

Tariff Structures

Small Business Customers

Focus Group

30 November 2023



Acknowledgement of Country

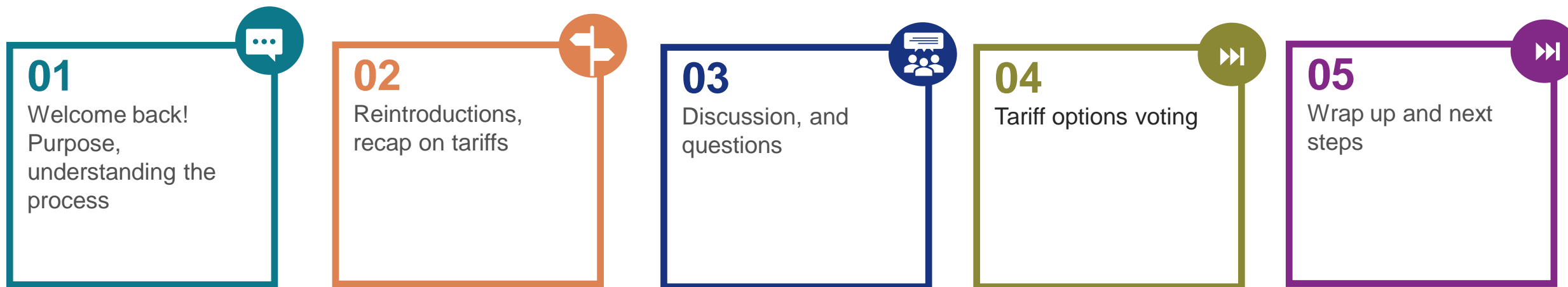
We acknowledge the Traditional Owners of the lands upon which we operate and recognise their continuing connection to land, waters, and culture.

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



What to expect in the workshop



Your guides



Andre Kersting
Gas Networks Regulation
Manager



Lay Na Lim
Senior Regulatory Advisor



Emma Wilson
Gas Networks Pricing Lead



Jennifer Hardman
Communications and
Engagement Support Lead



Merryn Spencer
Engagement Lead

This session is being recorded!

Ground rules



Be ready to be
challenged



Everyone has
their say



Listen, don't
interrupt



Keep
contributions
relevant to the
subject



Be respectful

Navigating the Zoom Room

The image shows a Zoom meeting interface with several callouts explaining key features:

- Keep your camera on.** In video settings click the option to see 49 participants in gallery view. (Points to the 'Video Settings...' option in the 'Select a Camera' menu.)
- Keep yourself on mute - unless you want to speak!!** (Points to the 'Mute' button in the bottom toolbar.)
- Chose 'Gallery' view** (Points to the 'Gallery' option in the 'View' menu.)
- Feel free to use the chat!** (Points to the 'Chat' button in the bottom toolbar.)
- Use the emojis to tell us what you think!** (Points to the 'Reactions' button in the bottom toolbar.)
- If you leave the meeting you can rejoin anytime using the original link.** (Points to the 'Leave Meeting' button in the bottom toolbar.)

The interface includes a top toolbar with 'View' and 'Info' buttons, a bottom toolbar with 'Mute', 'Stop Video', 'Invite', 'Participants' (4), 'Share Screen', 'Chat', 'Record', 'Reactions', and 'Leave Meeting', and a central video area showing a grid of participants.

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

Guide to using Mural

Click to add in a picture, icon, shape or a sticky note!

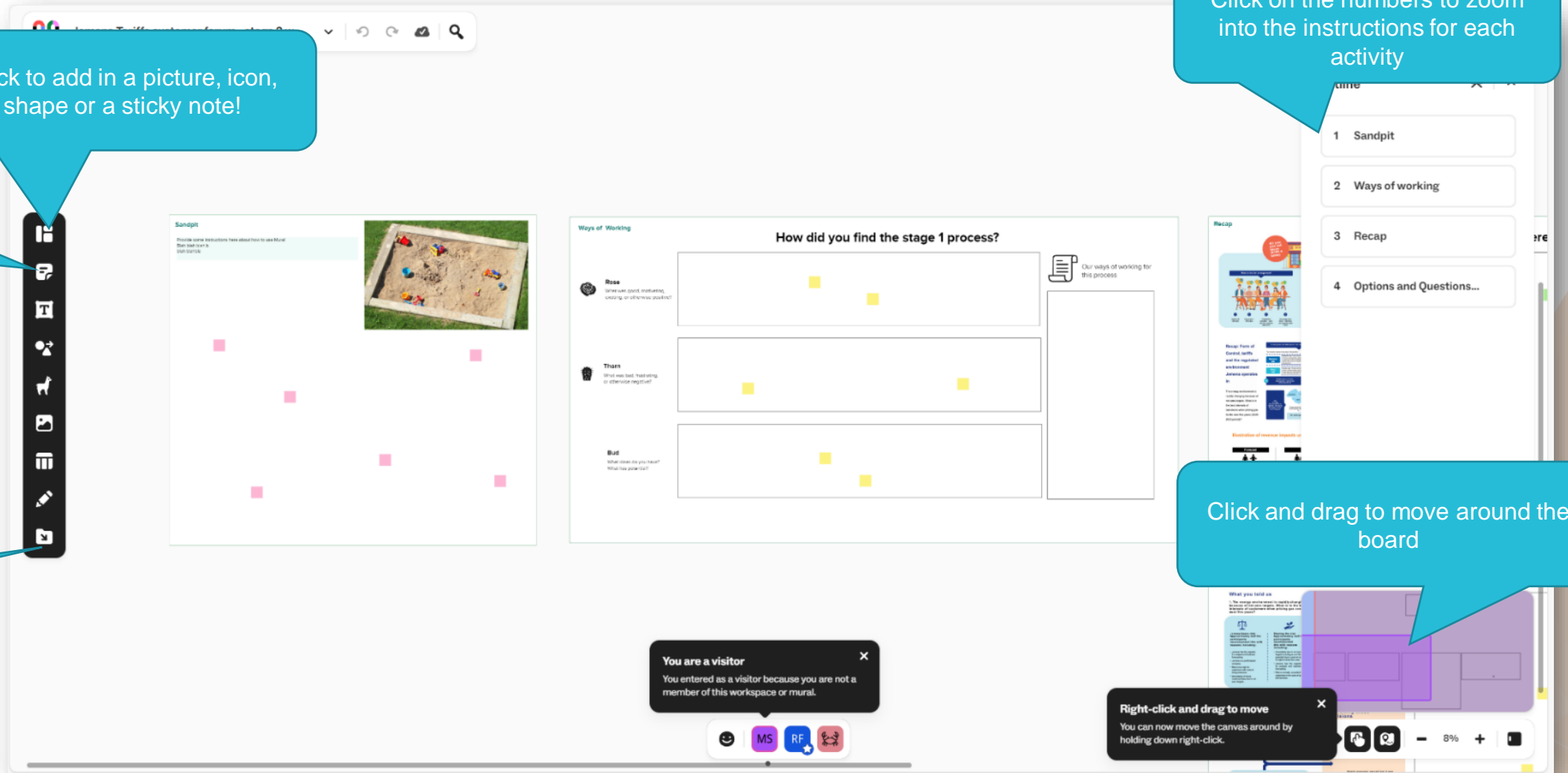
To add a sticky note, double click then type and resize.

