Pre Reading Pack

Customer Structures

Customer Forum

1 November 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

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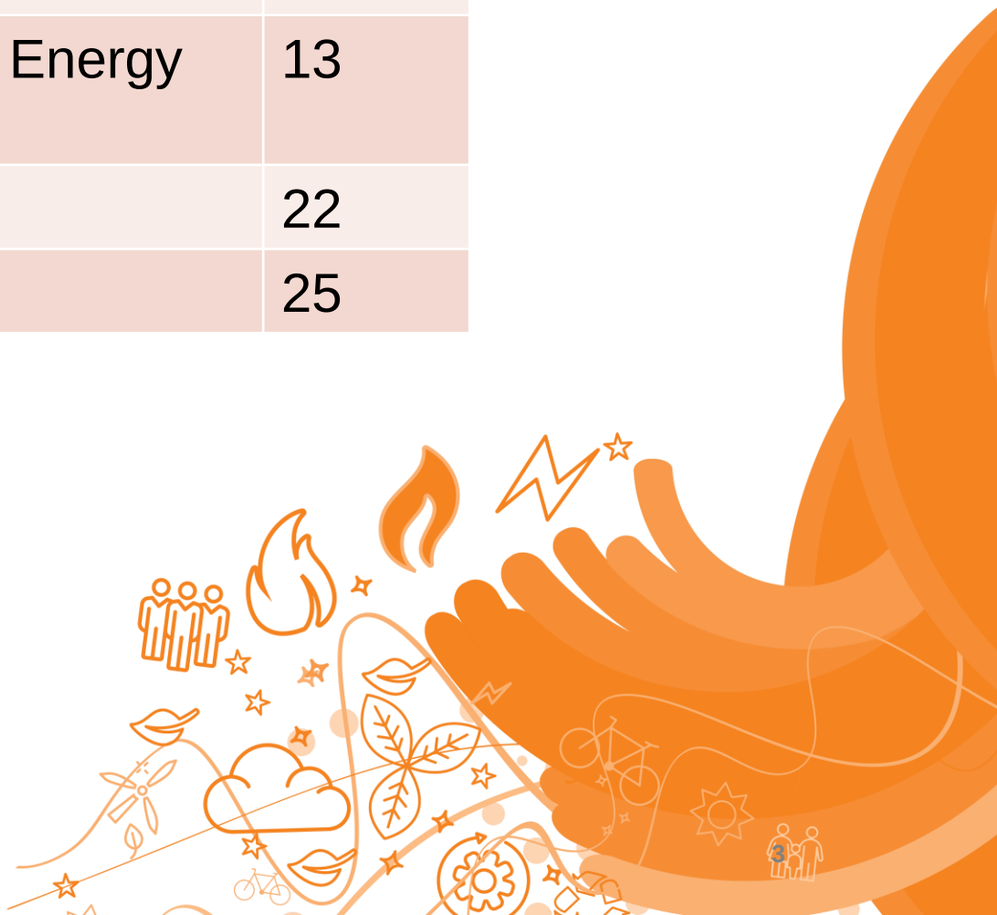


Recap: Form of Control, tariffs and the regulated environment Jemena operates in

The energy environment is rapidly changing because of net zero targets. What is in the best interests of customers when pricing gas for the next five years (2025-2030 period)?

The Regulator (the AER) sets the rules on how Jemena can earn its revenue.

They can earn revenue in two ways, through either:

Revenue cap

Revenue cap - Total revenue is set within a 5-year period. Because revenue is guaranteed, prices can go up or down to ensure that the revenue is achieved. If there are fewer customers using gas, then prices can go up to achieve the revenue requirement. If more customers are using gas, prices can go down.

Price cap

A price cap – Prices are set within a 5-year period. Once prices are set, it doesn't matter whether there are fewer or more customers on the network. Prices stay the same within the 5-year period. If there is less gas demand, JGN's revenues go down. If there is more gas demand, revenues go up.

OR

Combination of both

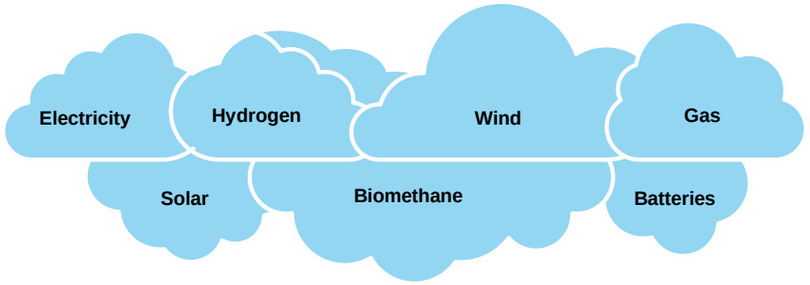
Hybrid approach - customer and Jemena share the risk

Fewer customers	More customers
	
Jemena bringing energy to life 	
	Jemena bringing energy to life 

Which of these is in the best interests of customers?

