

Customer Forum 1

Jemena tariffs consultation

5 July 2023



Acknowledgement of Country

We acknowledge the Traditional Owners of the lands upon which we operate and recognise their continuing connection to land, waters, and culture.

We pay our respects to their Elders past, present, and emerging.

Pictured: artwork by Aboriginal artist Chern'ee Sutton from Mount Isa for our Group's Reflect Reconciliation Action Plan



Overview from Jemena's Managing Director, Frank Tudor



Welcome!

01

Purpose and context,
introduction to the
challenges, prices
and learning



02

Identifying what you
will need, to do the
work



03

Thank you, feedback
and next steps.



Your facilitators



Lucy Cole-Edelstein
Facilitator and Strategy Engagement
BD Infrastructure



Anne-Marie Mitchell
Principal, Engagement and social impact
BD Infrastructure



Ken Fullerton
Project support
BD Infrastructure



Our session agenda

Topics we will cover:

Duration (3 hours)

Section 1: Official welcome, overview, and introductions

30 min

Section 2: Learning about gas, the challenges, and pricing

60 min

Short break

5 min

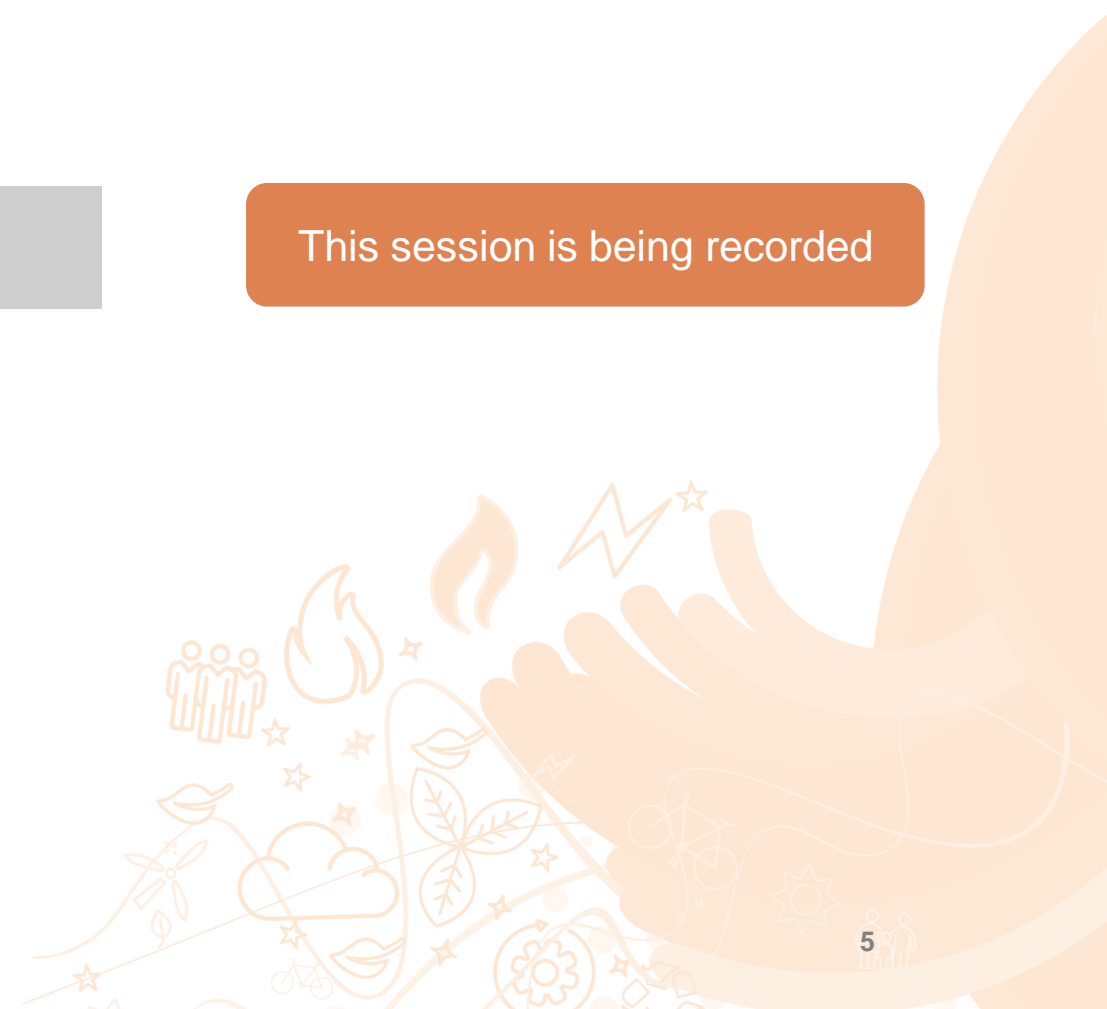
Section 3: What's challenging for customers, identifying key areas for exploration with the Brains Trust, and working as a group

