

Gas Networks 2050

Customer Forum on Tariffs



Welcome

to the Jemena Gas Networks 2050 Customer Forum on Tariffs

On behalf of Jemena, I would like to welcome and thank you for taking part in our upcoming *Jemena Gas Networks 2050 Customer Forum* series.

As the largest gas distributor in New South Wales, each day Jemena delivers natural gas safely and reliably to over 1.5 million customers; helping them to cook meals, heat their homes and keep their businesses running. At the same time and as a national energy business, we're also working to explore and respond to the challenges of a rapidly evolving energy market, including exploring technologies like biomethane and hydrogen to support Australia's energy transition to a net zero future.

From conversations with various customer and community groups we know that this energy transition can be incredibly complex to understand and engage in. We also know that rising cost of living pressures and energy affordability remain issues at the forefront of many people's minds.

Through our *Customer Forum* series, we're seeking your feedback on what concerns and matters to you most when it comes to your **local gas distribution network and pricing**.



Frank Tudor, Managing Director
Jemena

Shaping our future gas network together

Over three *Forum* sessions, the project team will introduce you to many of the above concepts including Australia's energy transition, how our Jemena gas network and gas pricing work, and the input we're seeking from you, our customers, to help shape our gas service and pricing decisions.

An introductory pack is attached to this email as useful background and to help support and capture any questions you may want to bring along to the first session.

In the final session we'll also spend time discussing your recommendations for us, which we'll then use to inform the *Jemena Gas Networks 2025-30 Access Arrangement*: a formal submission to our regulator (the Australian Energy Regulator) outlining our proposed gas network services and prices over that period. More importantly, the feedback you share in these sessions will serve to directly shape the future of your – and millions of other people's – local gas network, and I thank you in advance for your valuable contributions.

I look forward to learning from you in this journey together.

Yours sincerely,

Frank Tudor
Managing Director
Jemena

The brief

Introduction

Australia is moving rapidly to reach net zero carbon emissions by 2050 – a target mandated in legislation and policy at both the State and Federal level.

We exist in a world of rapid change, with exciting developments to meet our energy needs.

Governments around the world are developing and implementing different energy policies under a common theme: transitioning towards a zero carbon energy future.

The transition of the gas sector, what it looks like and the role it plays, will be influenced by consumers, technology and policy. Some people think the future should be entirely electric. Others consider that renewable alternatives to natural gas must play a role in the transition. What we do know is that the move to electrification for households, in terms of connections and energy supply is currently more advanced than first thought. However, the development of Australia's renewable gas sector is progressing, with increased research into technology, interest from large customers and retailers, and infrastructure investment by Jemena and other parties. The uncertainty for the future of gas centres around how the energy transition will happen, at what pace, and what a sustainable economy will look like.

Gas pricing

Energy companies on the east coast of Australia, including NSW, are regulated by the **Australian Energy Regulator (AER)**. They ensure that the investments that companies make and the amount they charge customers are reasonable and fair.

Jemena can only charge what the AER says is a fair amount. These charges are included in customer bills which are then issued by retailers. Jemena's portion is around 33-41% of your total gas bill.

Very briefly (as we'll cover this in our sessions), there are two tools that influence how gas distribution is priced: these are called a price control, and a tariff.

Price control: The overall amount of money that Jemena can collect is set by the AER every five years. What is important here, is that this price control hasn't been changed for some time now. The purpose of the current price control is to grow connections to the gas network and keep customer prices stable. **While the benefits are that prices are generally more stable, with potentially less customers in the network in the future, the remaining customers would end up paying more for the network as costs including the infrastructure for the network would remain.**

Tariff: Another tool that influences gas distribution pricing is a tariff. The current tariff's purpose is to encourage customers to consume larger volumes of gas. **This can benefit larger customers like industrial companies rather than smaller households who might be looking to be more conservative with their energy use.**

Why are we looking at how gas is priced now?

Thinking about what's happening in the energy transition, we are seeing a focus on climate change, net zero, and shifting to more sustainable fuel sources. We are seeing customers potentially moving away from gas in the future. **Less customers may mean those left on the gas network would pay more than they currently do.**

This consultation

In the Customer Forum, together, we will start looking at the way gas is currently priced, how it could be priced in the future, and how fair the pricing methods are to Jemena, and to different types of customers.

We will submit this to the AER initially in August 2023, as they've asked us to gather customer views. We will also include it in our five yearly regulatory submission which we will make in 2024. More information on this process can be found further down in this pack.

About this pack

Reading this pack will set you up with a foundation of knowledge to participate in the Customer Forum. Inside you will find information to read as well as links to other content including videos.

Contents

Part 1

- a. About Jemena Gas Networks
- b. About the Customer Forum and engagement process

Part 2

- a. The energy transition
- b. Gas pricing

Acknowledgement of Country

We acknowledge the Traditional Owners of the land on which we operate and recognise their continuing connection to land, waters, and culture. We pay our respects to their Elders past and present.



Part 1

About Jemena Gas Networks

Jemena Gas Networks started in 1837 when we were created to light Sydney using gas. In 1841 the first gas lamp was lit and within 2 years 165 gas lamps had been installed. Fast forward 185 years, where today, we are the largest gas distributor in New South Wales.