No one knows what the best form of control would be, for the next five years and beyond. It is hard, because no-one knows what will happen – will gas be phased out quickly, will customers move away from gas to electricity, or will new forms of 'green gas' mean that customers will stay and maybe even grow?

The energy environment is rapidly changing because of net zero targets



The gas network is paid for by all customers that use it

Tariffs (how gas is priced) need to pay for the existing network, and pay for the network in the future

The challenge – what is in the best interests of customers in how network tariffs is priced for the next five years?

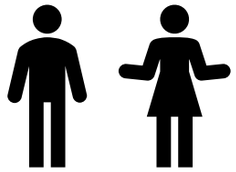
Who should bear the risk of fewer customers?

What if lots of customers move away from gas over the next five years?

Is it appropriate that the more gas people use, the cheaper (per unit) it becomes?

Illustration of revenue impacts under different forms of control

Forecast

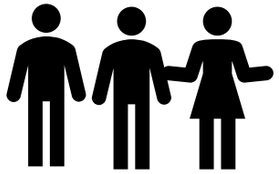


2 customers

Revenue per customer = $1

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

Actual



Price per customer = $2/3 = $**0.67** per customer

Price per customer = $2/1 = **$1** per customer

3 customers (i.e., outperformance)

Revenue cap	Price cap
Total revenue = **$2**	Total revenue = **$3**

Under a price cap, gas networks can benefit from outperformance

1 customer (i.e., underperformance)

Revenue cap	Price cap
Total revenue = $2	Total revenue = $1

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

Recap: taco analogy

All you can eat tacos ($100 a table)

What is the fair arrangement?

1. Split the bill -$20 each
2. Pay by taco - $10 a taco
3. Penalise the unhealthy – Each taco you consume costs more
4. Encourage more tacos – Each taco you consume costs Fewer

Should the restaurant be able to charge more if someone turns up?

Should the restaurant offer up a discount for a no-show?

Engagement program

This section gives an overview of your role and the engagement process over the next few months.

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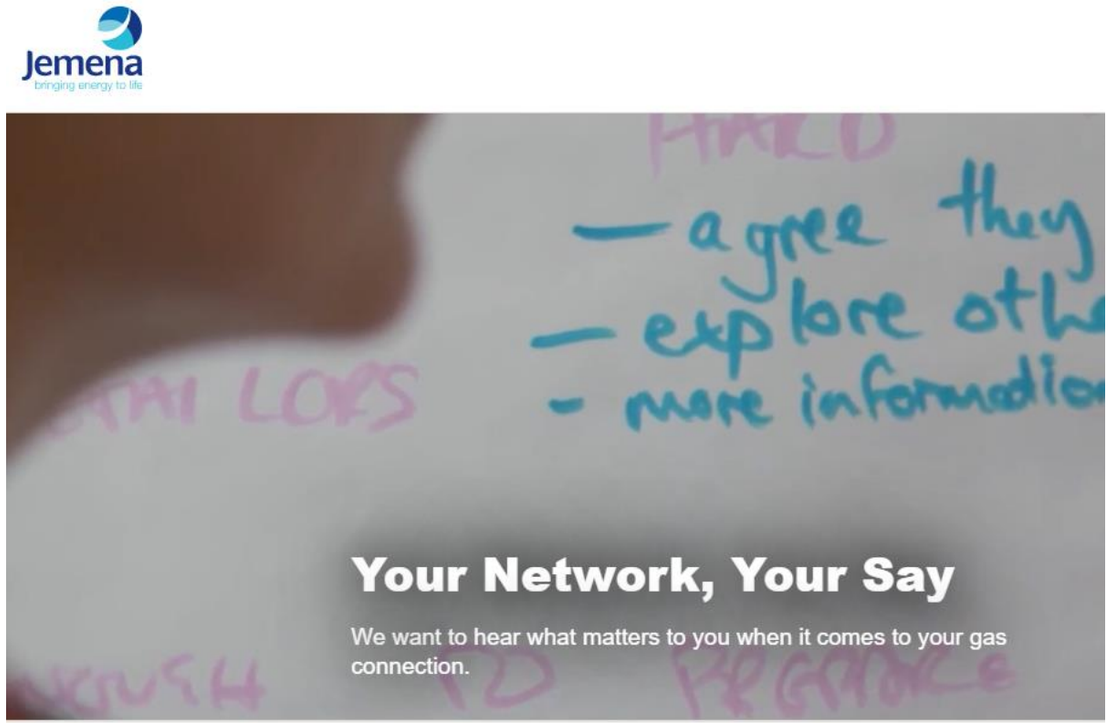
Stage 2 engagement activities