50 min

Section 4: Wrap up, thank you

5 min

This session is being recorded

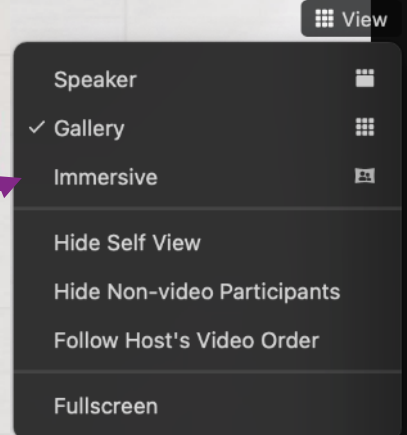


Navigating the Zoom Room

Keep your camera on.

In video settings click the option to see 49 participants in gallery view

Chose 'Gallery' view



Keep yourself on mute - unless you want to speak!!

Select a Camera

✓ FaceTime HD Camera

Blur My Background

Choose Virtual Background...

Choose Video Filter...

Video Settings...

Feel free to use the chat!

Use the emojis to tell us what you think!

If you leave the meeting you can rejoin anytime using the original link.

Leave Meeting



Introductions

- Jemena

MURAL overview

- Click the link (we will put it in the chat box)
- Pop in your name – don't worry about an email address
- <https://app.mural.co/t/bdinfrastructure5517/m/amm8516/1688287877690/78639612b4994592c4318773c872bc3efab8b89c?sender=uc0ce91f556e1504c7ac12183>

Introductions

- We'll separate you into small groups of four
- Introduce yourselves and share your expectations about the process.
 - *What are your expectations for this process?*
- Each person to write your expectation on a post it note on the MURAL board.
- Pick someone to report back to the main group!

What is it that we are doing?



The engagement process



Workshop 1

Building blocks

- About JGN
- About Tariffs
- Deliberative process
- Remit
- Introduce tariff concepts and price controls (overview only)

Wednesday 5 July
5:30pm to 8:30pm



Workshop 2

Learning

- Brains trust workshop
- Deep dive into tariff options and price controls
- How they impact different customers

Tuesday 18 July
6pm to 8pm



Workshop 3

Recommendations

- Deliberation
- Recommendations on what is in the best interest of customers

Wednesday 2 August
5:30pm to 8:30pm

What we'll be doing today – Session 1



Workshop 1

Building blocks

- About JGN
- About Tariffs
- Deliberative process
- Remit
- Introduce tariff concepts and price controls (overview only)

Wednesday 5 July
5:30pm to 8:30pm

Getting to know
one another

Learn about gas
pricing and Jemena's
challenge

Discuss the
challenge for
customers

How to work as a
group

What we'll be doing – Session 2



Workshop 2

Learning

- Brains trust workshop
- Deep dive into tariff options and price controls
- How they impact different customers

Tuesday 18 July
6pm to 8pm

Brains Trust =
external experts

Learn more about gas
pricing and what this
means for customers

Understand the
challenge

1



Douglas McCloskey • 1st

Program Director - Energy and Water Consumer Advocacy Program
Sydney, NSW

Experience: Public Interest Advocacy Centre Ltd, NSW
Environmental Trust, and 3 more

2



Zubin Meher-Homji • 2nd

Founder and Director - Dynamic Analysis
Greater Sydney Area

Experience: Dynamic Analysis Pty Ltd, Networks NSW, and 2
more

3



Victoria Jordan • 1st

Solicitor at Steele+Co | Law & Conveyancing
Caloola, NSW

Experience: Steele+Co | Law & Conveyancing, Jemena, and 5
more

4

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What we'll be doing – Session 3



Workshop 3

Recommendations

- Deliberation
- Recommendations on what is in the best interest of customers

Wednesday 2 August
5:30pm to 8:30pm

Explore the problem

Discuss trade offs

Deliberation

Make
recommendations

The remit

Net zero 2050 is causing uncertainty and change for the energy sector.

Jemena and its regulator are reviewing how gas is priced for customers.

Different pricing methods will affect how much customers pay, in different ways, with some winners and some losers.

Jemena wants you to answer:

Which type of pricing method is in the best interest of customers?