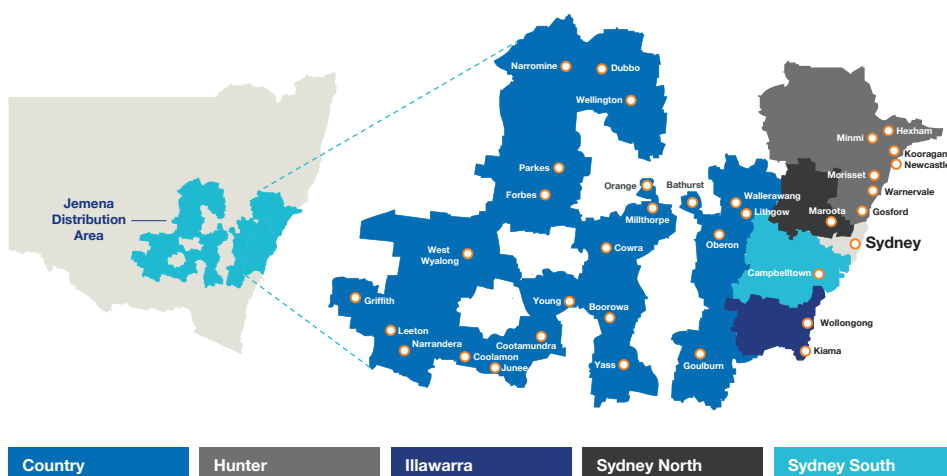
We are not a gas producer; we own and operate the infrastructure and network that supplies natural gas to homes and businesses.

Our gas network is over 25,000 kilometres in length and distributes natural gas hot water, heating, cooking and more, to over 1.5 million customers each year. The network connects gas from major points of supply to residential, business, and industrial sites in Sydney, Newcastle, the Central Coast and Wollongong.

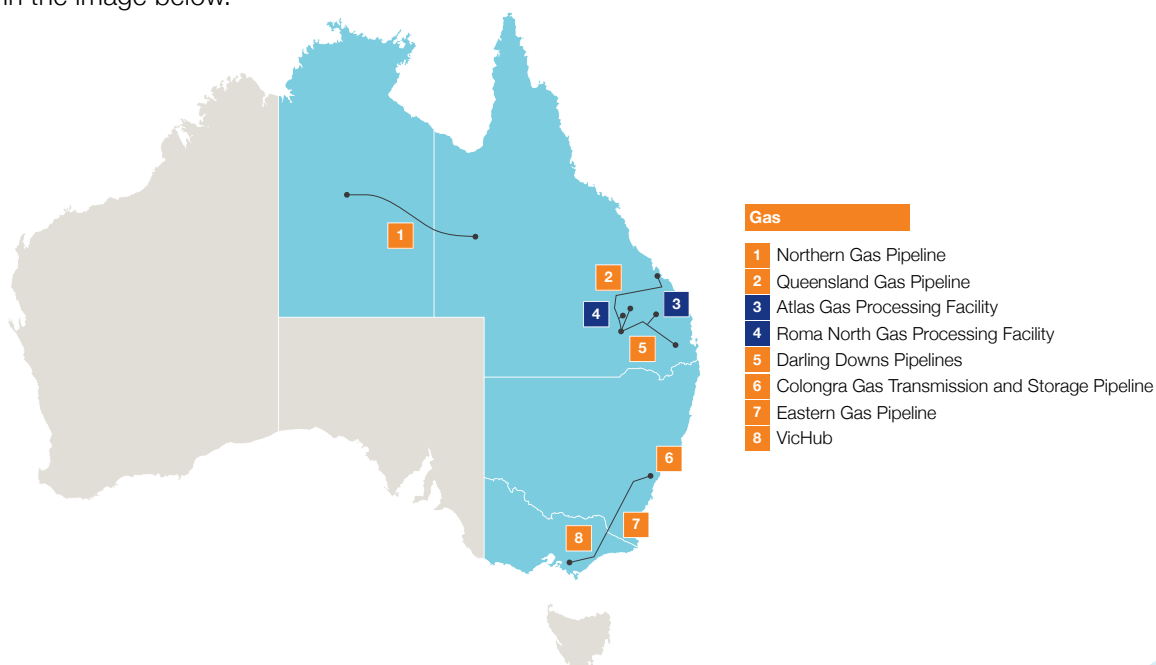
It also covers over 20 regional centres, including the Central West, Central Tablelands, South Western, Southern Tablelands, Riverina and Southern Highlands regions of New South Wales.

Jemena Gas Network

As the largest gas distributor in New South Wales, we're proud to deliver natural gas hot water, heating, cooking and more to over 1.5 million customers each year.