Activity	Date	Time	Location
IT set up & testing	W/c 6 November 2023	Individual sessions (Times TBC)	Zoom / MS Teams
Workshop 1	Thursday 9 November 2023	5:00 – 6:30pm (1.5 hours)	Zoom
Reading and activity task 1	W/c Monday 13 November 2023 **Due** 10:00am on Monday 20 November.	N/A	yournetwork.jemena.com.au/
Workshop 2	Wednesday 22 November 2023	5:00 – 6:30pm (1.5 hours)	Zoom
Reading and activity task 2	W/c Monday 27 November 2023	N/A	yournetwork.jemena.com.au
Workshop 3	Wednesday 6 December 2023	5:00 – 8:00pm (3 hours)	Zoom
Wrap up and evaluation survey	W/c Monday 11 December 2023	N/A	Online (Survey Monkey)

Online activities

- Two reading and activity tasks will be required from you in between workshops.
- They will be submitted on Jemena's engagement website - https://yournetwork.jemena.com.au/
- Activities can be completed in your own time ahead of their due dates.
- bd infrastructure will monitor the completion of activities.
- You can also use the website to:
  - access Stage 1 & 2 engagement materials
  - ask questions
  - check workshop dates and Zoom links
  - request technical support.
- For technical support contact Ken at bd infrastructure via email (Engagement@bdinfrastructure.com).



Gift cards for workshop participants

- Gift card payments will be processed after the engagement process.
  - *Please note that there will not be a gift card after the completion of each activity.*
- The gift card's value will depend on your completion/ participation of the activities outlined in the table to the right.
- Advise bd infrastructure via email (Engagement@bdinfrastructure.com) whether you prefer a digital or physical gift card.
- Please allow for 7-10 business days for gift cards to be ordered and delivered.

Activity	Gift card value
IT set up & testing	$80.00
Workshop 1	$75.00
Reading and activity task 1	$80.00
Workshop 2	$75.00
Reading and activity task 2	$80.00
Workshop 3	$150.00
TOTAL	**$540.00**