Learning: gas network, challenges, and pricing

Andre Kersting

Gas Networks Regulation Manager

Lay Na Lim

Senior Regulatory Advisor

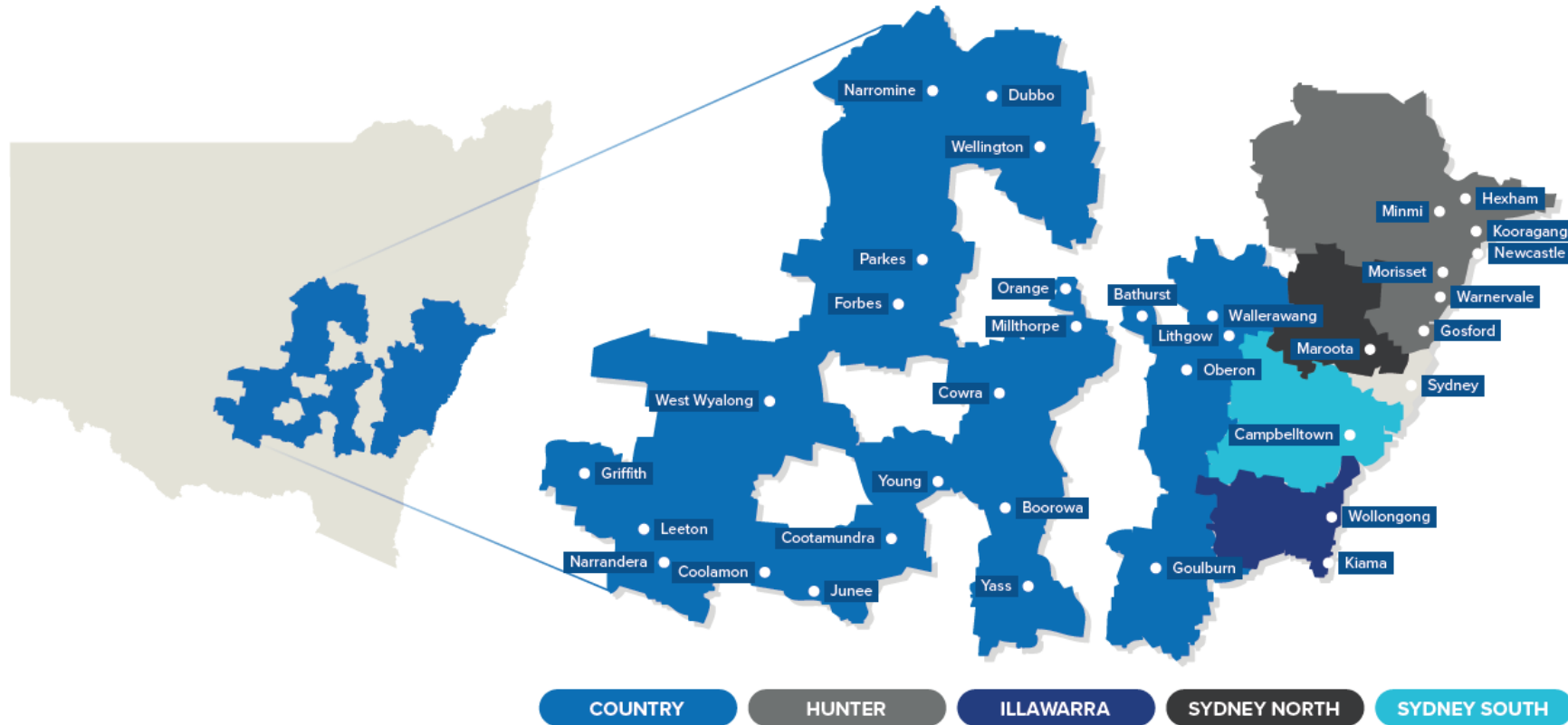
Emma Wilson

Gas Network Pricing Lead

About Jemena Gas Networks

- Founded in 1837 to light Sydney using gas.
- The largest gas distributor in New South Wales.
- More than 25,000 kilometres of pipe distributing natural gas to over 1.4 million customers each year.
- Supplies residential, business, and industrial sites in Sydney, Newcastle, the Central Coast and Wollongong.
- Network covers over 20 regional centres, including the Central West, Central Tablelands, South Western, Southern Tablelands, Riverina and Southern Highlands regions of New South Wales.

Our area of operations



Production

Gas supplied to consumers in NSW is sourced from domestic gas wells, primarily interstate.



Transmission Pipelines

High pressure pipelines transport gas over long distances, including from interstate.



Distribution Pipelines

Jemena then transports the gas to 1.5 million homes and businesses in NSW.



Retailer

Retailers organise these services and manage your account.



Your Bill

Your gas bill is made up of fixed supply charges and usage charges to recover these costs.