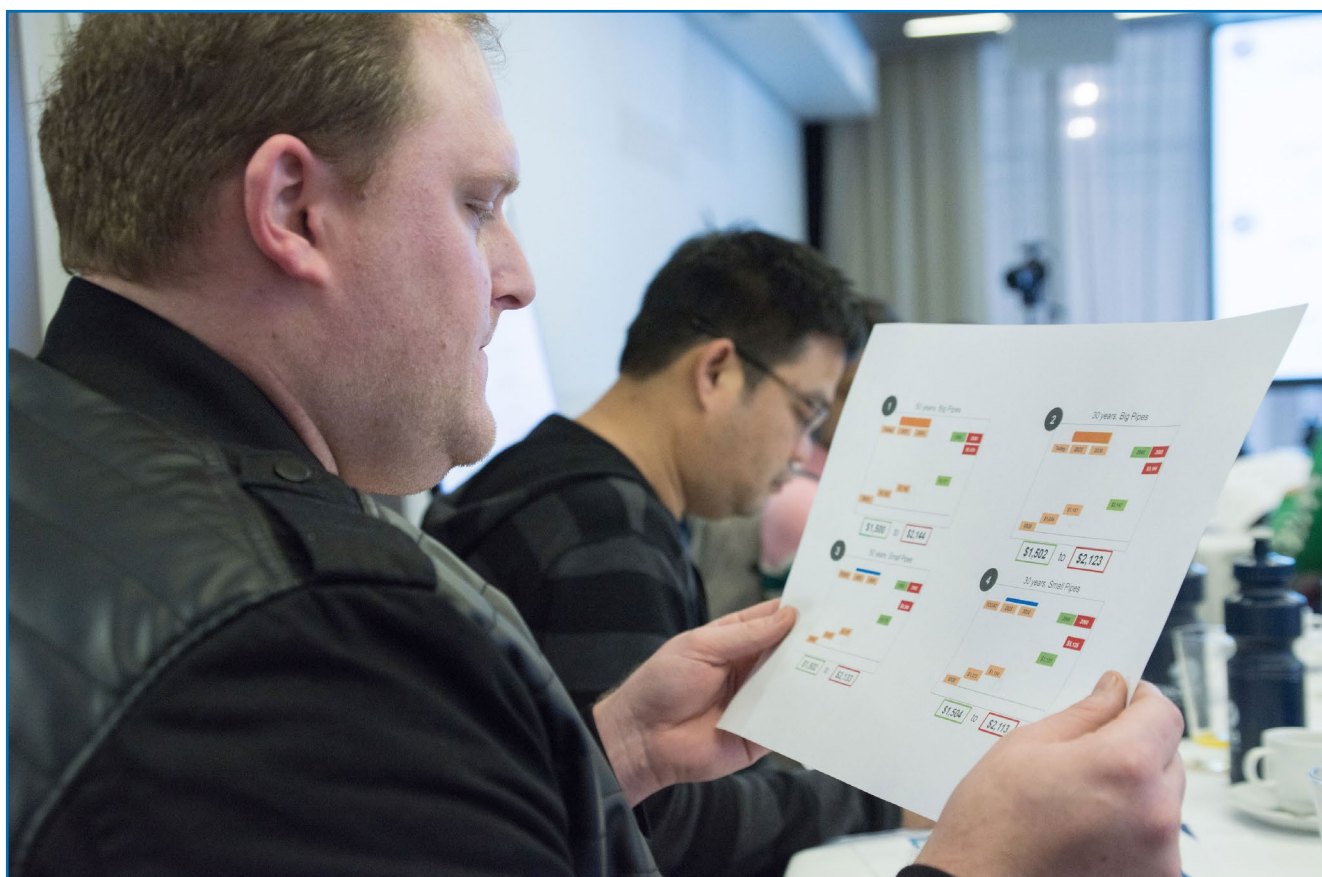
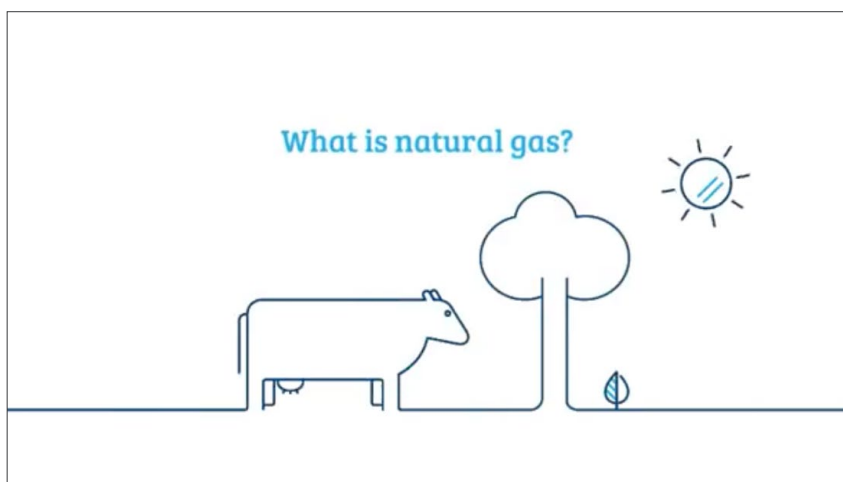
Jemena owns and operates some of Australia's most important gas transmission pipelines shown in the image below.



Video link...