What to expect in workshop one

01
Welcome and purpose, understanding the process

02
Working together, recap

03
Principles

04
Tariff options

05
Homework prep and wrap up

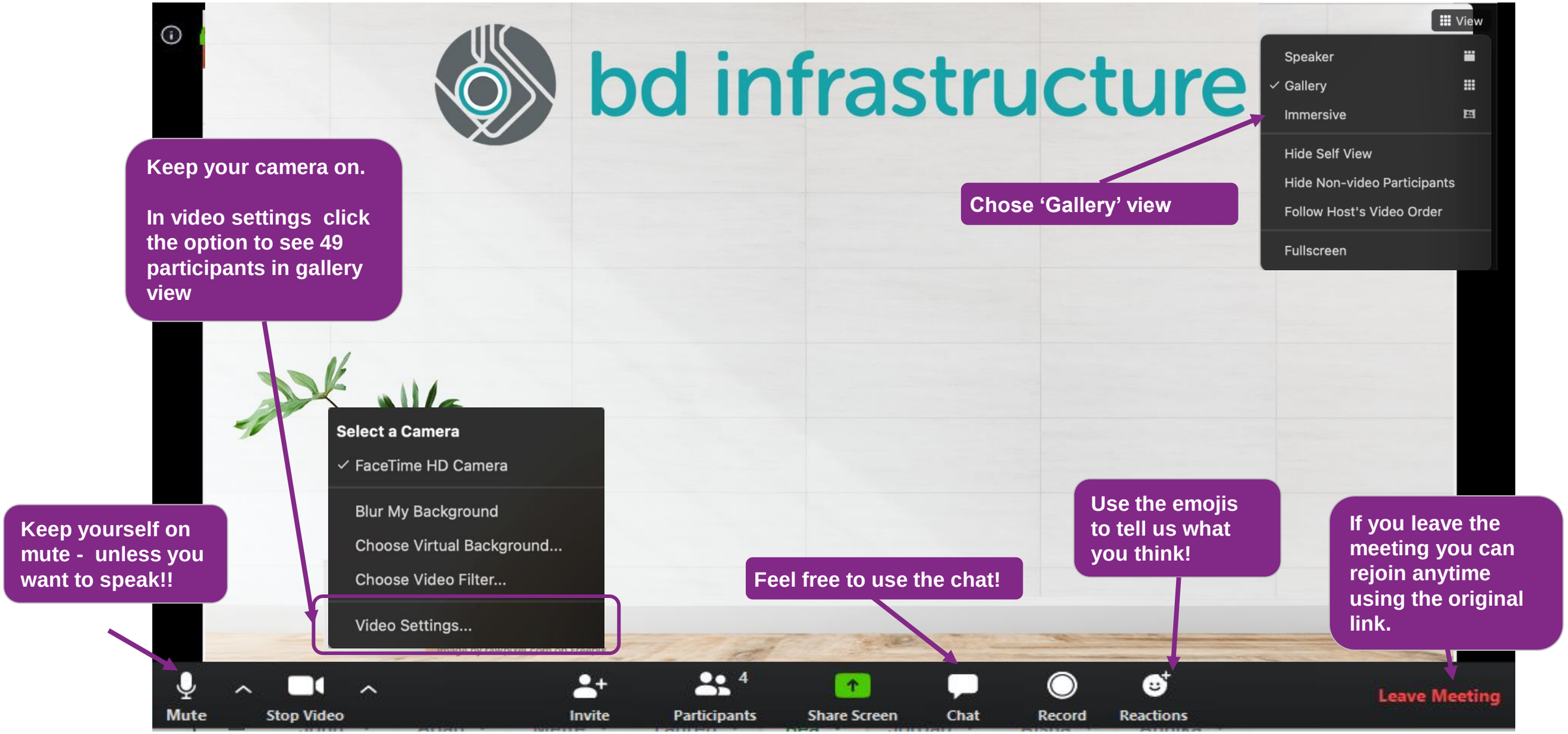
Your guides

Rachel Fox
Facilitator
Principal engagement and social impact
BD Infrastructure

Ken Fullerton
Project and technical support
BD Infrastructure

We look forward to seeing you there!

Recap: navigating the Zoom Room



All of you have used zoom before, here’s a quick refresher

Summary of stakeholder submissions on the Australian Energy Regulator's tariffs review

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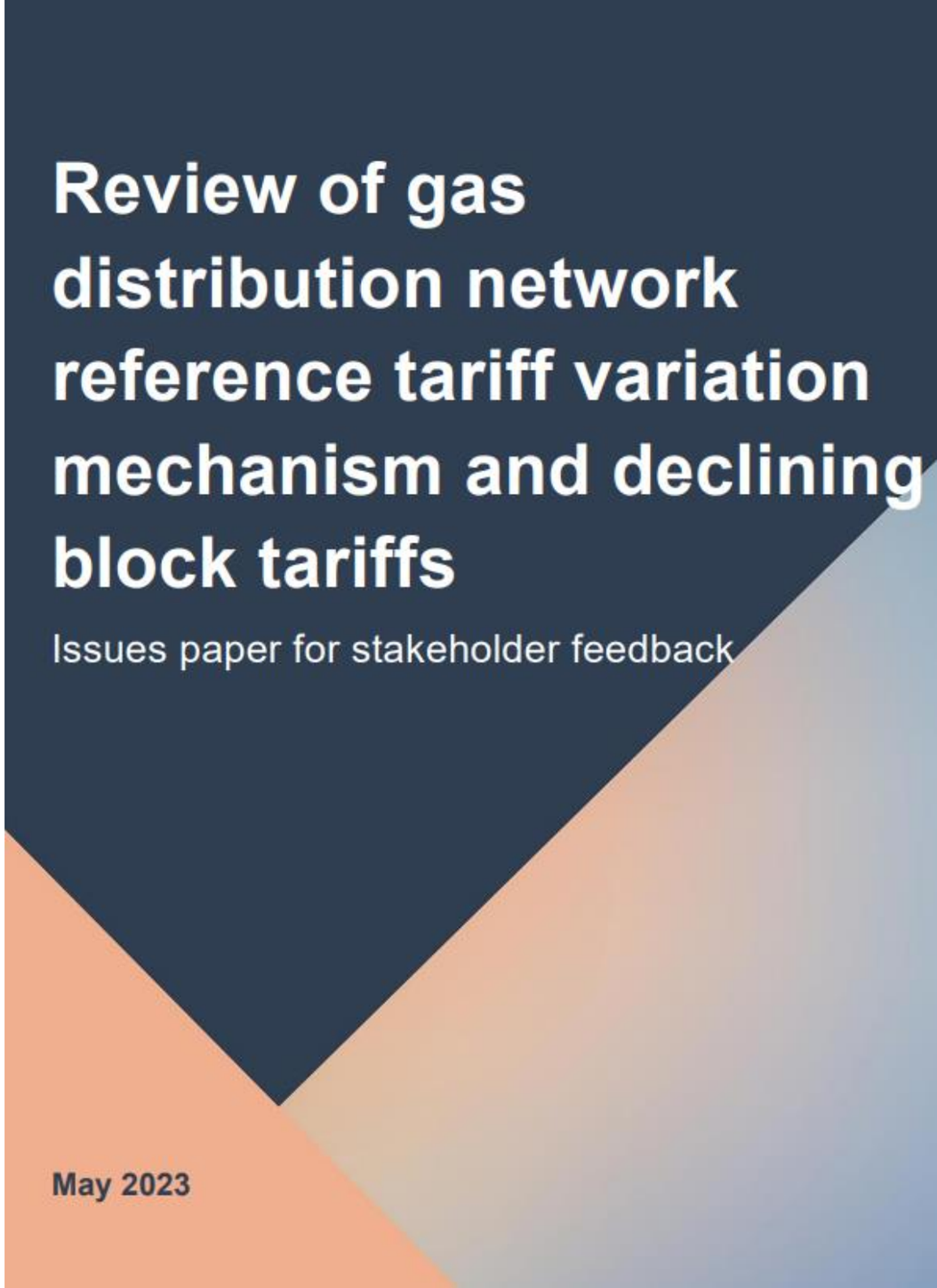
Context