To zoom in and out, 'pinch' on the track pad or 'scroll' on your mouse.

To move around, right click mouse and drag, or swipe the track pad.

Click on the numbers to zoom into the instructions for each activity

Click and drag to move around the board



Re-introduce yourself to the group!

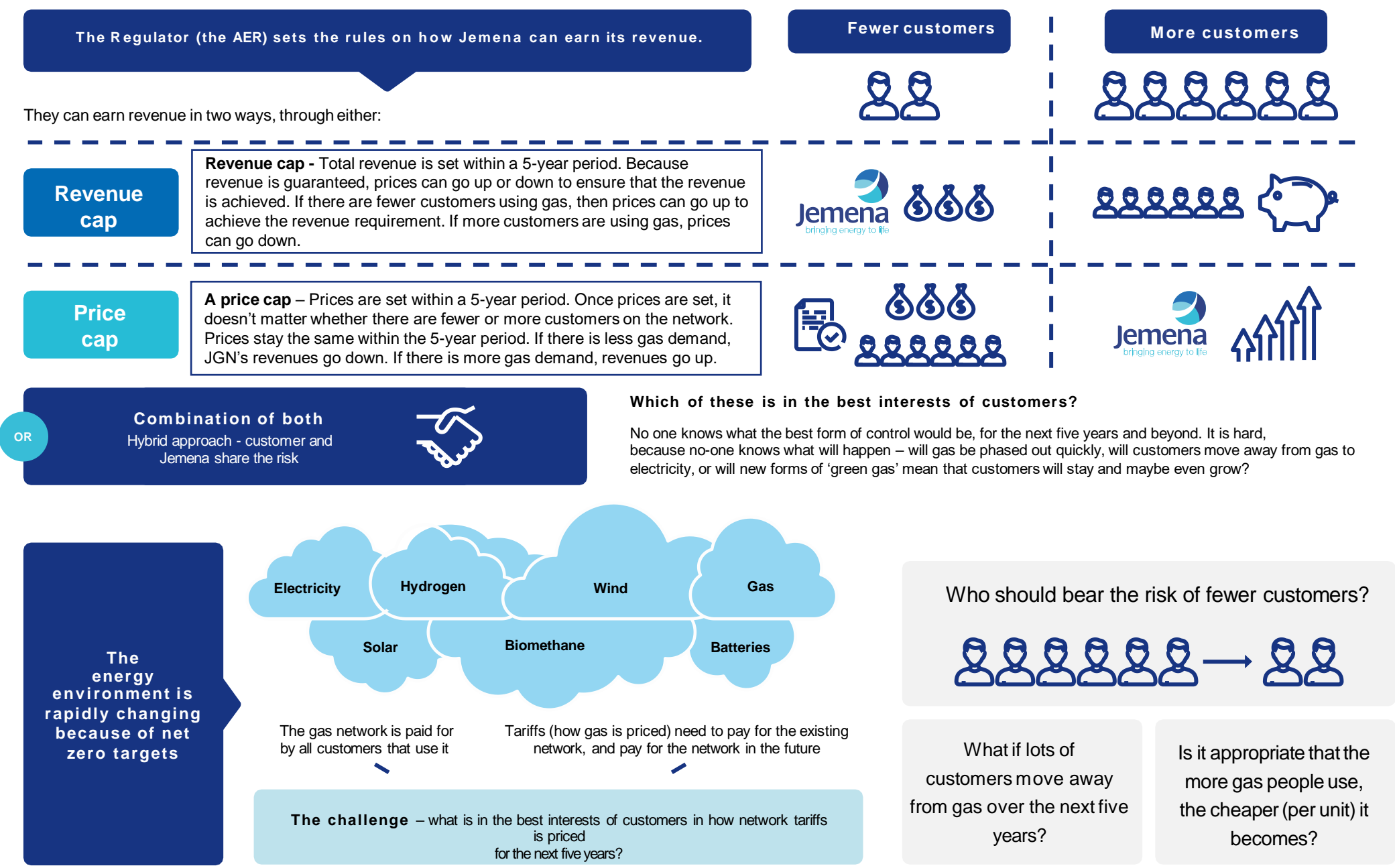
Why did you decide come back?

(in 30 seconds)

Burning questions for Jemena arising from the pre-reading

Q&A

Recap: form of control and the regulated environment



Key concept: price vs. revenue cap

Imagine you and 9 other friends (i.e. 10 of you altogether) are seeking a share house to rent.

You find a landlord that has a big house, which she can rent to all 10 of you for a good price!

The landlord needs to recoup the costs of maintaining the house, and paying the mortgage. She needs **\$50,000 for the next 5 years** to cover this.

