

Advisory Board meeting

Jemena tariffs consultation

8 June 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



Official Welcome

Shaun Reardon

Executive General Manager,
Networks, Jemena



Welcome!

01

Tariffs deep dive
Insights on principles
Seek Advisory Board
early views on
engagement process.

02

Feedback for
customer forum
approaches and
planning for the next
stage.

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)

Purpose:

Section 1: Official welcome

15 total

Section 2: Tariffs – learning

90 total

Tariffs deep dive, AER issues paper, Q&A, insights on principles, tariff concepts and impacts to customers, your insights on concepts

Short break

5 min

Section 3: Purpose of engagement

60 total

Overview, your insights, content framing

Section 4: Wrap up, thank you

10 min

- 1 Introducing the process to test the options arising from the AER Issues Paper
- 2 Seeking Advisory Boards advice on how best to engage customers on them

This session is being recorded

Current situation and AER issues paper



Summary of AER issues paper

Review of gas distribution network tariff variation mechanism and declining block tariffs

What is the AER review about?

The review relates to the **gas transportation** service provided by **gas networks (distributors)**. The review focuses on:

- The weighted average price cap that regulates distributors' revenue
- Declining block tariffs that set the parameters for how retailers and SCUs are billed for transportation services

Why a review now?

- **Stakeholders have asked for it:** recent feedback in access arrangements have called on the AER to review, especially given the current policy and customer environment.
- **Change to National Gas Objectives:** Ministers are adding an emissions objective to the laws that govern the gas networks.
- **State government policies:** some state governments are encouraging customers to transition to renewable energy.

Timeline of AER review process

Date	Key step
May 2023	AER published consultation paper and call for submissions
May and June 2023	AER consultations
16 June 2023	Submissions close
July 2023	AER to publish draft decision and call for submissions
August 2023	Submissions close
October 2023	AER releases final decision and directions paper

Law

National Gas Rules
clause 94

National Gas Rules
clause 97(3)

National Gas
Objective

Uncertainty and other factors we're considering



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



Forecasting error: a requirement to estimate gas consumption 12 months to 6 years in advance.



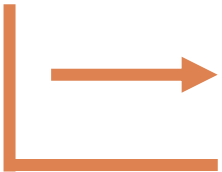
New connections: Uncertainty surrounding the number and timing of new connections, changes to construction industry and housing statistics and BASIX (the planning rules on new buildings from the NSW Department of Planning, infrastructure and environment)

Summary of the AER issues paper: summary of tariff structures



Declining block tariff structures

- Most gas networks use this structure right now. The more you use the less it costs and it's done in 'blocks'
- 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 tariffs

- 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 structures

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

National Gas Law requirements:

- Distributors have opportunity to recover at least their efficient costs
- Incentives to promote efficiency
- Allow a rate of return aligned with distributors' commercial risk.

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 **weighted average price caps**
- Electricity networks are regulated via **revenue caps**
- For gas networks, the AER sets the maximum allowed tariffs (i.e. prices) that we charge for transportation services.
- The AER does not set maximum revenues for gas networks.

Feature	Revenue Cap	Weighted average price cap (WAPC)	Hybrid
How revenue is determined	AER sets maximum revenue each year	AER sets average price change limit (CPI-X)	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