- On May 5, 2023, the Australian Energy Regulator (**AER**) invited stakeholder feedback on their issues paper titled "*Review of the Mechanism for Varying Gas Distribution Network Reference Tariffs and Declining Block Tariffs”*.
- The AER noted that existing price cap mechanisms and declining block tariff structures incentivise gas distributors to expand their network and encourage gas consumption. These approaches have been beneficial as they allow gas networks to recover large fixed costs across a more extensive customer base, resulting in lower unit costs for customers.
- The review is in response to stakeholder feedback on updates to the National Gas Objective to incorporate an emissions reduction component, as well as broader interest on the transition to net zero.

Please click on this link for the AER’s consultation page



Guide on reading the stakeholder submissions

Purpose

The purpose of this section is to provide a *brief overview* of stakeholder submissions to the AER's Issues Paper. It is ***not*** a substitute for the stakeholder submissions themselves. If you come across a submission that piques your interest, you can access the full submission on the AER website.

How to use this document

The AER received a total of *18 submissions* from stakeholders. These were from a mix of retailers, academics, gas networks, non-profit organisations, private consultants and industry groups.

This document gives a *very brief summary of some key points* raised in each submission. We recommend reading all these summaries first, then reading the full submission if it interests you.

Collectively, the summaries in this document give a sense of the diversity of views and opinions relating to tariff reform. Tariff reform is a complex topic, and the outcome of any tariff reform depends on a variety of factors.

What next?

We hope you enjoy reading the summaries.

If you have any questions about this document or tariff reform in general, please contact:

- **Lay Na** at Layna.lim@jemena.com.au
- **Emma** at Emma.Wilson@jemena.com.au

Note: On 31 October 2023, the AER published its final decision on its review. The final decision can be found here, and contains a summary of stakeholder submissions.

Summary of retailers' submissions

Stakeholder	Tariff structure	Price cap or revenue cap?	Link to full submission
Red Energy & Lumo Energy	**Support declining tariff structure** • Retain price caps and declining block tariffs until the policy environment becomes clearer. • Replacing declining block tariffs with inclining block tariffs is unlikely to reduce gas consumption substantially.	**Support price cap** A shift to a revenue cap will transfer risk to customers.	Link to full submission here
EnergyAustralia	**n/a** • Valuing emissions reduction should be considered, incl. use of shadow carbon prices. • Network tariffs could be restructured to align with capacity • Consideration should be given to more fixed pricing, should there be a move to a revenue cap.	**Support hybrid mechanism** Revenue caps have risks too and should be implemented in conjunction with higher fixed tariffs	Link to full submission here
AGL Energy Limited	**Support flat tariffs, but only if gradually implemented** Recommends reduction in variances within declining block tariffs and progressing towards flat tariffs in a staggered manner.	**In the near term, no compelling reason to move to a revenue cap** Does not recommend revenue caps, given that extreme changes in demand are unlikely in the near term.	Link to full submission here
ActewAGL Retail	**Support declining tariff structure** Declining block tariffs benefit residential customers that rely on gas, including disadvantaged and vulnerable households, by providing bill certainty.	**n/a**	Link to full submission here