She is happy with collecting the rent from each of you at the end of each year. She just wants to make sure that she has \$50,000 in total, by the end of 5 years.

If all 10 friends stay in the house for the next 5 years, each friend has to pay \$1,000 per year.

$\$50,000 / 10 \text{ friends} / 5 \text{ years} = \$1,000 \text{ per friend per year.}$



Let's say you know that 5 of your friends want to move overseas after two years...

With this information, how would you negotiate the terms of the contract?

Price cap

As a **tenant**, would you write in the contract that the landlord is only allowed to charge each tenant \$1,000 for the next 5 years, regardless of how many people end up staying in the house?

Revenue cap

As a **landlord**, how would you protect yourself against tenants leaving? You could state that if tenants start leaving the house, the rent of the remaining tenants would increase. E.g. if 5 friends leave halfway through, then the remaining 5 friends would have to pay double the rent.



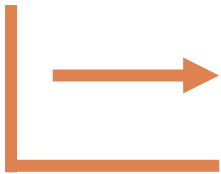
Recap of declining, flat and inclining block tariffs

Declining block tariff



- Most gas networks use this structure right now.
- The more you use the network, the less it costs (unit cost).
- 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 unit rate.
- Small volume customers pay less.
- Large customers are generally worse off compared to declining block tariffs.

Inclining block tariff



- The more you use gas, the higher the unit cost.
- Best option for smaller volume customers.
- Large customers are still worse off.
- Incentive to use less gas.

Pricing principles



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.

Context

- As you know in May 2023, the Australian Energy Regulator (**AER**) invited stakeholder feedback on their issues paper
- 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.
- We must give consideration to the National Gas Rules that includes pricing for efficiency.
- The review was in response to stakeholder feedback on updates to the National Gas Objective to incorporate an emissions reduction component, as well as broader interest in the transition to net zero.
- The review concluded in October 2023, and the regulator concluded in the report that networks are best placed to do this engagement.

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

Issues paper for stakeholder feedback

May 2023

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 risksharing 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).




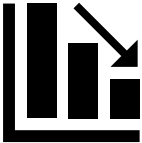
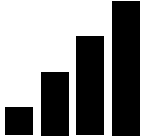
- Jemena was able to better forecast gas usage and customer base
- Customers should take a role in risk sharing as this was seen to help Jemena stay in business and therefore provide a safe, reliable and affordable gas service.

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 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.

Early thinking: keeping customers in mind as they transition

| What are we proposing now? | What can we do later? | How does this align with the residential customers feedback? |
|---|--|---|
| <p>Separate out Household customers and Large Commercial customers.</p>  | <ul style="list-style-type: none">• Develop a different set of tariffs for Household customers and Large Commercial customers.• Adjust fixed vs. variable pricing | <p><u>Affordability and Equity</u></p> <p>Larger commercial entities and households have different ability to pay for gas and should face different prices.</p> |
| <p>Combine price cap and revenue cap (“Combination cap”).</p>  | <p>Depending on market developments (such as the pace of electrification and renewable gas), we could further adjust the Combination cap.</p> | <p><u>Sharing of demand risk</u></p> <ul style="list-style-type: none">• 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. |
| <p>Streamline declining block tariffs.</p>  | <p>Depending on consumption patterns, we could further flatten tariffs and/or incline tariffs.</p> | <p><u>Pricing for efficiency (as required by the rules)</u></p> <ul style="list-style-type: none">• Cost reflective pricing• Pricing should avoid bill shock where possible. |

What residential customers 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

Tariffs should reflect the costs to provide gas services for each customer class

JGN's customers and how they use gas



Households

- **98%** of our customer base
- Use **31%** of total gas we deliver
- Include home owners, tenants, vulnerable customers
- Mixture of standalone and high-density housing



Business

- **2%** of our customer base
- Use **69%** of total gas we deliver
- Range from small businesses (e.g. restaurants, hairdressers) to large industrial businesses (mining companies, food manufacturers)

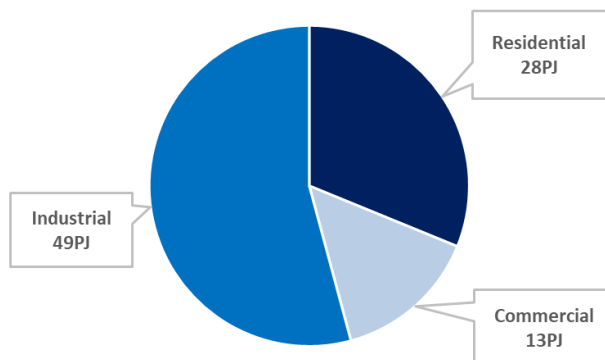


Intermediaries

- Include property developers, landlords and body corporates
- Landlords make some appliance decisions on behalf of customers (e.g. gas vs electric hot water system)
- Body corporates can fix gas metering arrangements at their site (for example, within a high-rise apartment building, or for an individual business in a shopping centre)



Demand Petajoules (PJ) by Customer Type



2022-23 demand in NSW was 91 PJ, made up of:

- 31% households
- 54% industrial customers
- 15% commercial customers.