Example only: Possible revenue outcomes under different price controls

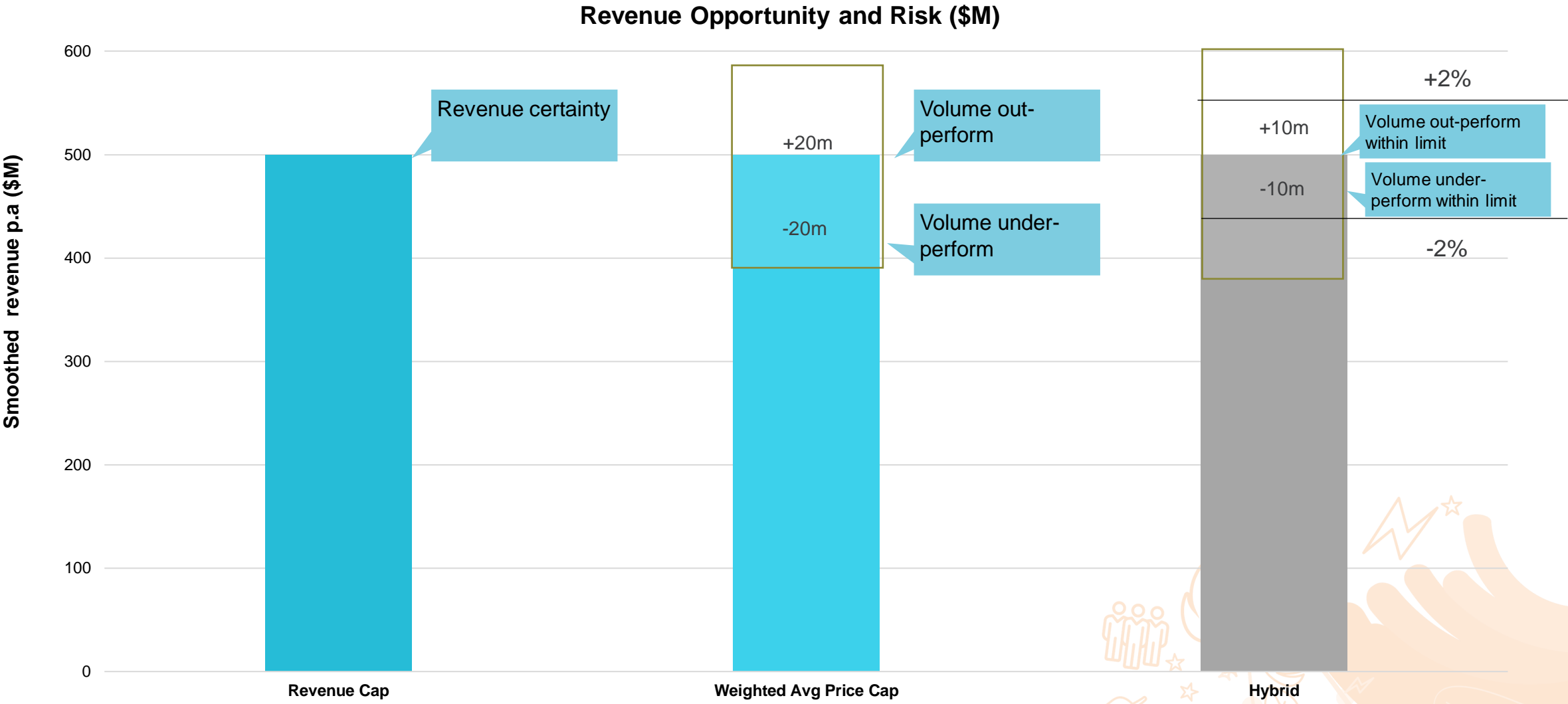
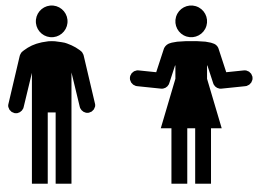


Illustration of revenue impacts under different forms of control

Forecast

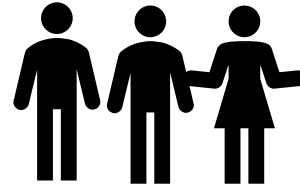


2 customers

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 WAPC, gas networks are able to benefit from outperformance



1 customer
(i.e. underperformance)

Revenue cap

Total revenue = **\$2**

Price cap

Total revenue = **\$1**

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

Pricing Principles



Application and history of Jemena's current tariff structures



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

The history: why do we have this structure?