Summary of customer advocates & climate groups' submissions

Stakeholder	About this stakeholder	Tariff structure	Price cap or revenue cap?	Link to full submission
Public Interest Advocacy Centre	Independent non-profit organization that works with people and communities who are marginalised and facing disadvantage. Read more here.	**Support binding principles** • Instead of supporting a specific structure, suggested providing **binding principles** for tariff structures that support demand reduction and cost recovery for high levels of demand. • Recommend differentiation between residential and large commercial/industrial users and low fixed charges for residential consumers.	**Support price cap** Noted that price caps may lead businesses to "under-estimate" demand forecasts.	Link to full submission.
Brotherhood of St Lawrence	A social justice organisation working to prevent and alleviate poverty across Australia. Read more here.	**Support flat tariffs** • Advocates single-rate tariffs. • Acknowledge that low gas users would benefit from abolishing declining block tariffs, and high users would be worse off. However, high gas users who are vulnerable must be supported through the transition.	**Support price cap** Moving from price to revenue cap will transfer risk to customers	Link to full submission.
Darebin Climate Action Now	DCAN was born when a group of Melbourne residents met in 2006 to talk about how they might contribute to raising community awareness of the risks posed by climate change. Read more here.	**Support inclining block tariffs** • Suggested that the AER's ruling on tariffs should be short-term, pending a comprehensive review. • Support inclining block tariffs but emphasize the need for measures to protect low-income individuals.	**n/a** Expressed concerns about a shift from price caps to "volume controls" (i.e. revenue caps).	Link to full submission.
Lighter footprints	A local climate group committed to leading effective climate action. Read more here.	**n/a** • Revised their position on declining block tariffs, stating that changing the profile of block tariffs will have a negligible impact on consumption as retailers set tariffs. • Should focus on making the transition to electricity easier for vulnerable customers.	**Support revenue cap** Believes that under a revenue cap, customer bills will be lower and there will be less pressure for increasing demand	Link to full submission.

Summary of consultants' submissions

Stakeholder	About this stakeholder	Tariff structure	Price cap or revenue cap?	Link to full submission
Cambridge Economics Policy Associates	CEPA Australia provides clients across Asia-Pacific with regional market expertise and services supporting effective decision-making and policy formulation. Read more here.	**Support declining tariff structure (but a better designed one)** • A well-designed declining block tariff can reflect efficient consumption levels and marginal costs for larger users. • Considerations should be given to the allocation of fixed costs to variable charges to replicate the effect of a carbon tax.	**n/a** • Changing from a price cap to a revenue cap affects the allocation of volume risk in the short term but not in the long term. • Under the current framework, under either a price or a revenue cap, customers remain exposed to the risk that, if demand declines substantially, gas distribution network prices will rise in the next access arrangement period.	Link to full submission.
Institute for Energy Economics and Financial Analysis	Examines issues related to energy markets, trends, and policies. The Institute's mission is to accelerate the transition to a diverse, sustainable and profitable energy economy. Based in Asia, Australia, Europe and North America. Read more here.	**Support flat/inclining tariff structure** Inclining block tariff structure disincentivizes greater gas consumption	**Support price cap** Revenue cap mechanism is inappropriate: may accelerate the 'death spiral' of the gas network, transferring more risk to customers.	Link to full submission here.

Summary of industry and consumer groups' submissions

Stakeholder	About this stakeholder	Tariff structure	Price cap or revenue cap?	Link to full submission
Energy Consumers Australia	Represent residential and small business energy consumers to have their voices heard by the sector. Work with other consumer groups to gather evidence-based research with a national perspective, distil it to key viewpoints, and feed it back to the market to influence outcomes. Read more here.	**n/a**	**n/a**	Link to full submission.
Energy Networks Australia	National industry body representing Australia's electricity transmission and distribution and gas distribution networks. Members provide more than 16 million electricity and gas connections across Australia. Read more here.	**No preference** Noted that "… there are many balancing issues and trade-offs at play, and customers should be thoroughly consulted on, and informed of the consequences of, their risk sharing and tariff preferences through individual access arrangement processes rather than reaching any mandated national approach through this review".	**No preference** Noted that "Any potential changes to tariff block structure should not be considered in isolation and, to avoid unintended consequences, potential changes to tariffs should be considered alongside a range of other factors".	Link to full submission.
Australian Energy Council	Represent 20 major electricity and downstream natural gas businesses operating in the competitive wholesale and retail energy markets. Members sell gas and electricity to over 10 million homes and businesses and are significant investors in renewable energy generation. Read more here.	**Support flatter tariff structure but only gradually** Gradually increasing the fixed charges component and flattening the declining block structure can encourage a reduction in gas connections and promote electrification.	**No preference** Both price cap and revenue cap regulatory approaches have limitations in addressing net zero 2050 and environmental concerns.	Link to full submission.

