where non-network alternatives such as strategic decommissioning may be a more favourable option. It will also provide stakeholders in their network, such as local councils, oversight of their communities and where there may be opportunities for them to intervene and provide assistance to electrify targeted areas, reducing the need for additional consumer money to be spent on the upkeep of a network that will soon be stranded.

Disallowing biomethane production connections

We support the AER's decision to disallow Jemena's proposal to spend $80.8 million connecting new biomethane projects. As outlined in our previous submission, Jemena has not provided evidence these projects are necessary.

There is mounting evidence that hydrogen and biomethane will not be used for residential and small business households. Indeed, NSW's *Opportunities for a renewable fuel industry in NSW* directions paper considers the role of renewable gas for industry but makes little mention of households and small businesses. The Victorian Government's *Renewable Gas* directions paper is even clearer, stating "The Victorian Government does not see a role for renewable gases to decarbonise the residential building sector."[7]

Given households and small businesses are unlikely to be the beneficiaries of any new biomethane project, it is unreasonable to expect them to contribute to the costs of them. We therefore support the AER's decision and expect it to remain at $0 in their final determination.

[6] https://reneweconomy.com.au/high-rewards-no-regrets-council-gas-bans-could-save-new-build-home-owners-600-a-year-on-energy/
[7] VIC Department of Energy, Environment and Climate Action, Victoria's Renewable Gas Directions Paper, p. 6.

Consumer engagement

There remains a clear information asymmetry when engaging on gas network access arrangements. The information and resources required to effectively assess most elements of these proposals remains with the gas network. This includes, as just one example, information which would help identify opportunities for strategic decommissioning as discussed above.

As we noted in our previous submission, we acknowledge that Jemena has demonstrated diligence, time and resources to its consumer engagement process as part of this process. However, this process does little to balance the scales. Educating consumers and their advocates to a level at which they can meaningfully engage on such complex topics is an inherently difficult task. This is coupled with the fact that the agenda is set by the network itself. This is coupled with the fact that the agenda is set by the network itself. Jemena's approach to accelerated depreciation was a clear demonstration of this, where no option under $300 million was tested and the option for no accelerated depreciation was not presented at all. We therefore maintain that the AER should not consider Jemena's engagement an accurate representation of consumer sentiment.

Concluding Remarks

The AER has made several decisions as part of this paper that clearly acknowledge there is a need to plan for a gas network in decline. We support reductions to Jemena's capital expenditure proposal and encourage the AER to continue to use its discretion in these processes to make decisions that will minimise the risk of stranded assets to all stakeholders, particularly households and small businesses.

Accelerated depreciation is not justified until there is a broader plan for how costs related to stranded assets will be recovered. The AER continues to allow for accelerated depreciation for gas distribution businesses, albeit at lower levels than what networks have asked for, as this remains one of the few tools they have at their disposal to deal with the risk of stranded assets. This is not reason enough given this tool only marginally reduces any risk and places an unfair burden on consumers. Focus should instead be on developing an effective and just plan for the future of the gas network to ensure households and small businesses are not being forced to bear an unjustifiable investment risk that was not theirs to being with.

Please reach out to Alice Gordon at alice.g@energyconsumersaustralia.com.au if you have any further questions.

Yours sincerely

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