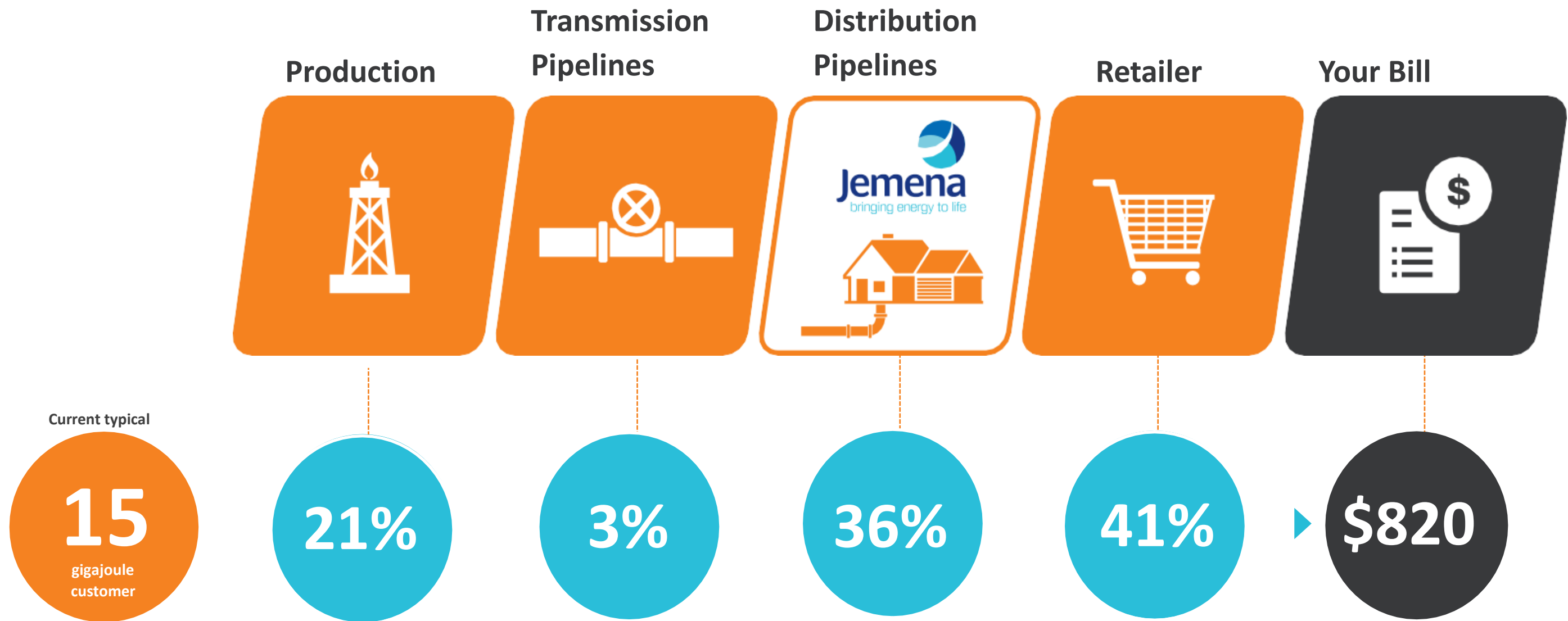
Did you know...

- **350,000+** customers are from culturally and linguistically diverse backgrounds
- **93%** of our customers are in metro areas and **7%** in country areas.

Did you know...

- **50%** of our customers are in the **top 3 deciles** of socio-economic advantage indicating a high level of household wealth and some higher levels of education.
- **60%** of our customers have an annual household income of \$100k+ per year
- **80%** of our customers are in the 30-50 years age group.

Quick reminder: Jemena's proportion of the overall bill



* Based on a customer with gas heating, cooking and hot water appliances using 15,000MJ per year.
Calculated using assumed wholesale price of \$10GJ. Annual bill is for 2023-24 year.

Typical annual
household bill

Why are we doing this?

What's the reason for the proposed changes?



Tariffs can't do two things at once



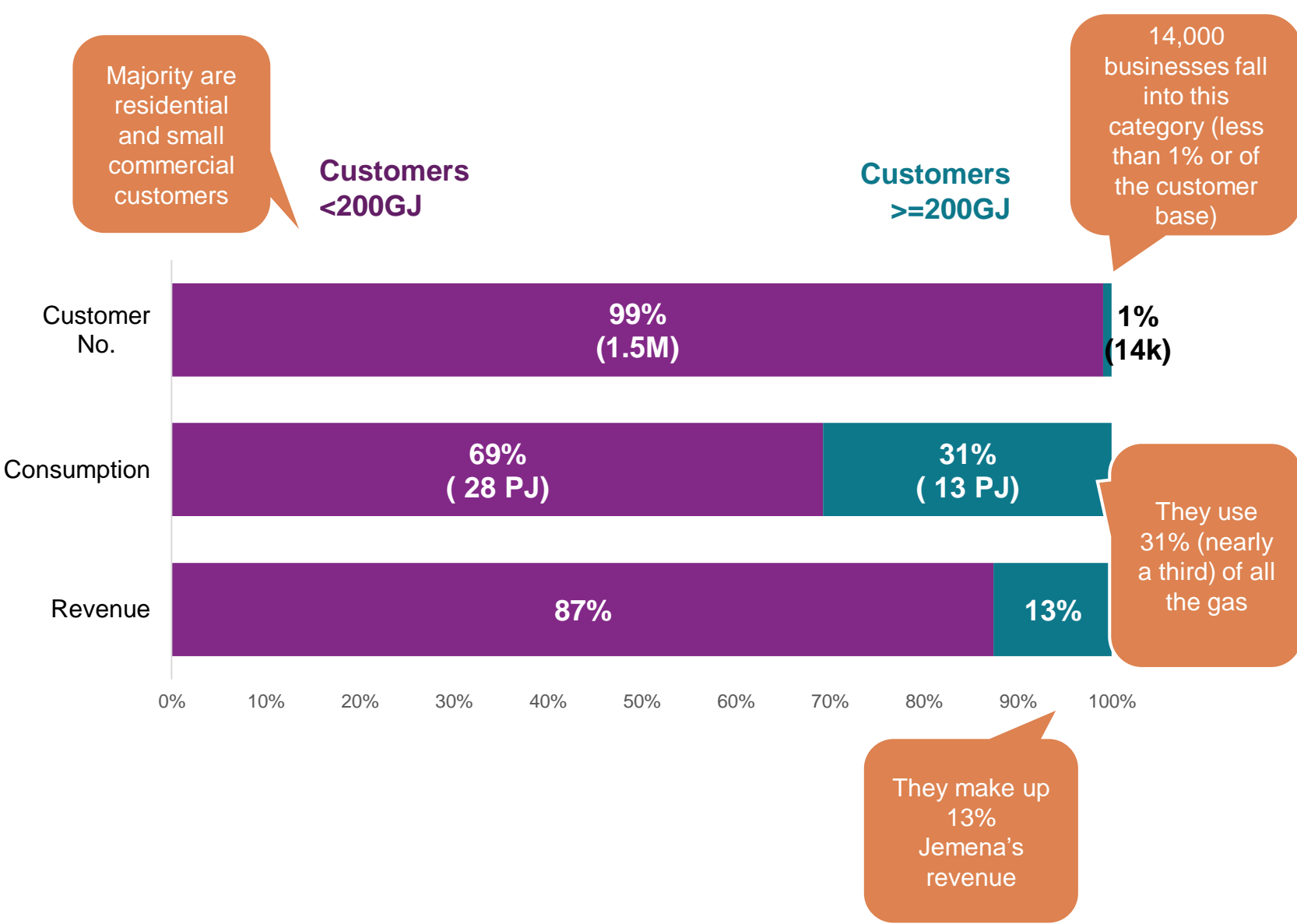
Focusing on affordability, equity and fairness