Summary of academics' submissions

Stakeholder	About this stakeholder	Tariff structure	Price cap or revenue cap?	Link to full submission
Alan Pears **Senior Industry Fellow, College of Design and Social Context, RMIT** 	• Through his consulting practice and links to community and professional organisations, Alan has worked on many projects in the clean energy, planning, climate policy, green building and public education fields. • Bachelor of Engineering (Hons) (Monash University) • Diploma of Education (Monash University LinkedIn profile	**n/a** • Different versions of declining block tariffs can affect consumers differently. • Instead of a definite approach, the criteria for tariff design should ensure social equity is achieved while managing gas network-related costs arising from decreasing gas consumption. • Network tariffs are only one element of consumer bills.	**n/a** Noted that the "reasonable return on investment" approach should not prioritize network profits over consumers.	Link to full submission here.
Ron Ben-David **via Monash Business School**  MONASH BUSINESS SCHOOL	• Senior leadership roles in policy development and economic regulation particularly in Victorian energy and water sectors. • Doctor of Philosophy, PhD, Economics (University of Melbourne) • Bachelor of commerce, economics (University of Melbourne) • Bachelor of Science (University of Melbourne) LinkedIn profile	**n/a** • Any proposed network tariffs will have equity implications. Regulators must robustly assess redistributive effects. • Although there are theoretical arguments against declining block tariffs, there may be practical reasons to maintain them.	**n/a** • Concerned about the recovery of profits by gas networks. • Does not conclude whether a price cap or revenue cap is better for consumers.	Link to full submission here.

Summary of gas networks' submissions

Stakeholder	About this stakeholder	Tariff structure	Price cap or revenue cap?	Link to full submission
Australian Gas Infrastructure Group	Own and operate infrastructure that delivers gas to more than two million homes and businesses across Australia. Including SA, NT, Victoria, QLD, WA and the southern part of NSW. Read more here.	**Support declining tariffs** • Volume of gas per customer has been declining for several years, challenging the AER's belief that declining block tariffs encourage increased volumes. • Flat or inclining block tariffs may reduce demand compared to declining block tariffs, but this does not necessarily reduce emissions overall.	**Support price cap** • The relationship between price caps and connection numbers is unclear. Customer preferences and economic viability also influence connection growth. • Revenue caps: Fluctuating prices due to difficulties in demand forecasting may result in more significant price variations for consumers compared to electricity.	Link to full submission
Evoenergy	Operates and maintains the ACT electricity and gas network. Read more here.	**n/a** • Declining block tariffs are more efficient as they align with the underlying costs of delivering gas. • But declining block tariffs do not discourage gas usage during cold periods	**n/a** • Price Cap has benefited customers by incentivizing network expansion, driving efficiency, and lowering prices. • However, price caps do not align with emissions reduction or community expectations.	Link to full submission here
Jemena Gas Network	Our network distributes natural gas to 1.5 million residential business and industrial sites in Sydney, Newcastle, the Central Coast and Wollongong, as well to customers in more than 20 regional centres.	**n/a** Preference is to avoid significant changes in risk sharing between networks and customers.	**Hybrid approach** • The energy landscape is still evolving. A prudent and cautious approach is required at this stage. • Recommend a hybrid cap and collar approach.	Link to full submission here.

What you said in the stage one workshops

This section gives a summary of what you said in our workshops in July and August.

Jemena

What residential customers told us

1. The energy environment is rapidly changing because of net zero targets. What is in the best interests of customers when pricing gas over the next five years?

Jemena bears risk: Approximately half the participants recommended this with reasons including:

- Jemena has the capacity for analysis and business forecasting
- Jemena is a profit-based company
- Risk is too high for customers with cost-of-living pressures
- Uncertainty of future customer base due to net zero targets.

Sharing the risk: Approximately half the participants recommended this with reasons including:

- Uncertainty due to net zero targets including around the potential future customer base, so it's right to share the costs
- Jemena has the capacity for analysis and business forecasting
- Risk is normally accepted by customers in the costs of goods and services.

