

# Jemena's challenge

## The challenges we face

Jemena is facing into a time of great uncertainty. It wants to make sure gas is available for customers that want it.

There are challenges to gas networks from climate change, net zero emission targets and a shift from fossil fuels to more sustainable fuel sources. The uncertainty means a shift in customer preferences.

Until now, all customers share the costs of gas equally. Less customers means increasing costs for those left on the network.

There's a risk this could leave assets and customers 'stranded', or locked into a network that fewer people use.

Your deliberations will shape how this future risk is shared.

## The rules

Energy companies on the Australian east coast must follow rules set by the government – the Australian Energy Regulator (AER).

## The sharing of risk through prices

Prices and the method (price control) where prices are adjusted each year are set at the start of each regulatory period (every five years).

There are two tools that are used to influence gas prices and what you see on your gas bill: a **price control** and a **tariff**. We currently use a '**Price cap**' form of price control.

With any proposed changes to the tariff structure, there will be **winners and losers** and we need to collaborate with our customers about this.

# Customer challenge



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



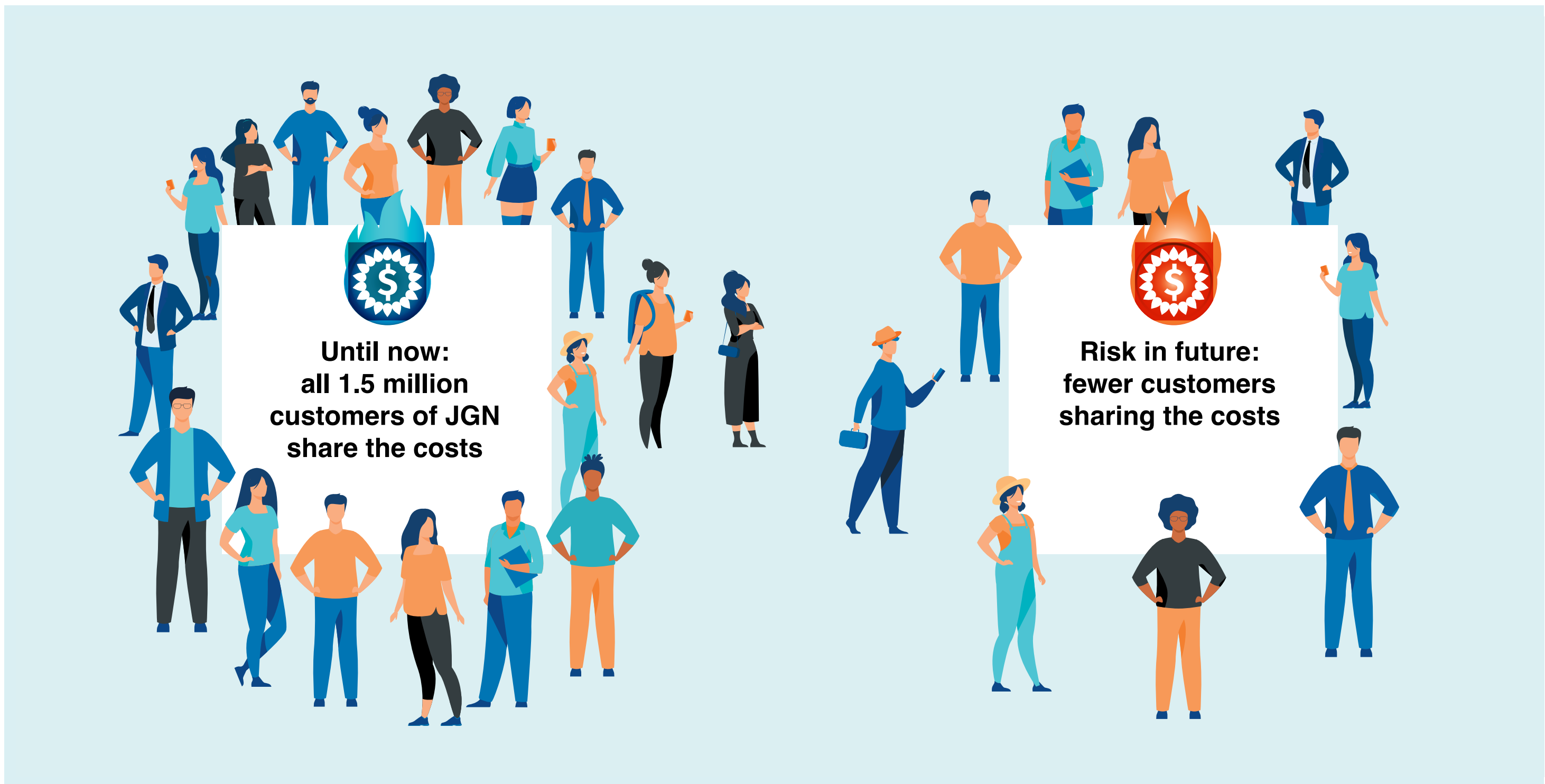
Jemena and its regulator are reviewing how gas is priced for customers.