37%

3%

31%

29%

\$801

* Based on a customer with gas heating, cooking and hot water appliances using 15,000MJ per year.
Calculated using assumed wholesale price of \$17GJ.



Why are we looking at this now? The drivers for this consultation



- **Weather:** impacts of warmer and cooler winters.



- **Behaviour change:** customer preferences and changes driven by affordability concerns and electrification.



- **Policy:** Impacts of changing and uncertain government policy on gas usage across different customer groups, including any policies on renewable gas.



- **New connections:** Uncertainty surrounding the number and timing of new connections, changes to construction industry and housing statistics.

What is the Australian Energy Regulator (AER) and why is it important?



Australian Energy Regulator: ensures energy consumers are better off, now and in the future. It does this by regulating electricity and gas networks and sets the amount of revenue that network businesses can recover from customers using these networks.



Why now: the regulator has commenced a review because of stakeholder feedback, recent changes to the national gas rules, and government emissions reduction policy and customer expectations.



The review focuses on 2 key areas:

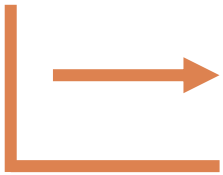
1. **Tariffs:** on how you're billed for gas and how it's priced; and
2. **Form of price control:** how should prices be adjusted on an annual basis.

101 of tariff structures



Declining block tariff

- Most gas networks use this structure right now.
- The more you use the network, the less it costs, and it's measured in 'blocks'.
- There are two broad categories – demand tariffs (Large Industrial consuming >10TJ per annum) and volume tariffs (Residential and small commercial customers).
- Examples given in the paper are from Jemena in NSW and AGN in Murray Valley (Victoria).



Flat tariff

- Less complex, customers pay a steady or flat rate for all the gas.
- Small volume customers pay less.
- Large customers are generally worse off compared to declining block tariffs.



Inclining block tariff

- The more you use the network the more it costs, and it's measured in 'blocks'.
- Best option for smaller volume customers.
- Large customers are still worse off.
- Incentive to use less gas.

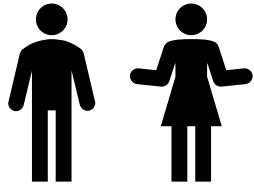
What is the form of control?

- The form of control is the mechanism that governs **how prices are set** for energy networks.
 - Gas networks are regulated via **price caps**
 - Electricity networks are regulated via **revenue caps**
- For gas networks, the AER sets the maximum allowed tariffs (i.e., prices) that we can charge for transportation services.
- The AER does not set maximum revenues for gas networks.

Feature	Revenue Cap	Price Cap	A combination of both
How revenue is determined	AER sets maximum revenue each year	AER sets average price change limit	Outperformance of revenues are capped
Risk	Customers bear volume forecasting risk	Distributor bears volume forecasting risk	Risks is shared between customers and distributor
Incentives	Reduce expenditure	Seek to grow connections	Combination
Customer price volatility	Relatively higher	Relatively lower	In between the revenue cap and WAPC
Who?	Electricity distribution networks	Gas distribution networks	n/a

Illustration of revenue impacts under different forms of control

Forecast

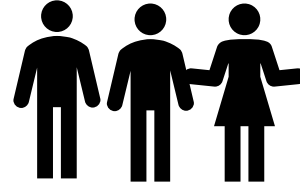


2 customers

Revenue per
customer = \$1

Total forecast revenue
= **\$2** (\$1 X 2)

Actual



3 customers
(i.e., outperformance)

Revenue cap

Total revenue
= **\$2**

Price cap

Total revenue
= **\$3**

Under a price cap, gas
networks can benefit from
outperformance



1 customer
(i.e., underperformance)