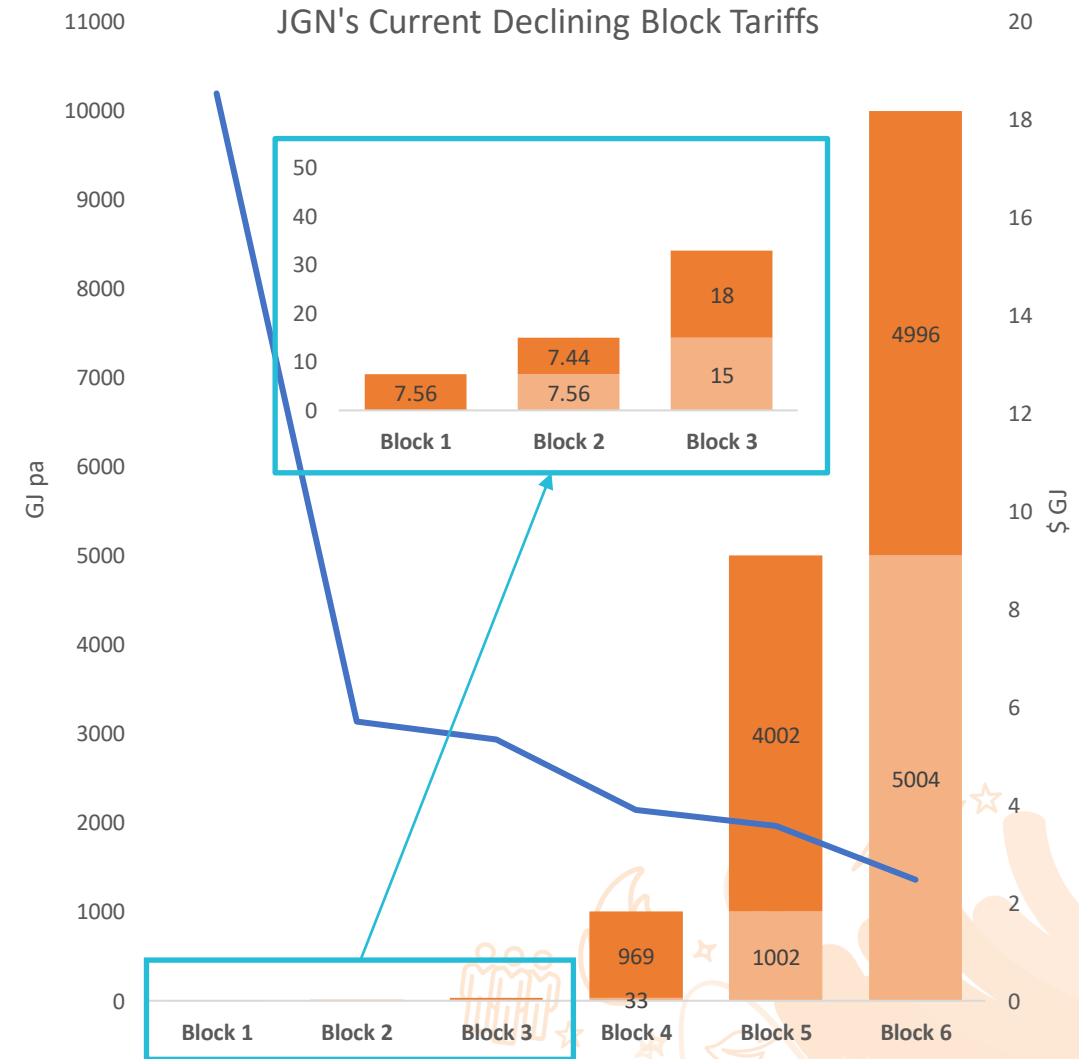
Jemena's tariff structure was completed in a different policy and technology environment with different customer preferences, with the aim of:

- **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.

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, we're the only one that combines it together – for simplicity.



Pricing principles we're considering



Cost reflectivity: using the relevant laws here to observe cost reflective prices



Price stability: minimising large tariff increases to help customers manage bills in future



Simplicity: understandable, minimising transaction costs and applicability of overseas pricing structures



Revenue adequacy: efficient cost recovery



Fairness / equity: usage cost is according to costs of the network and covering equity considerations like cost of living pressures.

How we might start this conversation with customers



Example only: impacts of any tariff changes on different customer personas (Note these are distributor charges only)

Example customer persona	Suggested demand / consumption	Annual bill today (FY 2022-23 pricing) (6 blocks)	Single volumetric rate – Annual bill (1 Block)	What’s the impact?
Metro location House / apartment with stovetop	Coastal 2 GJ – cooking only	\$82.74	\$61.08	Improved
Metro location House / Apartment with stovetop and one other gas appliance	Coastal 7.5 GJ – cooking, hot water	\$184.71	\$103.46	Improved
Metro location Small House / apartment with cooktop and hot water	Coastal 15 GJ – cooking, hot water, small heater	\$228.29	\$161.25	Improved
Metro location Family House with cooktop, hot water and heating	Coastal 25 GJ – cooking, hot water and heating	\$281.65	\$238.31	Improved
Metro location Heating, cooktop, hot water and potentially multiple heaters Large family home	Coastal 45 GJ – cooking, hot water and heating	\$371.23	\$392.43	Worse
Regional location House with stovetop and one other gas appliance	Country 7.5 GJ – cooking, hot water	\$181.70	\$102.21	Improved
Regional location Heating, cooktop, hot water and potentially multiple heaters Large family home	Country 45 GJ – cooking, hot water and heating	\$361.89	\$384.92	Worse
Small business Food / Hospitality Several gas stoves – cooking	90 GJ small business	\$547.09	\$739.20	Worse
Medium business Eg Commercial Tower or Hotel	2000 GJ Medium business	\$7,675.04	\$15,457.66	Worse
Larger business Eg Commercial Manufacturing	8000 GJ Large business	\$25,829.41	\$61,693.66	Worse

This table is a simplistic example only and intended to show the impacts if changing to a single volumetric tariff, for example, keep fixed charged tariffs the same. The household customer personas are based on use tariffs and are being shaped up in consultation with our key voices groups ([CALD](#), [Young People](#)) from April-August,2023.