Learn about natural gas from another gas network company (00:59 seconds)

youtube.com/watch?v=0Rc0SMAIr3A&t=59s

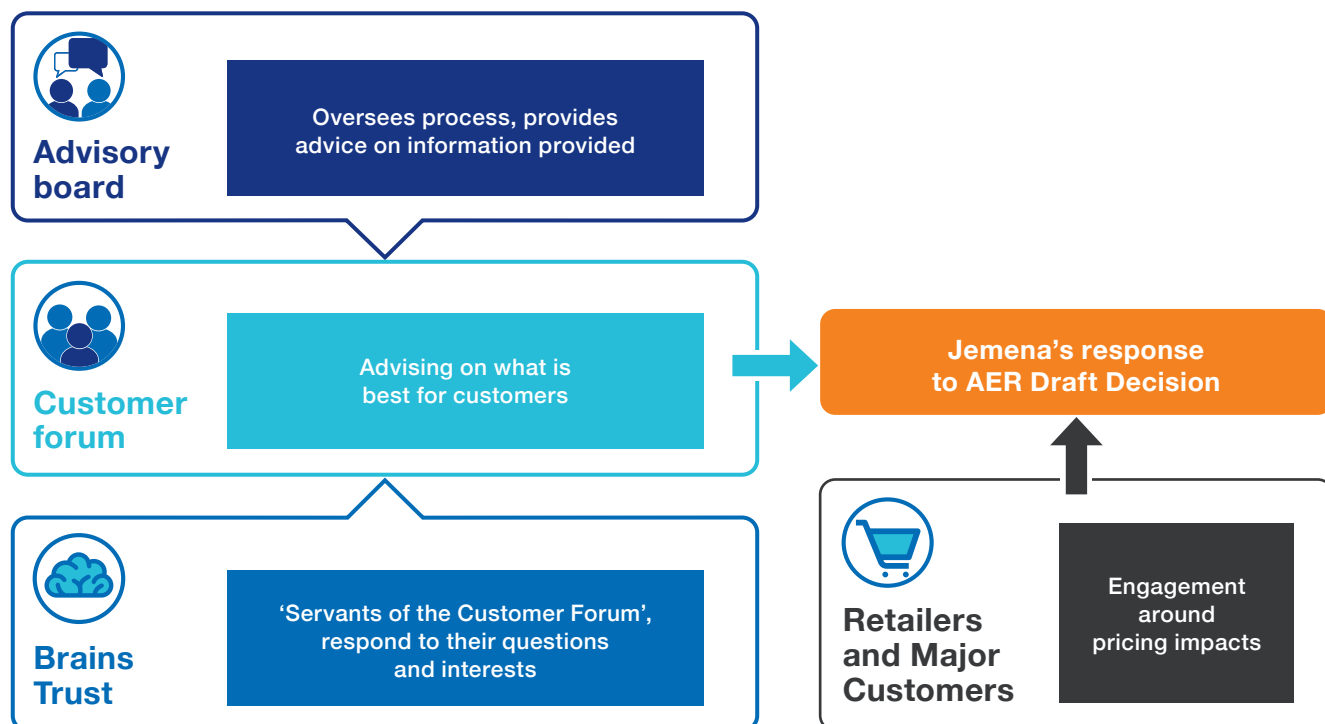


Jemena's engagement process

Overview

Your views and active contribution in the Customer Forum will help Jemena shape the future of its business. Together, we will consider how gas is priced, and how decisions can be made in the best interests of customers. As well as the Customer

Forum, we called together an Advisory Board and a Brains Trust. Each group has a distinct purpose but there are connections between the three as shown in the graphic below.



Customer Forum Program of workshops

Forum	Date and time	Link or venue	Stipend*	Purpose
Forum 1	Wednesday 5 July 2023 5.30pm to 8.30pm	Zoom https://zoom.us/j/99282574139?pwd=U2pTeWZYMDMvWTRjWVhKZU9SS04xZz09 Meeting ID: 992 8257 4139 Passcode: 024251	\$125	Learning and understanding about the task at hand.
Forum 2	Tuesday 18 July 2023 6pm to 8pm	Zoom https://zoom.us/j/94615211149?pwd=UkJrUlg4aUJlelpCeTY2YzN1RG00Zz09 Meeting ID: 946 1521 1149 Passcode: 500997	\$100	Experts will help explain gas pricing and how it impacts different customers.
Forum 3	Wednesday 2 August 2023 5:30pm to 8:30pm	Zoom https://zoom.us/j/92278995865?pwd=cDR6enBJZUZvM2pxQW4wVlhjTTI3dz09 Meeting ID: 922 7899 5865 Passcode: 438209	\$125	Make recommendations on what is in the best interest of customers.

Who is on the Brains Trust?

In session two, you'll meet the brains trust. Read up about their skills and experience below:

Douglas McCloskey

Advisory Board, Program Director, Energy and Water, Public Interest Advocacy Centre

<https://www.linkedin.com/in/douglas-mccloskey-99480854/>



Representing NSW household energy consumers, with a focus on households experiencing disadvantage or vulnerability

Doug is the Program Director Energy and Water at the Public Interest Advocacy Centre. He focuses on issues impacting vulnerable NSW households, fair and affordable access to water, access to sustainable technology, and advocating for measures to make the retail electricity market fairer. Douglas has more 15 years of experience across policy, government, and community and social service advocacy and youth development and brings this voice to our brains trust.