2. Is it appropriate that the more gas people use, the cheaper (unit cost) it becomes?

Some customers believe it is appropriate because:

- Business costs will impact the economy and customers if we change
- We must consider larger household customers
- We are still waiting on government policy
- We need to consider efficiency and affordability for all.

Some customers believe it is inappropriate because:

- We need to consider making it more equal or fair for smaller gas users
- We need to consider the net zero goals and environmental values
- It should be more affordable to encourage connections.

What customers grappled with

As they explored the questions, they grappled with the following:

- Encouraging gas usage – customer bills
- Combined risk sharing between Jemena and customers
- Larger customers and their gas usage
- Encouraging gas usage – efficiency and environmental considerations
- Cost of living pressures and fairness
- The retailer passing on changes in tariffs.

A group definition from customers

‘What’s in the best interest of customers?’

Household customers shouldn’t be disadvantaged, and gas supply should be reliable and safe – and we should meet and exceed environmental obligations.

Revisiting these decisions with the best interests of customers in mind

Residential customers agreed either Jemena should bear all OR most of the risk (under a hybrid option).

- Jemena was able to better forecast gas usage and customer base
- Customers should take a role in risk sharing as this was seen to help Jemena stay in business and therefore provide a safe, reliable and affordable gas service.

Some customers in our workshops agreed that it was inappropriate to price gas to encourage people to use gas more.

- The need to balance efficiency and and affordability for household customers
- Small Household customers can be disadvantaged by this pricing method
- Large Household customers and high users can be advantaged with this pricing method.

How your feedback is shaping our early thinking

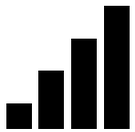
This section summarises our early thinking and why we’re proposing these options.

Jemena

How our early thinking aligns with the pricing principles

	Cost reflectivity	*Price stability*	*Simplicity*	Revenue adequacy	Fairness / equity
	Using the relevant laws to observe cost effective prices	*Minimising large tariff increases to help customers manage bills in future*	*Understandable, minimising transaction costs and applicability of overseas pricing structures*	*Efficient cost recovery*	*Usage cost is according to costs of the network and covering equity considerations like cost of living pressures*
Tariff blocks	Fully aligns	Fully aligns	Fully aligns	Fully aligns	Partially aligns
Fixed vs variable	Partially aligns	Partially aligns	Partially aligns	Fully aligns	Partially aligns
Residential vs commercial	Fully aligns	Fully aligns	Fully aligns	Fully aligns	Fully aligns

Early thinking: Looking after households as they transition

What are we proposing now?	What can we do later?	How does this align with your feedback?
Separate out Household customers and Large Commercial customers. 	• Develop a different set of tariffs for Household customers and Large Commercial customers. • Adjust fixed vs. variable pricing	**<u>Affordability and Equity</u>** Larger commercial entities and households have different ability to pay for gas and should face different prices.
Combine price cap and revenue cap (“Combination cap”). 	Depending on market developments (such as the pace of electrification and renewable gas), we could further adjust the Combination cap.	**<u>Sharing of demand risk</u>** • With the Combination cap, JGN will absorb loss of revenues (up to a point) if customers depart the network. • On the flip side, any unexpected gains due to a surge in customers won’t result in windfalls for JGN.
Streamline declining block tariffs. 	Depending on consumption patterns, we could further flatten tariffs and/or incline tariffs.	**<u>Pricing for the environment</u>** • The impact of declining / flat / inclining tariffs on gas consumption is still unclear. • To avoid bill shock, the transition away from declining blocks should be gradual, not sharp and sudden.

What you’ve told us

Fairness is important for smaller gas consumers

Affordability needs to be prioritised

JGN and customers should share the risk of customers leaving the network

Declining block tariffs are not appropriate in addressing environmental concerns

What are the risks and trade-offs? (Just keep in mind for now)

Historical approach to pricing

- Focused expanding the network through 'free' connections. This strategy aligned well with the Price cap and Declining block tariff.
- Benefits included a stable and growing customer base, which in turn led to average bill reductions.
- Declining block structure encouraged efficient network use.
- Adding new gas appliances to a household correlated with reduced unit costs.

Declining block tariffs

- Declining block tariffs are designed to give customers “smoother bills” in cold months.
- With flatter or inclining tariffs, a household with multiple gas appliances could have higher winter bills.
- The transition to inclining tariffs needs to be gradual to avoid ‘shocks’.

to hear,
listen
and think

Jemena