Minimising the impact on the winners and losers

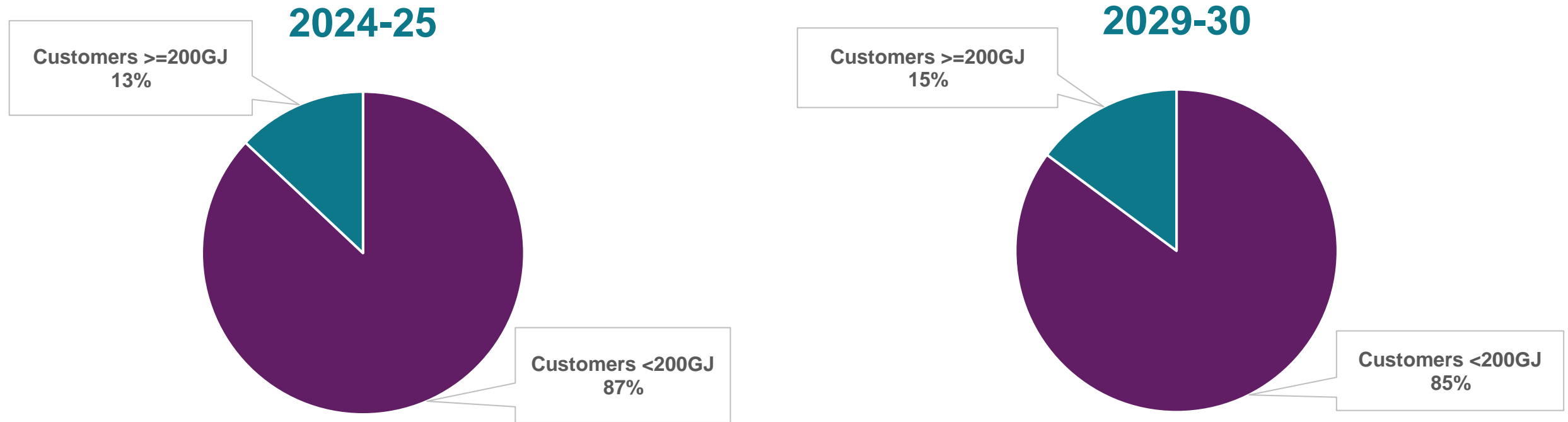
Why 200 Gigajoules?

The 200 Gigajoule cut-off is about how much you use.



Note: The above numbers are the latest actual data from FY2023

How will this impact revenue collected over time?



Over time Jemena will **increase** the proportion of revenue collected from higher-use customers by increasing their tariffs

And **decrease** the proportion of revenue collected from lower-use customers by decreasing their tariffs

Proposed new tariff block structure and customer impacts

Who may be impacted by the new structure?

Old

| | | | | | | |
|---------|---------|---------|---------|---------|---------|---------|
| Coastal | Block 1 | Block 2 | Block 3 | Block 4 | Block 5 | Block 6 |
| Country | Block 1 | Block 2 | Block 3 | Block 4 | Block 5 | Block 6 |



Large businesses



Residential smaller user (e.g. city apartment dweller, cooktop only)



Residential large family home (regional, many appliances, multiple heaters)



Residential smaller user (e.g. small house or townhouse in the city, 1-2 appliances)

Proposed New

| | | | | |
|-------------------------------|---------|---------|---------|---------|
| Less than 200GJ | Block 1 | Block 2 | Block 3 | Block 4 |
| High consumption (over 200GJ) | Block 1 | Block 2 | Block 3 | Block 4 |

Covers Block 1-4 in old structure

~ Block 5 ~ Block 6



Residential smaller user (e.g. city apartment dweller, cooktop only)



Large luxury family home (e.g. with a heated pool in the Eastern Suburbs of Sydney, or body corporate)



Residential smaller user (e.g. city, small house or townhouse, 1-2 appliances)



Large businesses

Revision – price vs. revenue cap

Imagine you and 9 other friends (i.e. 10 of you altogether) are seeking a share house to rent.

You find a landlord that has a big house, which she can rent to all 10 of you for a good price!

The landlord needs to recoup the costs of maintaining the house, and paying the mortgage. She needs **\$50,000 for the next 5 years** to cover this.

She is happy with collecting the rent from each of you at the end of each year. She just wants to make sure that she has \$50,000 in total, by the end of 5 years.

If all 10 friends stay in the house for the next 5 years, each friend has to pay \$1,000 per year.

$\$50,000 / 10 \text{ friends} / 5 \text{ years} = \$1,000 \text{ per friend per year.}$



Let's say you know that 5 of your friends want to move overseas after two years...

With this information, how would you negotiate the terms of the contract?

Price cap

As a **tenant**, would you write in the contract that the landlord is only allowed to charge each tenant \$1,000 for the next 5 years, regardless of how many people end up staying in the house?

Revenue cap

As a **landlord**, how would you protect yourself against tenants leaving? You could state that if tenants start leaving the house, the rent of the remaining tenants would increase. E.g. if 5 friends leave halfway through, then the remaining 5 friends would have to pay double the rent.