Zubin Maher-Homji

Founder and Director, Dynami Analysis

<https://www.linkedin.com/in/zubin-meher-homji-19498689/>



Representing an economic and policy perspective

Zubin is a leading economist in the energy industry with 15 years' experience in regulation and policy advocacy. He has been a senior manager at Networks NSW, Ausgrid and the Australian Energy Regulator. He founded Dynamic Analysis (formerly Dynamic Economics) in 2014. The firm assists utilities to develop regulatory proposals and unlock commercial value. He is passionate about bringing a sense of purpose and energy and clearly communicating complex issues, and motivating community, and employees to find dynamic ideas to solve old problems. He has worked with Ausgrid, Endeavour Energy, Northern Territory Power and Water, and Landis and Gyr on regulatory proposals, RINs, customer engagement, transformation, policy submissions, and customer segmentation models.

Victoria Jordan

Advisory Board, Customer

<https://www.linkedin.com/in/victoria-jordan-478396273/>



Representing NSW gas residential customers with a regional focus

Victoria is a regional customer and participant from our 2020 business plan engagement and has a strong interest in the future of energy. A qualified solicitor within a private practice in Bathurst, her 25 years of experience covers positions in disability advocacy, the Australian Army, emergency services, and as a technician, manager and teacher of Neurophysiology within public and private hospitals in NSW and more recently as a qualified solicitor. With her spectrum of life experience and rich and varied work history, she is bringing a strong regional customer voice to the brains trust.

How will we use your recommendations?

In August 2023, we will submit your recommendations to our regulator, the Australian Energy Regulator (AER), as they are currently reviewing gas pricing.

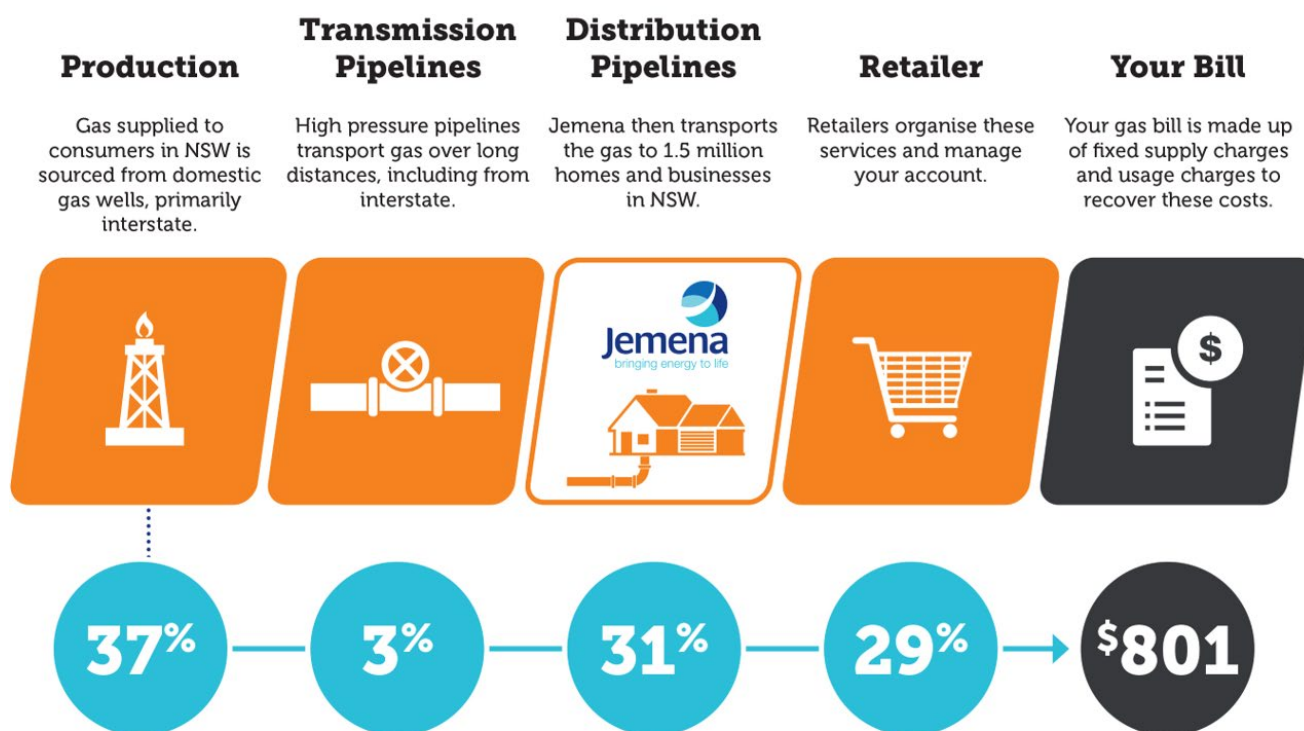
We will also include it in our five yearly regulatory price reset process, which is explained in more detail on the next page.

