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Jemena Gas Networks' (NSW) access arrangement proposal

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Overview

Rewiring Australia welcomes the opportunity to submit proposals for Jemena Gas Networks' (JGN) new access arrangement 2025-2030. Gas networks face a revenue cliff as consumers reduce consumption and leave the network as they electrify their homes and businesses to save money. Rewiring Australia proposes that JGN's new access arrangement should align with broader national and state climate and energy policy, enabling customers to disconnect. JGN and AER should also be proactively seeking ways to reduce further investment in the asset base.

About Rewiring Australia

Rewiring Australia is a non-profit research and advocacy organisation dedicated to representing the people, households and communities in the energy system. We deliver practical climate progress by working with government, industry, and communities to electrify everything. Co-founded in 2021 by Dr Saul Griffith and Dan Cass, Rewiring Australia highlights the positive climate and economic outcomes possible for Australia, and the world, with electrification of fossil fuel machines. www.rewiringaustralia.org

In addition to co-founding Rewiring Australia, Saul Griffith is also the co-founder and Chief Scientist of Rewiring America. Rewiring America and Saul worked closely with the Biden Administration in the drafting of the Inflation Reduction Act to drive investment in clean, electric machines and in supporting households and the larger U.S. economy to electrify.

Context

For households and businesses, running gas appliances is already more expensive and remains more polluting than electric alternatives. As the availability of cheap renewable

electricity increases, with likely further falls in the cost of electricity and electric appliances, gas will only become less attractive and less competitive. The 2024 Integrated System Plan (ISP) forecasts a 72% decline in gas consumption for residential and commercial customers by 2043 under its central Step Change scenario¹. In this light, the AER's decision should manage the decline of the network through reducing gas demand and a reduction of network size and asset base.

It is clearly essential to maintain the safety and functionality of the gas network while it remains operational. However, economic analysis and governmental climate commitments indicate that the gas network will shrink as we approach 2050. Adding new residential connections to the gas network is a poor investment at this time. New non-renewable connections will operate for 25 years at most and are likely to result in the creation of stranded assets. JGN is aware of this risk and the likelihood of a utility death spiral as evidenced by their desire to accelerate the depreciation of hundreds of millions of dollars of assets. Sanctioning continued investment in growing the gas network represents an enormous governance and financial risk for government and future consumers.

The NSW government has committed to publish a Gas Roadmap this Parliamentary term². Without this roadmap, industry has a lack of direction on the future of gas supply and infrastructure. The sector is nonetheless making strategic investment forecasts and decisions with multi-decadal financial implications within this democratic governance vacuum. JGN and the AER have indicated that they both explicitly look to the NSW government for leadership in shaping this access arrangement. While beyond the scope of this Review, Rewiring Australia would like to reiterate support for a Gas Roadmap that provides a clear pathway for the phase out of gas across the state.

Recommendations

- It is incoherent for JGN to simultaneously seek substantial accelerated depreciation of their asset base (on the basis that the network's future is uncertain) and seek significant funds to facilitate new gas connections (on the basis that JGN believes there is a future for biogas to be used in the network). The AER's decision should seek to resolve this incoherence and provide strategic clarity and appropriate funding.
 - Rewiring Australia favours a resolution which does not prioritise the distribution of biogas or hydrogen as these are unlikely to be competitive

¹ Australian Energy Market Operator (2024). Integrated System Plan. [Online] <https://aemo.com.au/energy-systems/major-publications/integrated-system-plan-isp/2024-integrated-system-plan-isp>

² Minister for Energy (2023, 19 Oct). Question 1276. <https://www.parliament.nsw.gov.au/lc/papers/Pages/qanda-tracking-details.aspx?pk=97328>

or desirable for meeting household energy needs and there is limited evidence of industrial demand. However, we challenge the significant accelerated depreciation of the asset base proposed by JGN. Analysis commissioned by Energy Consumers Australia shows that accelerated depreciation is not a sustainable solution³: it will significantly raise network prices for consumers 2025-2030 but only fractionally reduce JGN's asset base over the next 30 years.

- JGN proposes spending over \$250 million on new gas connections to the network 2025-2030. Whilst this is a reduction from the previous access period, this investment remains extremely high, making up almost a third of total capital expenditure. The \$16 million contribution from new customers represents at most 4% of expenditure on new gas connections. We urge the AER to interrogate the \$258.1 million proposed funding and investigate options to reduce it. Especially given that there is no regulatory incentive to underspend on this portion of investment, as it is excluded from the 'capital expenditure incentive mechanism' which rewards reduced spending.
 - Rewiring Australia recommends that upfront costs for new connections could be entirely (or maximally) funded by the new customer, reducing or eliminating the socialisation of this cost. This would reallocate the high risk of asset stranding to the new customer and away from the customer base as a whole. This shift would also encourage informed consumer decision-making.
 - Rewiring Australia recommends that reallocating some of this investment could fund trimming the network and supporting community and household electrification.
- Regarding mains replacement expenditure, the funding requested is almost double the previous arrangement period and the operational lifetime of these replacements is likely to be curtailed as the network declines. Rewiring Australia recommends that the AER interrogate the spending to ensure that this is genuinely required for consumer and public safety and delivers value for money.
 - The AER should also consider whether there are non-gas network alternatives to replacement in some instances, such as electrification or early retirement of gas network assets.
- Require JGN to provide an asset management plan to reduce risk.
- Gas abolishment costs should be reduced substantially and socialised as far as possible. JGN's proposal to increase the gas abolishment charge to almost \$1,500 - a more than 40% increase compared to the previous access arrangement - is

³ Dynamic Analysis (2024, Sept). Turning down the gas: Minimising consumer risk. [Online] <https://energyconsumersaustralia.com.au/publications/report-turning-down-gas-reducing-consumer-risk>

unreasonable. Increasing this fee can only serve as a financial barrier to leaving the network and reduces consumers' freedom of choice.

- These already high charges may be contributing to the growing number of dormant connections on JGN's network⁴. Energy Safe Victoria have identified these connections as a safety risk⁵. Conversely, if NSW takes the view that dormant connections are desirable, then JGN should be required to inform customers of this option when they enquire about disconnection.
- Engage with the NSW Government prior to the publication of the Gas Roadmap to facilitate strategic governance input.

In general, but with the potential to be realised through the access arrangement, we recommend improving:

- **Data transparency.** Access to detailed spatial and demand data relating to the gas network is extremely restricted. Enhanced access to high quality, granular data from the gas network will enable greater community input to decision-making and strategy. For instance, communities could help identify where the edges of the network could be cost-effectively trimmed. Data would also enable academic and community analysis of how to plan an efficient street-by-street electrification program and efficient retirement of the gas network. This is impossible without detailed spatial data relating to connections and demand.

⁴ Australian Energy Regulator (2024, Aug). Gas quarterly disconnection reporting. [Online] <https://www.aer.gov.au/documents/aer-gas-quarterly-disconnection-reporting-28-august-2024>

⁵ Energy Safe Victoria (2023, April). Abolishment of gas connection due to electrification. [Online] <https://www.aer.gov.au/documents/energy-safe-victoria-abolishment-gas-connection-due-electrification-april-2023-0>