Engagement overview



Engagement narrative

Context

Uncertainty about the future of gas arising from net zero targets and how many and how fast customers move away from gas.

- Less customers will necessarily mean higher prices as the cost of the network is spread across a smaller base.
- AER issues paper released last month outlined these challenges.
- AER responsible for setting the pricing control that sets the amount of revenue that JGN can collect (weighted average price cap).

AER Issues Paper

Sets out the challenges and some options for managing the challenges.

- The current focus of price controls result in growing customer connections to the gas network and keeping customer prices stable.
- Jemena facing challenge if customers move away from gas, under the current pricing control, there is a risk of collecting less revenue from a shrinking customer base.
- Customers also subject to a tariff (declining block tariff structures), that encourages customers to consume larger volumes of gas. These tariff structures won't work for customers to help them reduce their energy costs.

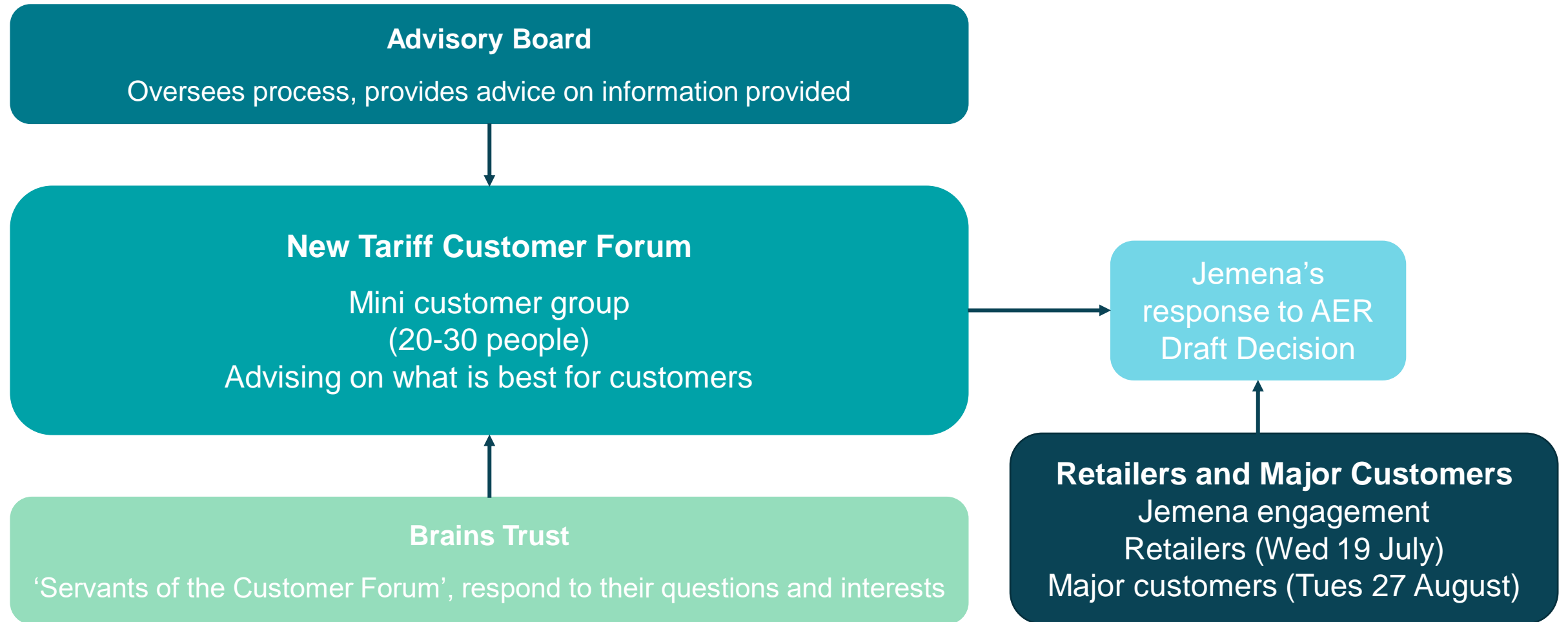
Engagement Purpose

Explore with customers what mechanisms will best manage the risk of uncertainty while considering what is in the best interests of customers

- The focus is for neither customers nor networks to be unfairly penalised, but it isn't clear how this can be achieved.