Revenue cap

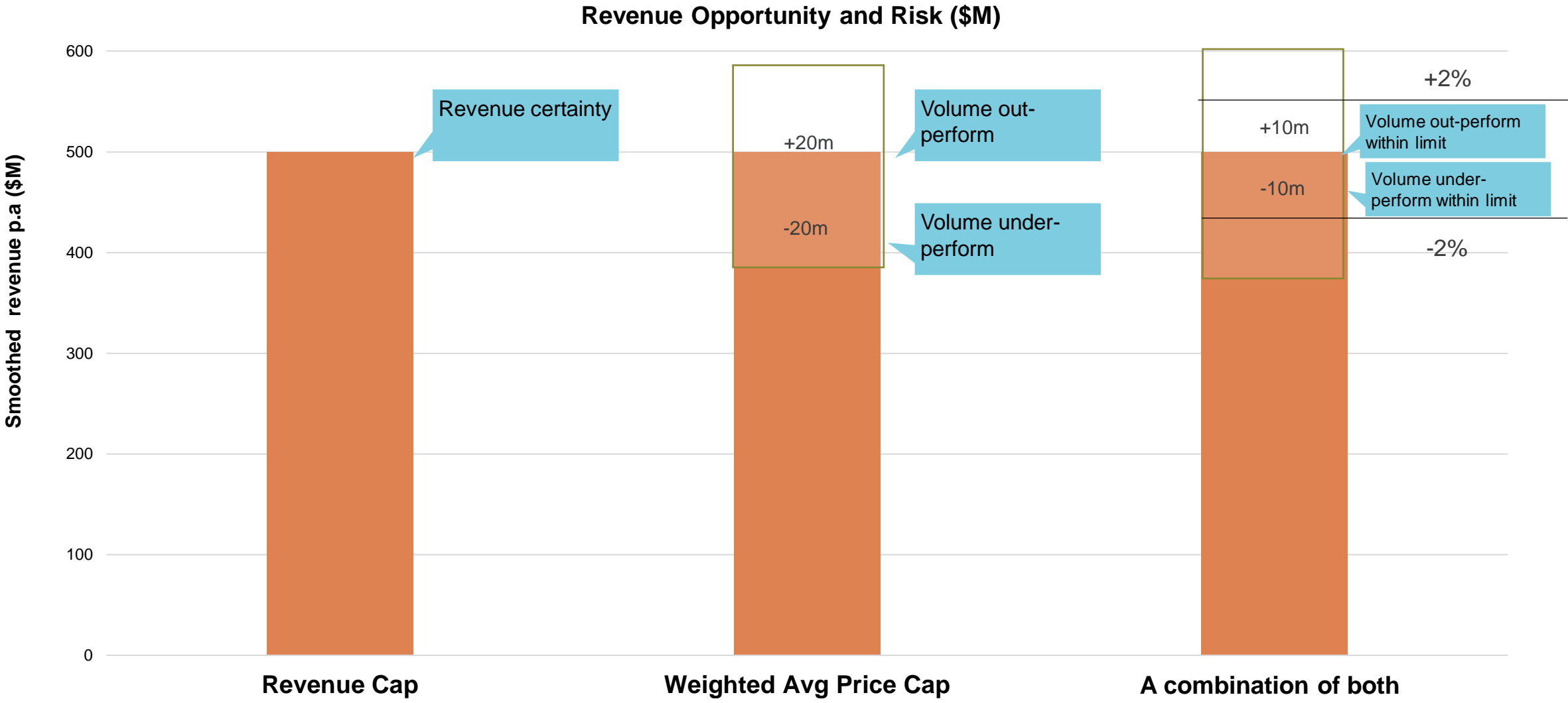
Total revenue
= **\$2**

Price cap

Total revenue
= **\$1**

Under a price cap, gas
networks bear all the volume
risk from underperformance

Example: Possible revenue outcomes under different price controls

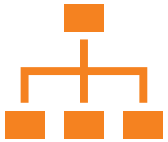


Application and history of Jemena's current tariff structures



Our current structure is a **declining six step tariff**.

We're the only network that has a six-block structure (out of the six regulated distributed gas networks including VIC, SA and NSW – the East Coast Gas Market)



All others separate residential and commercial customers into a separate tariff, Jemena and Evoenergy are the only ones that combine it together – for simplicity.



The history: why do we have this structure?

Jemena's tariff structure was completed in a different policy and technology environment with different customer preferences, with the aim of:

- **encouraging** gas usage
- and **supporting** network growth.



There's uncertainty and other factors we're considering with our stakeholders and customers for the future of tariff structures.