Sharing of risk: Price cap and revenue cap: hybrid options

Share
house
analogy



Impact to
customers



Hybrid option 1:

Anything below or above 10 customers, the up- and down-side risk is shared equally.

Risk/reward is equally shared between JGN and customers.

Risk/reward is equally shared

Hybrid option 2:

Landlord (i.e. JGN) bears up- and down-side risk as long as demand is within a range (i.e. 9-11 housemates). Beyond this range, customers bear all the risk.

JGN bears risk up to a point. Customers bear the risk beyond that point.

Doing better or worse than expected is allowable within a 'limited range'.

Hybrid option 3:

Landlord (i.e. JGN) bears up- and down-side risk as long as demand is within a range (i.e. 9-11 housemates). Beyond this range, risk is split 50/50

JGN bears risk up to a point. Beyond that point, risk is split 50/50.

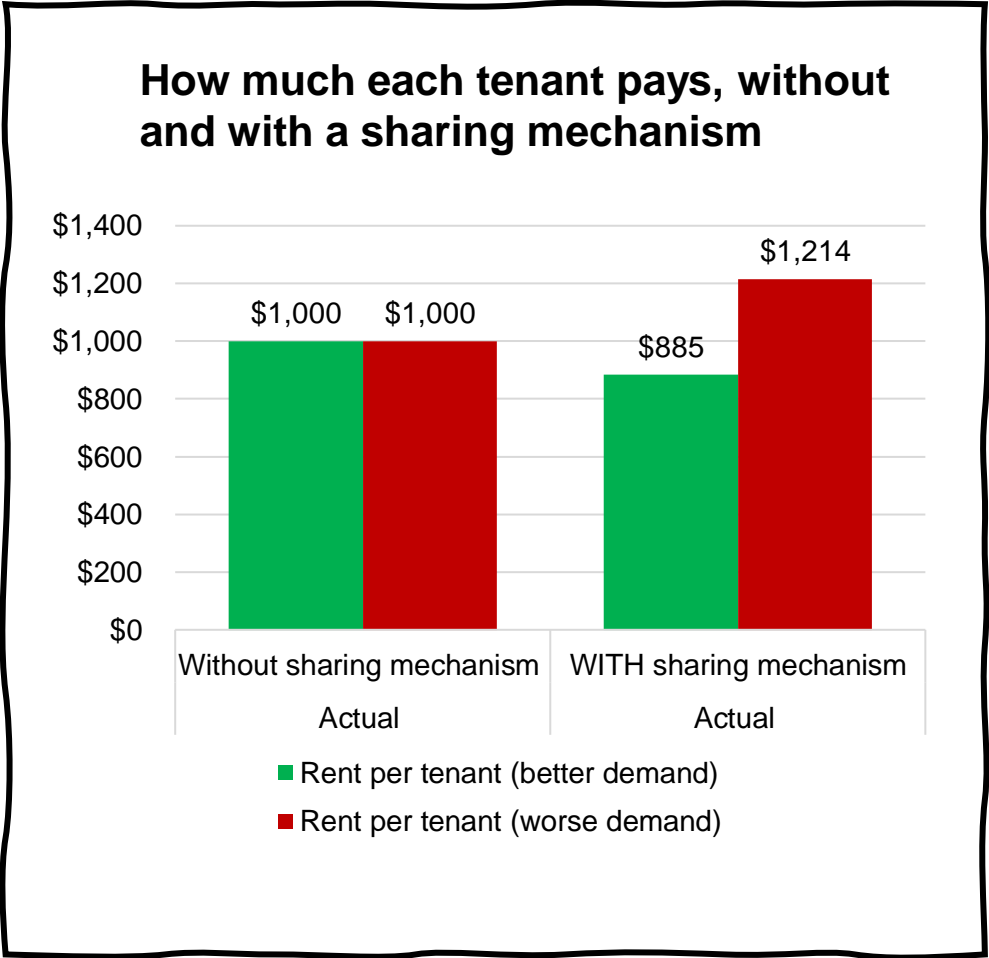
Doing better or worse than expected is allowable within a 'limited range'.
Beyond this, risk/reward is equally shared.

Hybrid Option 1: 50/50 sharing mechanism

| | Forecast | Actual | Actual |
|---|----------|--|------------------------|
| | | Without sharing mechanism | WITH sharing mechanism |
| Better than expected | | | |
| No. of tenants | 10 | 13 | 13 |
| Total rent (how much the Landlord gets) | \$10,000 | \$13,000 Landlord Better off by \$3,000 | \$11,500 |
| Rent per tenant | \$1,000 | \$1,000 | \$885 |
| Worse than expected | | | |
| No. of tenants | 10 | 7 | 7 |
| Total rent (how much the Landlord gets) | \$10,000 | \$7,000 Landlord Worse off by \$3,000 | \$8,500 |
| Rent per tenant | \$1,000 | \$1,000 | \$1,214 |

The extra \$3,000 is split 50/50 between the tenants and landlord.

The deficit of \$3,000 is split 50/50 between the tenants and landlord.