Engagement question: Pricing measures are complex – who should bear the financial risk and how fair are the pricing measures to different types of customers?

Tariff engagement



Engagement remit for Customer Forum

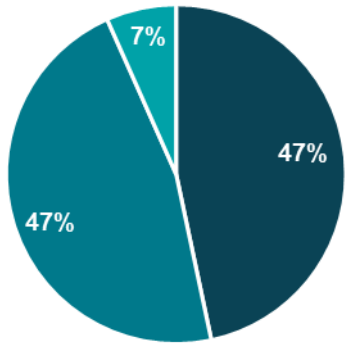
Preamble: The AER is seeking to change the way some charges are made in gas provision to better manage some of the unknown risks as the energy industry transitions to a low carbon future. In its issues paper, AER Review of gas distribution network reference tariff variation mechanism and declining block tariffs – issues paper for stakeholder feedback, the AER has outlined a range of tariff and price control mechanisms that could be implemented by gas distribution networks in Australia as well as associated challenges.

Remit: Considering the challenges identified in the AER paper, and the options that the AER outline, provide advice to us on which of these options would be in the best interests of customers.

Who will we be talking to?

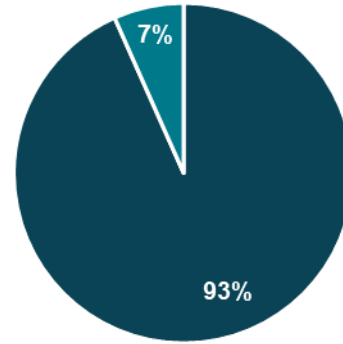
Group of up to 30 customers

Gender



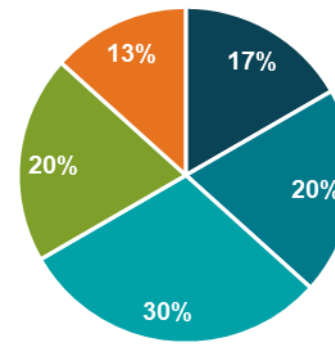
■ Male ■ Female ■ Non-binary / other

Gas useage



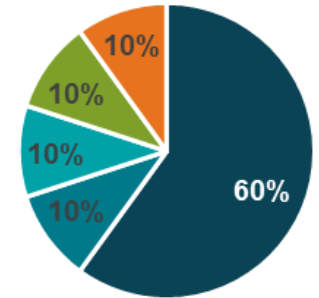
■ Gas user ■ Non gas user

Age



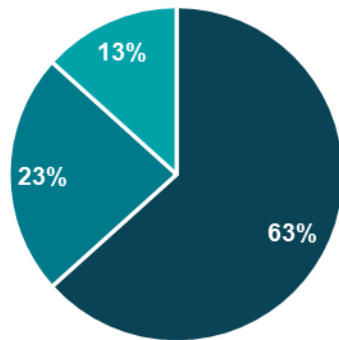
■ 18-24 ■ 25-34 ■ 35-49 ■ 50-64 ■ 65+

Geography



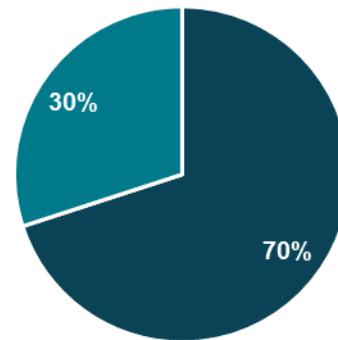
■ Greater Sydney
■ Hunter / Central Coast
■ Illawarra
■ Regional 1 (Goulburn, Bathurst, Yass, Cowra)
■ Regional 2 (Griffith, Forbes, Dubbo)

Tenure



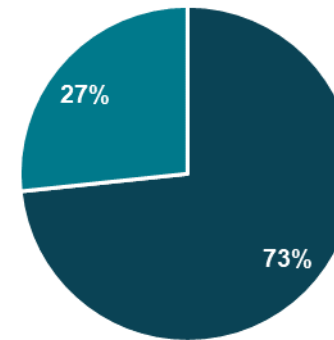
■ Home owner ■ Rental - private ■ Rental - social

Primary language(s) spoken at home



■ English only ■ Language(s) other than English

Dwelling type



■ House ■ Apartment / strata - high rise

Engagement sessions overview



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

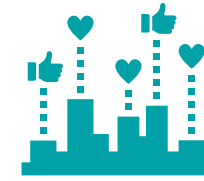


Workshop 2

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

Thank you!

Feedback?

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Web: yournetwork.jemena.com.au