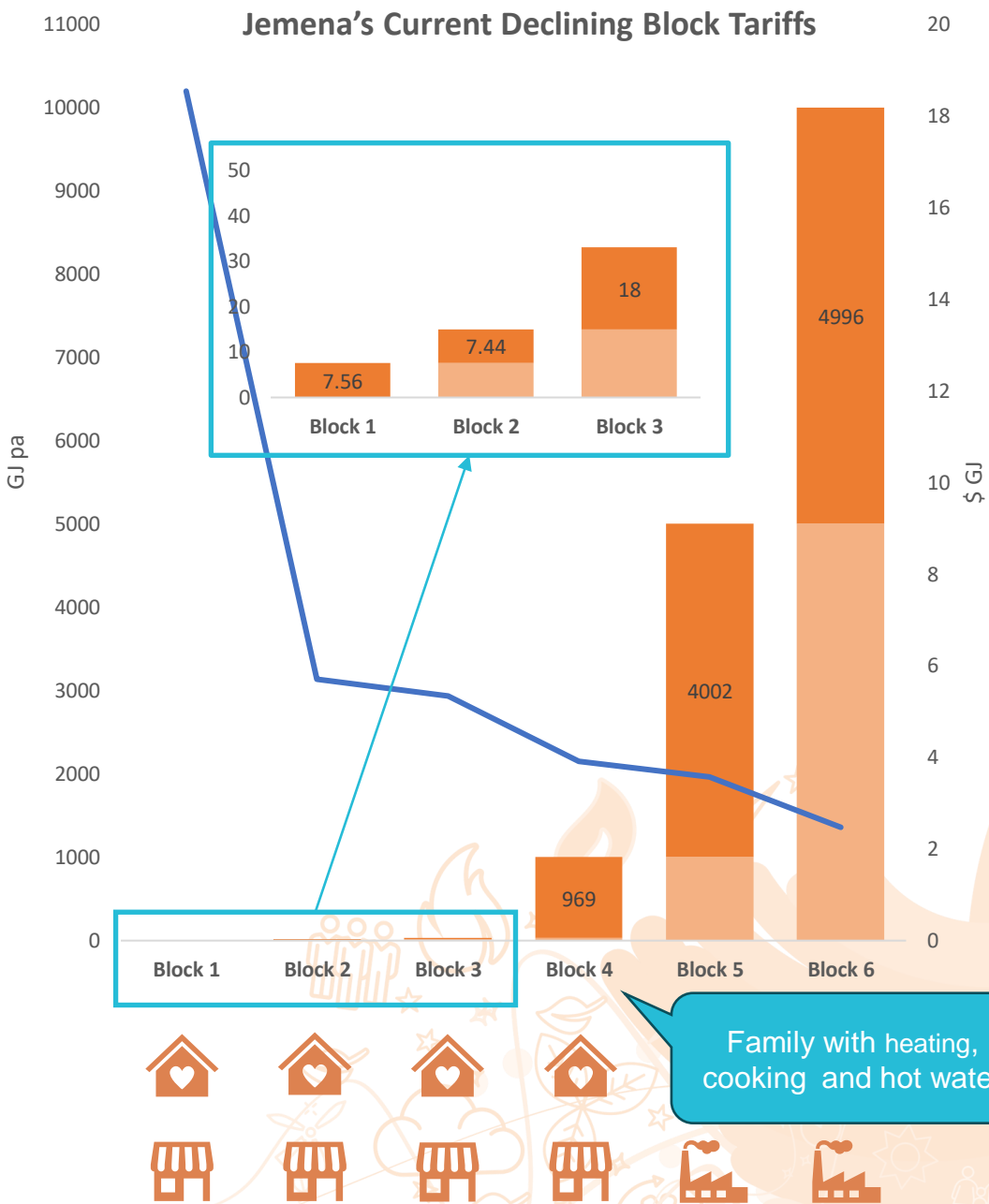
Illustration of the declining tariff structure for customers

Country customers pay a slightly lower rate

Residential and small commercial customers pay the same.

	Block Size (GJ p.a)	\$ Coastal	\$ Country
Fixed Charge	-	53.022	53.022
Block 1	7.56	21.528	21.061
Block 2	7.44	6.627	6.430
Block 3	18	6.196	5.979
Block 4	969	4.538	4.375
Block 5	4,002	4.146	3.978
Block 6	9,999	3.026	2.799

- Every customer pays the same fixed charge amount.
- For the first 7.56GJ p.a. customers pay \$21.528
- For the next 7.44GJ p.a. customers pay \$6.627
- And so on through the blocks until anything over 5004GJ is charged \$3.026



Q&A



Identifying what you need to do the work



Unpacking the remit (part 1)

- Net zero 2050 is causing uncertainty and change for the energy sector.
- Jemena and its regulator are reviewing how gas is priced for customers.

Net Zero: government and industry are responding

Government commitments to net zero

AUSTRALIA

- » Committed to Paris Agreement
- » 23.5% of large-scale renewable electricity generation by 2020
- » National Hydrogen Strategy

NT

- » Draft aspirational target for net zero emissions by 2050
- » 50% renewable electricity by 2030
- » Northern Territory Renewable Hydrogen Strategy

WA

- » Net zero emissions by 2050
- » Renewable hydrogen is distributed in a WA gas network by 2022
- » 10% hydrogen in gas pipelines and networks by 2030
- » Western Australian Renewable Hydrogen Strategy

SA

- » Net zero emissions by 2050
- » Net 100% renewable electricity target in the 2030's
- » South Australia's Hydrogen Action Plan