We will make ensure we share the outcomes of both submissions with you.

What is a regulatory reset?

Every five years, we must prepare a costed business plan for the review and approval of the Australian Energy Regulator (AER). We refer to it as a regulatory reset. The regulatory reset gives us direction on how much can be recovered from customers over

a five-year period. While Jemena does not directly bill household customers, as this is the role of the Retailer, the distribution costs form a portion of your gas bill and this revenue is passed onto Jemena Gas Networks.



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

As a gas distribution company, we make up approximately 31% of a typical household gas bill. What we charge, and the service we provide you, is reviewed every five years as part of a regulatory process which requires us to submit a plan to the national energy regulator.

Because we are a sole provider, our plan and process is highly regulated including what we can and can't charge our customers.

The regulators' review focuses on whether our plan is consistent with the rules and in the long-term interests of customers.

The level of service we need to provide influences how much we invest in the network, also helping us understand how you would like us to prepare for the future.

You can shape our thinking by helping us understand your gas pricing preferences. By better understanding the service levels required by you, and the community, we can plan for the future, and ensure you are accessing the services you want.

Your role in the Customer Forum is to work through what gas distribution pricing is in the best interests of customers.

Customer Forum

– important information

Digital platform

Outside of the online and in person meetings, we will connect through Jemena's Your Network, Your Say digital engagement platform. We don't expect this to be a lot of work or investment of time, but we'll share extra information here in between sessions.

To access go to: yournetwork.jemena.com.au/login

Deliberative engagement

The Customer Forum is grounded in deliberative engagement – a process of considering an issue or question in depth as a group. Deliberative engagement puts the community affected by a decision at the heart of the decision-making process. The key characteristics of deliberation are:

- A randomly selected and representative group of people
- The group is provided with detailed information to understand the issue and options for resolution
- There is time allocated and support provided for the group to consider information and ideas, weigh up issues and options and agree on recommendations
- The recommendations provided are influential and are adopted to the maximum extent possible.

Video link...

Learn about deliberative engagement here
(2:56 minutes)

youtube.com/watch?v=_8qB7pPf6Ec&t=113s



Your involvement

To maximise your input and role in this project, we've put together some principles of involvement for online, in person and digital engagement:



Be present. Find a quiet space to join the sessions for the time you have committed to and reduce distractions from family or roommates. You must join from a laptop, PC or tablet, and your camera and microphone should be on and working clearly.



Get curious. There are no silly questions. The point of this is to interrogate the subject matter, and critically question the scenarios and options available. Do not hesitate to ask.



Have your say. We have established a group that can represent Jemena's customer base. Your voice is important in the conversation, and your unique experience and insight is what we are here to hear.



Respect each other. While we support and encourage all views being shared, even opposing ones, we must draw the line at any behaviour that might cause others distress. Treat each other with respect and make space for other's diverse views otherwise we may have to ask you to leave.

Other important points to note:



Recording – we will be recording the online sessions. These will be used for ours and our consultants' purposes and record keeping. We may utilise images and stills from the recordings for posting online.



Posting to socials and talking to media – please feel free to speak from your point of view (not on behalf of the group or Jemena) about the process and discussions. We will also be posting about the process to our social media accounts and website.

Part 2

The Energy Transition

Australia has committed to net zero carbon emissions by 2050. Burning natural gas for energy produces carbon dioxide, so meeting this target means decarbonising gas, or as recent research* indicates, customers moving away from gas to electrification. The energy sector is already shifting away from producing and consuming non-renewable fossil fuels, like natural gas, and towards using low carbon, renewable energy sources, including solar power and renewable gas.

This is a complex and an ongoing process – it is often referred to as the energy transition and is characterised by uncertainty, market volatility, rapid change, and unpredictability.

At the heart of the transition is the net zero emission target by 2050, to curb global warming and limit the catastrophic and irreversible impacts of climate change.