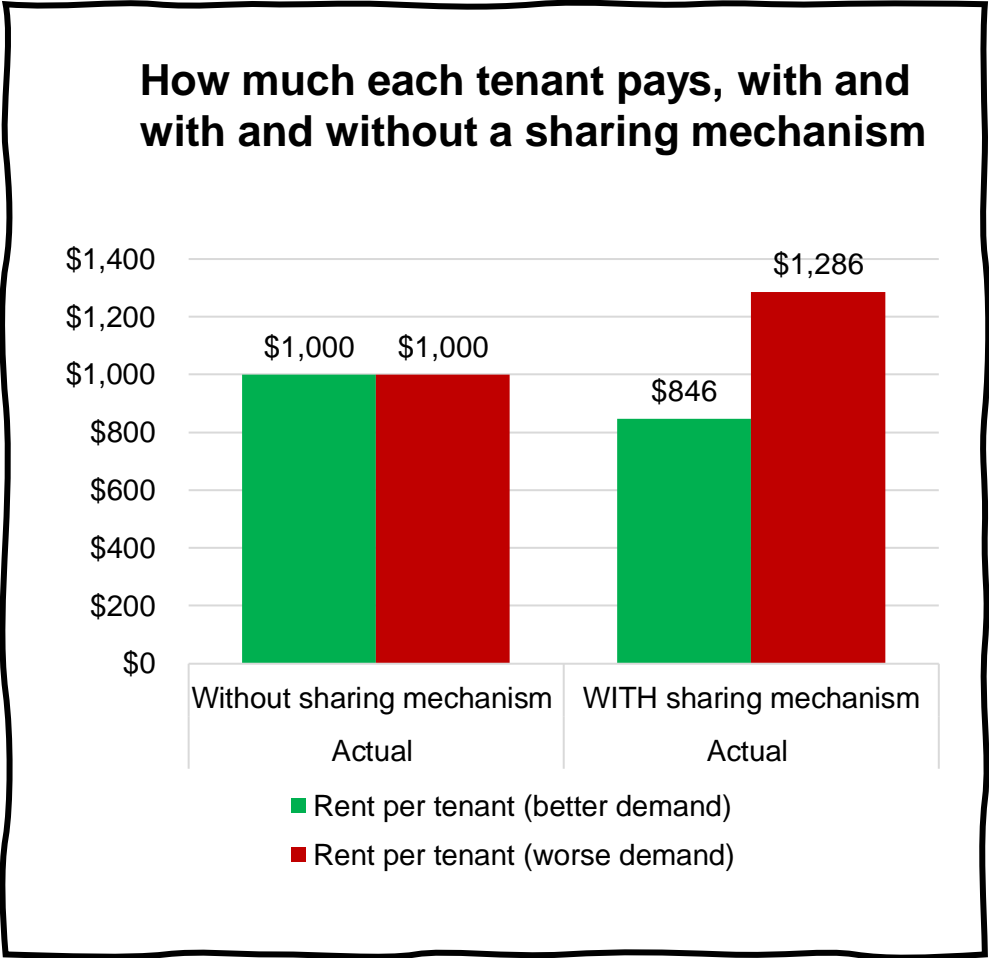


Hybrid Option 2: “Limited range” sharing (1 customer)

| | Forecast | Actual | Actual |
|---|----------|---------------------------|------------------------|
| | | Without sharing mechanism | WITH sharing mechanism |
| Better than expected | | | |
| No. of tenants | 10 | 13 | 13 |
| Total rent (how much the Landlord gets) | \$10,000 | \$13,000 | \$11,000 |
| Rent per tenant | \$1,000 | \$1,000 | \$846 |
| Worse than expected | | | |
| No. of tenants | 10 | 7 | 7 |
| Total rent (how much the Landlord gets) | \$10,000 | \$7,000 | \$9,000 |
| Rent per tenant | \$1,000 | \$1,000 | \$1,286 |

The landlord gets upside from 1 tenant only. Tenants get all the benefit from the 2 extra tenants (eg in the range of 9-11 tenants)

The landlord gets downside from 1 customer only. Tenants bear downside from 2 less tenants (eg in the range of 9-11 tenants)