VIC

- » Net zero emissions by 2050
- » 50% renewable electricity generation by 2030
- » Victorian Hydrogen Investment Program

QLD

- » Net zero emissions by 2050
- » 50% renewable electricity generation by 2030
- » Queensland Hydrogen Industry Strategy 2019-2024

NSW

- » Net zero emissions by 2050
- » 35% emission reduction by 2030
- » Aspirational 10% hydrogen in gas networks by 2030

ACT

- » Net zero emissions by 2045
- » 100% renewable electricity by 2020
- » ACT Sustainable Energy Policy

TAS

- » Net zero emissions by 2050
- » 100% renewable electricity by 2022
- » Tasmanian Renewable Hydrogen Action Plan

Source: Energy Networks Australia analysis (2020)

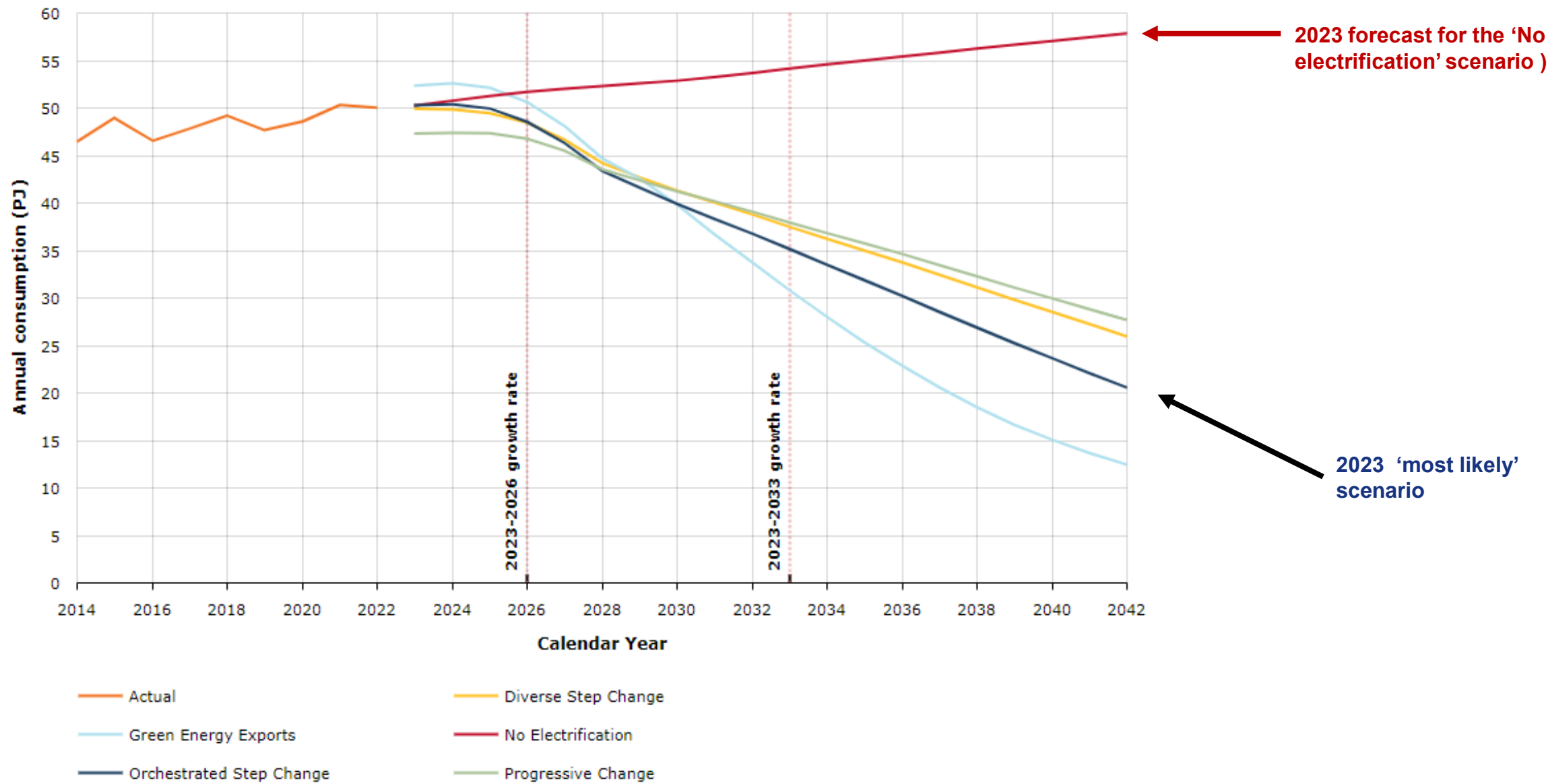
Two-thirds of the ASX 200 have emission reduction targets



"This Bill records the Government's ambition to take the country forward on climate action – and it reflects our determination to bring people with us. It will help open the way for new jobs, new industries, new technologies and a new era of prosperity for Australian manufacturing."