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?*



# Pricing mechanisms explained

## We need money to run, grow and maintain the gas network

Jemena invests money and resources into the gas distribution network. This investment goes towards maintaining, growing and upgrading the network. It ensures gas can be delivered efficiently, safely and reliably.

## We have short-term and long-term investments

- Some investments are short-term, some are longer-term.
- Long-term capital investments include pipelines that last for a long time, e.g. 50 years
  - Shorter-term investments include meter replacements that last around 20 years
- A “rate of return” (profit-margin) is applied to capital investments. Our shareholders expect a return from these investments.
- The “rate of return” is not set by Jemena. It’s set by the regulator.

## The regulator approves our investments.

- The regulator sets the allowed revenue based on our efficient investments
- Every 5 years, Jemena provides information on our costs and investments to the regulator.
- The regulator approves both short- and long-term costs, if they are efficient.
  - Our efficient costs determine our revenues.

To get gas network prices, we have to divide allowed revenues by forecast gas volumes

 Allowed revenue

=

 Price

 Gas volumes

## Recap on the two different price controls

Under a revenue cap control, revenue for the next 5 years is set at this point. Prices are adjusted every year to reflect over or under recovery of revenue from the previous year. The allowed revenue stays fixed within the 5-year regulatory period.

The customer bears the volume risk within the regulatory period.

Under a price cap, prices are predetermined at the start of the 5-year pricing period and are not rebalanced to account for over or under recovery of revenue from the previous year. The distributor bears volume risk within the regulatory period.

## What is volume risk?

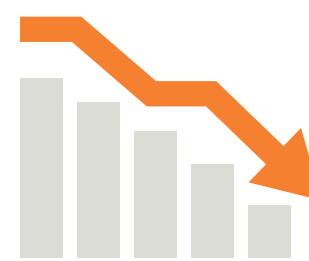
Volume risk refers to any upside or downside in revenues received by the gas network (revenues = money).

Under a price cap, the gas network will get more money than expected if demand for gas turns out better than expected.

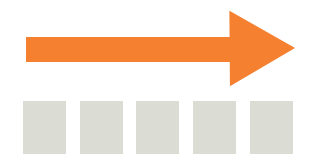
Similarly, the gas network will get less money than expected if demand for gas is worse than expected. (expectations are based on what we forecast, i.e. predict for the future)

## Tariffs

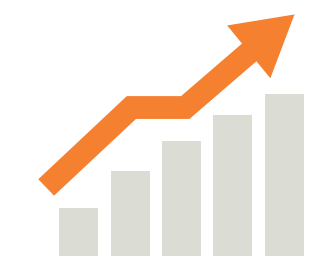
The tariff is how costs are decided for using gas. There are three options for this:



**Declining block structure:**  
The more you use, the less it costs.



**Flat structure:**  
Customers pay a flat rate for all the gas.



**Inclining block structure:**  
Customers pay a flat rate for all the gas.

- Jemena has a **declining** six step tariff, which encourages gas usage.
- **All** customers (residential and small commercial) pay the same rate for each block of gas they use.
- Residential households typically will use blocks 1-4
- The more you use, the less you pay
- All Customers pay the same fixed charge

Depending on how the pricing mechanisms are applied will influence who wears volume and revenue risk, and there will be winners and losers