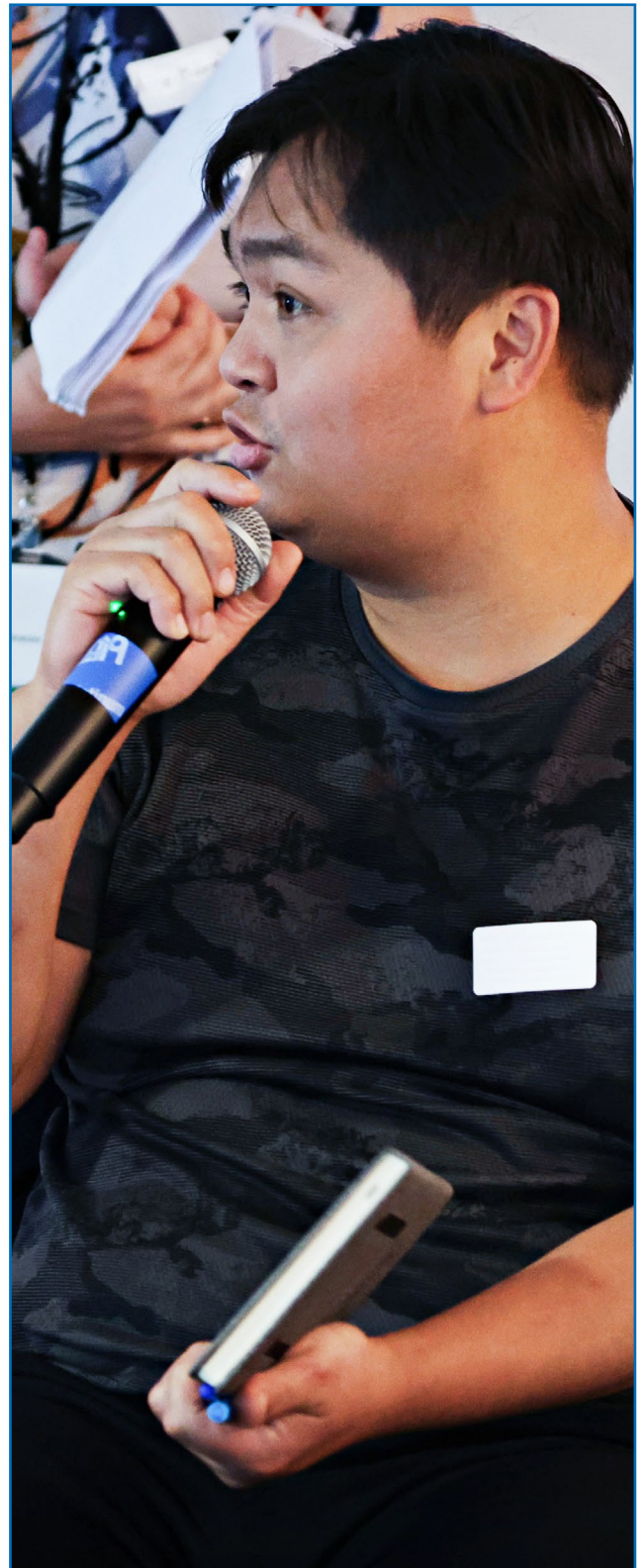
The Paris Agreement

At the 21st Conference of Parties (COP21) to the United Nations Framework Convention on Climate Change (UNFCCC) in December 2015, almost all participating countries agreed – for the first time ever – to enter a legally binding and universal treaty strengthen the global response to climate change.

196 countries agreed to reduce global greenhouse gas emissions to limit the increase in the global average temperature to well below 2°C above pre-industrial levels and pursue efforts to limit the temperature increase to 1.5°C and achieve net-zero emissions in the second half of this century.

Australia is party to the Paris Agreement and a requirement is to submit emissions reduction commitments. These were updated in 2022, committing Australia to reducing emissions to 43% below 2005 levels by 2030.

Learn more about The Paris Agreement
unfccc.int/process-and-meetings/the-paris-agreement/the-paris-agreement



What's driving the energy transition?

People are driving the energy transition. Customer expectations are rising, with a higher awareness of climate change, and a growing opposition to carbon emitting energy sources. Technologically, we are seeing continuing advances in renewables, improvements in energy storage, and digitalisation of energy. In the environment, we are seeing frequent,

intense weather events, and awareness of pollution levels and carbon footprints. There are political drivers as governments are needing to deliver on their COP21 commitments, alongside increasing regulation and efficiency standards as well as policy support for renewable energy.

What is the future of gas networks?

The role of gas networks has an uncertain future. As gas networks currently transport natural gas, a fossil fuel, the future is uncertain.

The future will depend on many factors such as consumer preferences, policy and regulation, technological developments and the economics of different options.

What is clear is that in any net-zero future, the status quo for gas networks cannot remain the same.

We believe that gas networks have a crucial role to play in tomorrow's energy system through a transition to renewable gases such as biomethane and green hydrogen.

Biomethane is a carbon neutral gas – it harnesses the energy potential from organic materials such as landfill gas, agricultural waste and wastewater.

Green hydrogen is produced using water and renewable electricity, through a process called electrolysis, meaning the entire process is free from carbon emissions.

We believe that renewable gases have the potential to:

1. Provide an alternative decarbonised source of energy with many of the natural gas characteristics such as instantaneous heat as well as the reliability and security of a dual source of energy.
2. Avoiding costly upgrades to the energy network and generation fleet providing a lower cost whole of system decarbonisation pathway.
3. Supporting the decarbonisation of other sectors such as transport or providing a role in supporting the electricity grid.

However, there are challenges and the renewable gas future is not guaranteed. As a result, many believe that gas networks will or should play a much smaller or even no role as homes and businesses electrify.