The future is uncertain

AEMO's actual and forecast annual gas consumption (PJ) for residential and commercial users in NSW



Unpacking the remit (part 2)

- Different pricing methods will affect how much customers pay, in different ways, with some winners and some losers.
- Jemena wants your advice on which type of pricing method is in the best interest of customers.

Example approach taken to convert Jemena's current declining block tariff structure to single block

Our current structure is a declining six step tariff for Coastal & Country customers, what would be the impact to the distributor component of the bill if we removed the six steps and only had one volumetric block.

For Financial Year 2022-23 Jemena

- Kept all other tariffs (Industrial >10TJ pa tariffs and Volume boundary tariffs) and their revenue the same except Coastal & Country which represents over 99% of Jemena's customers.
- Kept the Fixed charge identical
- Rebalanced the Coastal & Country customers so all volume is charged a single volume rate.
- Kept revenue neutral
- Calculate annual bill impact of 10 customer personas

	Block Size (GJ p.a)	\$ Coastal	\$ Country
Fixed Charge	-	53.022	53.022
Block 1	7.56	21.528	21.061
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	Block Size (GJ p.a)	\$ Coastal	\$ Country
Fixed Charge	-	53.022	53.022
Block 1	0 - 9,999	7.706	7.539

Example winners and losers: impacts of any tariff changes on different customer groups (Retail bill inc GST)

Example customer persona	Suggested demand / consumption	Annual bill today (declining block tariff)	Proposed annual bill (flat tariff)	What's the impact?
Metro location House / apartment with stovetop	Coastal 2 GJ – cooking only	\$367.08	\$343.25	Improved
Metro location House / Apartment with stovetop and one other gas appliance	Coastal 7.5 GJ – cooking, hot water	\$627.59	\$538.21	Improved
Metro location Small House / apartment with cooktop and hot water	Coastal 15 GJ – cooking, hot water, small heater	\$880.60	\$806.87	Improved
Metro location Family House with cooktop, hot water and heating	Coastal 25 GJ – cooking, hot water and heating	\$1,208.74	\$1,161.08	Improved
Metro location Heating, cooktop, hot water and potentially multiple heaters Large family home	Coastal 45 GJ – cooking, hot water and heating	\$1,854.92	\$1,878.24	Worse
Regional location House with stovetop and one other gas appliance	Country 7.5 GJ – cooking, hot water	\$627.45	\$540.01	Improved
Regional location Heating, cooktop, hot water and potentially multiple heaters Large family home	Country 45 GJ – cooking, hot water and heating	\$1,854.75	\$1,880.09	Worse
Small business Food / Hospitality Several gas stoves – cooking	90 GJ small business	\$3,693.30	\$3,904.63	Worse
Medium business Eg Commercial Tower or Hotel	2000 GJ Medium business	\$36,297.54	\$40,310.66	Worse
Larger business Eg Commercial Manufacturing	8000 GJ Large business	\$271,676.69	\$311,127.37	Worse

Q&A



Short break



What is challenging for customers?

- Break into small groups and discuss:
 - *What do you understand?*
 - *What don't you understand?*
 - *What 'why' questions do you have?*
- Write these down on your MURAL board
- Nominate someone to report back from your group!


Our brains trust

1



Douglas McCloskey • 1st

Program Director - Energy and Water Consumer Advocacy Progra...
Sydney, NSW


 Experience: Public Interest Advocacy Centre Ltd, NSW
Environmental Trust, and 3 more

2



Zubin Meher-Homji • 2nd

Founder and Director - Dynamic Analysis
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 Experience: Dynamic Analysis Pty Ltd, Networks NSW, and 2
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Victoria Jordan • 1st

Solicitor at Steele+Co | Law & Conveyancing
Caloola, NSW

 Experience: Steele+Co | Law & Conveyancing, Jemena, and 5
more

4

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Working as a group

- Break into small groups and discuss:
 - *What has worked well*
 - *What is difficult about working in a group*
 - *What sort of rules or tips could they as a group abide by to make the group work more effective, fun, and reflective of all voices?*
- On your MURAL board, create a long list of rules
- Once you've done this, rank the top 2 rules in your group
- Pull the top 2 over into a final list of group rules

Thank you and next steps!

Feedback?

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Web: yournetwork.jemena.com.au