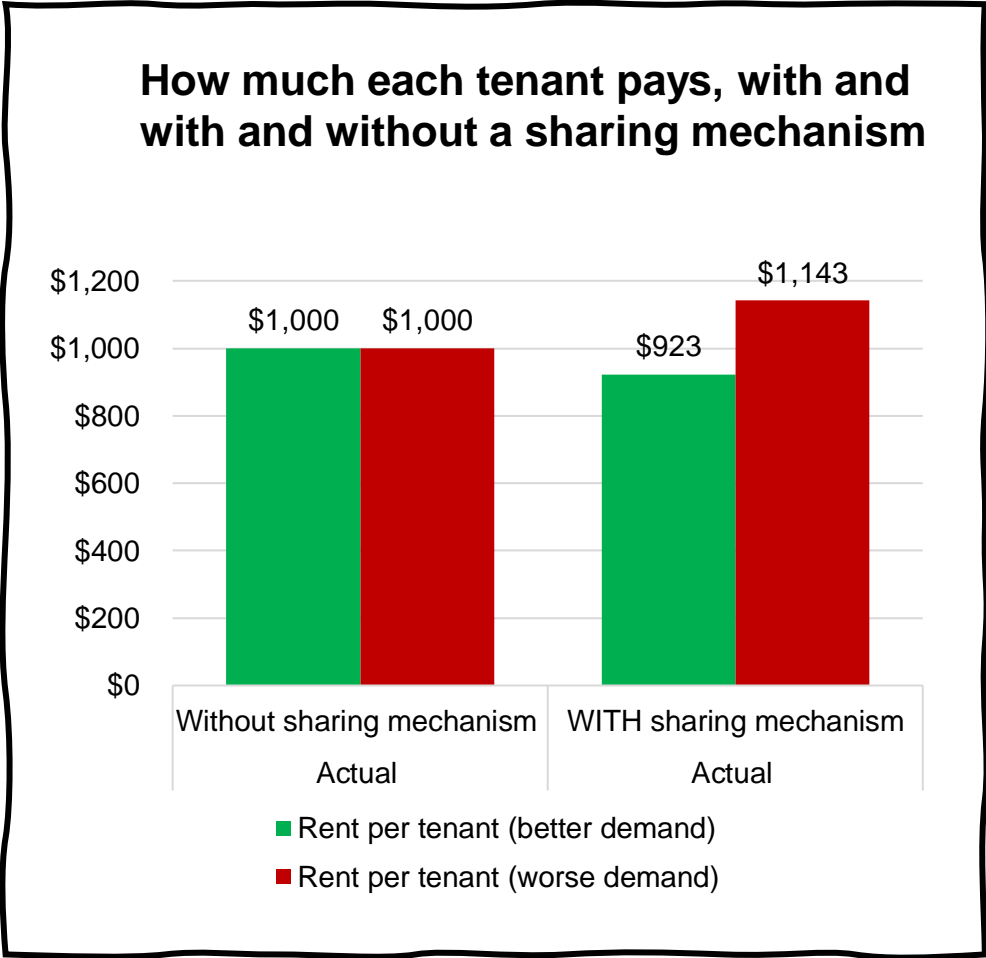


Hybrid Option 3: “Limited range” sharing + 50/50 split

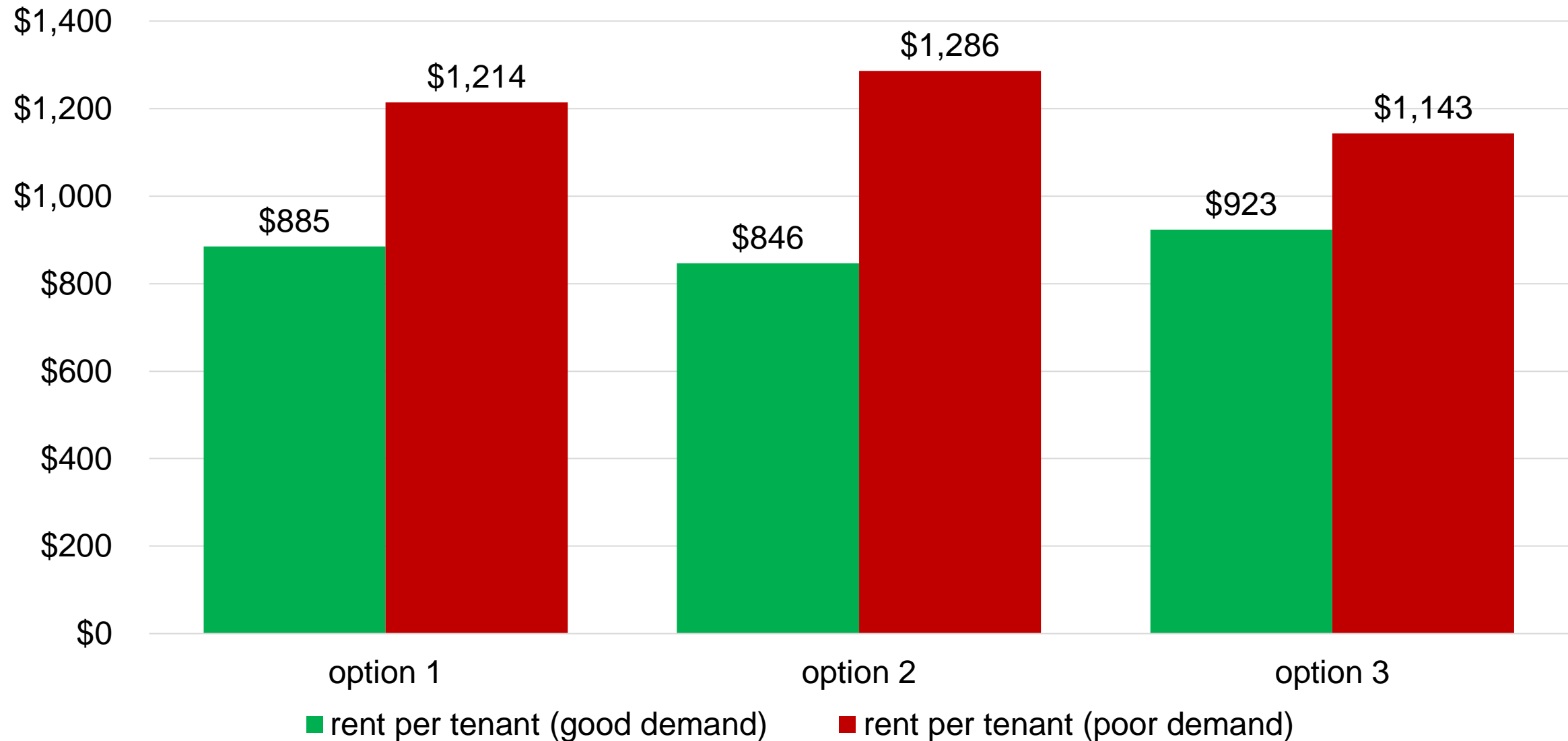
| | Forecast | Actual | Actual |
|---|----------|---------------------------|------------------------|
| | | Without sharing mechanism | WITH sharing mechanism |
| Better than expected | | | |
| No. of tenants | 10 | 13 | 13 |
| Total rent (how much the Landlord gets) | \$10,000 | \$13,000 | \$12,000 |
| Rent per tenant | \$1,000 | \$1,000 | \$923 |
| Worse than expected | | | |
| No. of tenants | 10 | 7 | 7 |
| Total rent (how much the Landlord gets) | \$10,000 | \$7,000 | \$8,000 |
| Rent per tenant | \$1,000 | \$1,000 | \$1,143 |

The landlord gets upside from 1 tenant. The benefit from the 2 extra tenants (eg outside 9-11 tenants) is split 50/50

The landlord gets downside from 1 tenant. The deficit is of 2 less (eg outside 9-11 tenants) customers is split 50/50



Comparison of different rents across the options for risk sharing



Activity

- We will break into three groups
- Ask all the questions you want of a Jemena team member
- Also answer the question – ‘one piece of feedback you’d provide Jemena now about how best to ensure the tariff options meet the long-term needs of customers’.
- Use the mural board to take notes if you would like to.
- This activity is 15 minutes
- Elect someone from the group to report back after this.

Break!

Back in 5 minutes

Voting on Menti

Consider all you've heard tonight.

Time to vote for the responses you think best suits the needs of long-term customers

There will be five (5) questions on a like / love scale!



Wrap up and conclude



**to hear,
listen
and think**



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 | Less favourable |
| 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 | Less favourable |
| Small business Food / Hospitality Several gas stoves – cooking | 90 GJ small business | \$547.09 | \$739.20 | Less favourable |
| Medium business Eg Commercial Tower or Hotel | 2000 GJ Medium business | \$7,675.04 | \$15,457.66 | Less favourable |
| Larger business Eg Commercial Manufacturing | 8000 GJ Large business | \$25,829.41 | \$61,693.66 | Less favourable |

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.