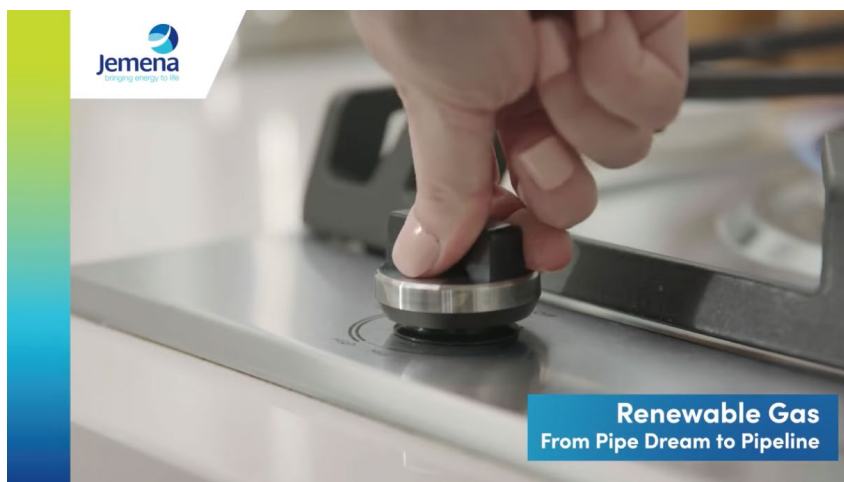
Examples include:

- The Australian Energy Market Operator. All of the 2050 net-zero scenarios used in its forecasting and planning publications assume that residential gas loads will be almost entirely electrified by 2050. See <https://aemo.com.au/-/media/files/major-publications/isp/2022/2022-documents/2022-integrated-system-plan-isp.pdf> and <https://aemo.com.au/en/energy-systems/gas/gas-forecasting-and-planning/gas-statement-of-opportunities-gsoo>
- The ACT Government which advises customers to switch away from gas, see here: <https://www.climatechoices.act.gov.au/energy/switching-from-gas>
- Saul Griffith, an Australian-American inventor, who believes we should electrify everything. See here: youtube.com/watch?v=Qg-p4ZbQ1HU (video 3min 14 seconds)

Video link...

This video provides more information about what Jemena is doing to develop renewable gas alternatives
(3:26 minutes)

<https://youtu.be/hOeFztDmgm4>



Gas distribution pricing in more detail

Energy companies on the east coast of Australia, including NSW, are regulated by the Australian Energy Regulator (AER). They ensure that investments made by companies are prudent and efficient. The amounts charged to customers must be fair, and based on efficient investments.

Network tariffs for Jemena Gas Networks' core service (i.e. the transportation of gas) must be approved by the AER. These charges are included in customer bills, which are then issued by retailers. Jemena's portion is around 33-41% of your total gas bill.

There are two tools that influence how gas distribution is priced: these are called a price control, and a tariff.

Price control

Every five years, the AER sets the average price increase that Jemena is allowed to charge. What is important here, is that this method of 'price control' hasn't changed for some time now. The purpose of the current price control is to promote network connections and facilitate stable, low prices for customers.

The name of the price control is a 'weighted average price cap'. The regulator caps the average price increase at the start of every five years. The regulator also approves the forecast demand and customer numbers proposed by Jemena.

Generally, prices under a price cap have been relatively stable. This is because the price cap, in principle, encourages Jemena to grow the customer base (i.e. Jemena's fixed costs can be spread over more customers, resulting in lower costs per customer). However, given that the price cap facilitates network growth, there is the question about whether the price cap is still appropriate for the future. Given that there is the prospect of a declining customer base in the future, there is the risk that remaining customers on the network would end up paying more for the network costs.

Jemena also faces a risk that under certain scenarios with reduced customers, they would collect less revenue, and this means they wouldn't be able to cover the costs of running the network.



Tariff

Another element of the regulatory framework that influences network prices is the tariff structure. The tariff structure refers to the way a unit of gas (i.e. a gigajoule of gas) is priced, as more and more gas is consumed.

Currently, Jemena has a 'declining' block tariff structure. This means that, the more gas a customer consumes, the lower the unit price of gas. This does not mean that the more you consume, the lower you will pay. Customers who consume more gas will always pay more. And those who consume less gas will pay less. But for a customer who consumes a lot of gas, the last unit of gas consumed will cost less than the first unit of gas consumed. To a degree, this tariff structure encourages customers to consume larger volumes of gas.

This can benefit larger customers like industrial companies rather than smaller households who might be looking to be more conservative with their energy use.

The Australian Energy Regulator

In May 2023, the AER released an issues paper outlining the challenges facing gas networks, and explained how there is an uncertain future for the networks and their customers.

The future may present a shift in customer preferences and some customers may move wholly or partially away from gas. If this happens, it threatens to leave both assets (the infrastructure necessary to provide gas to customers home and businesses) and customers 'stranded' – locked into a network that fewer people use.

The AER is keen to ensure that neither customers nor networks are unfairly penalised while this situation becomes clearer. They've outlined a number of price controls and tariff options that they would like Jemena to ask its customers about.

The pricing measures are complex and relate, broadly speaking, to who bears the financial risk, how fair are the measures to customers and to Jemena, and how they can help create a certainty of gas supply into the future.

Through this upcoming engagement, customers have a chance to understand the role that tariffs play and have a say in how they would prefer to pay for gas distribution.

You can read more in the AER Issues Paper and on their website [from this link](#).

Contact us

If you have any questions about the program please get in touch with Merryn Spencer, Engagement Lead, Jemena on 0401 021 560 or GasNetworks2050@jemena.com.au

