Tariff Structures Retailers Forum

5 December 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

01
Welcome back! Purpose, understanding the process

02
Reintroductions, recap on tariffs

03
Discussion, and questions

04
Tariff options voting

05
Wrap up and next steps

Your guides

This session is being recorded!

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Recap: retailer principles of engagement

Transparency and information sharing: having an agenda, sharing information quickly

Clarity: no questions are stupid, on the same page, illustrate comprehension

Positive and open communication: consistent and timely sessions

Genuine collaboration: active participation, authentic participation

Reminder for Zoom:

- Raise your hand if you want to speak
- Mute your microphone when not speaking
- Use your real name and organisation

Source: from our February 2023 workshop. Q1: What does good engagement look like to you? Q2: What principles of engagement would you like us to follow? N=12 (Mural board)

Burning questions for Jemena arising from the pre-reading

Q&A

Jemena

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.

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?

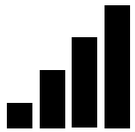
Some customers believe it is appropriate because:

- 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.

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?
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 efficiency (as required by the rules)</u>** • 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

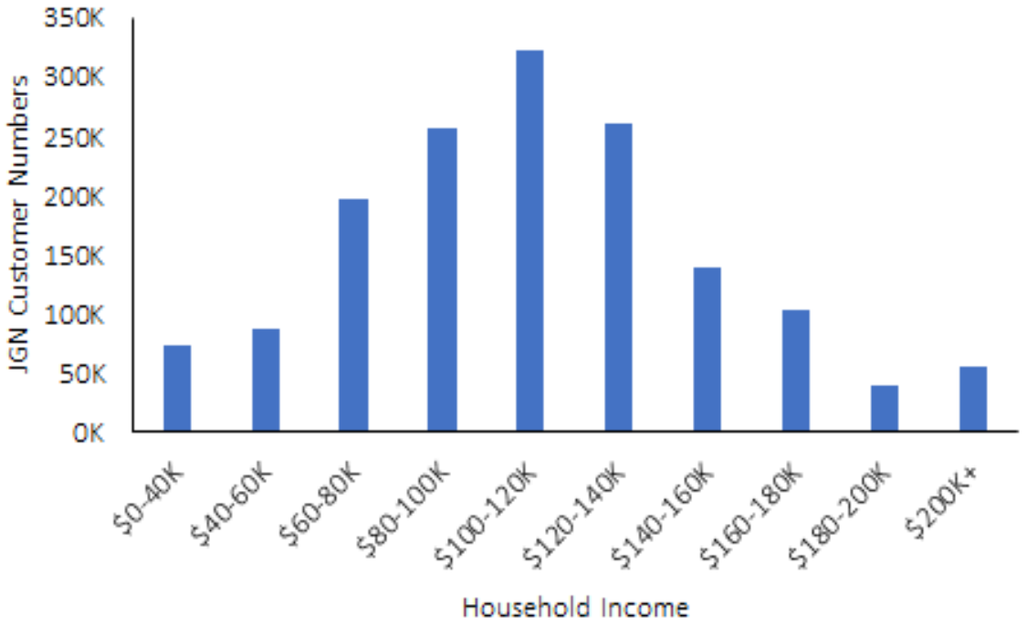
- **98%** of our customer base
- Use **31%** of total gas we deliver
- Include home owners, tenants, vulnerable customers
- Mixture of standalone and high-density housing

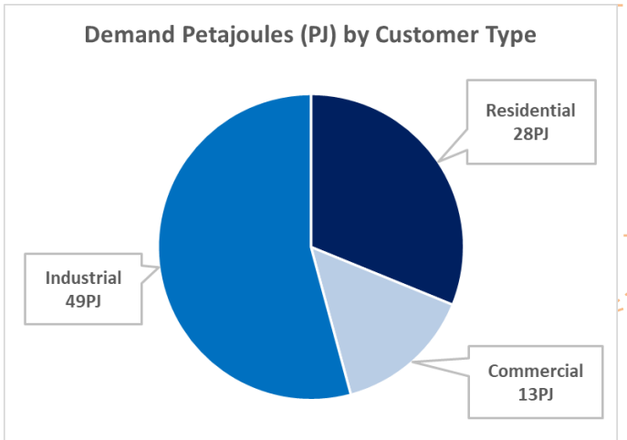
Business

- **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)





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 dive rse 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.

Why are we doing this?

What's the reason for the proposed changes?

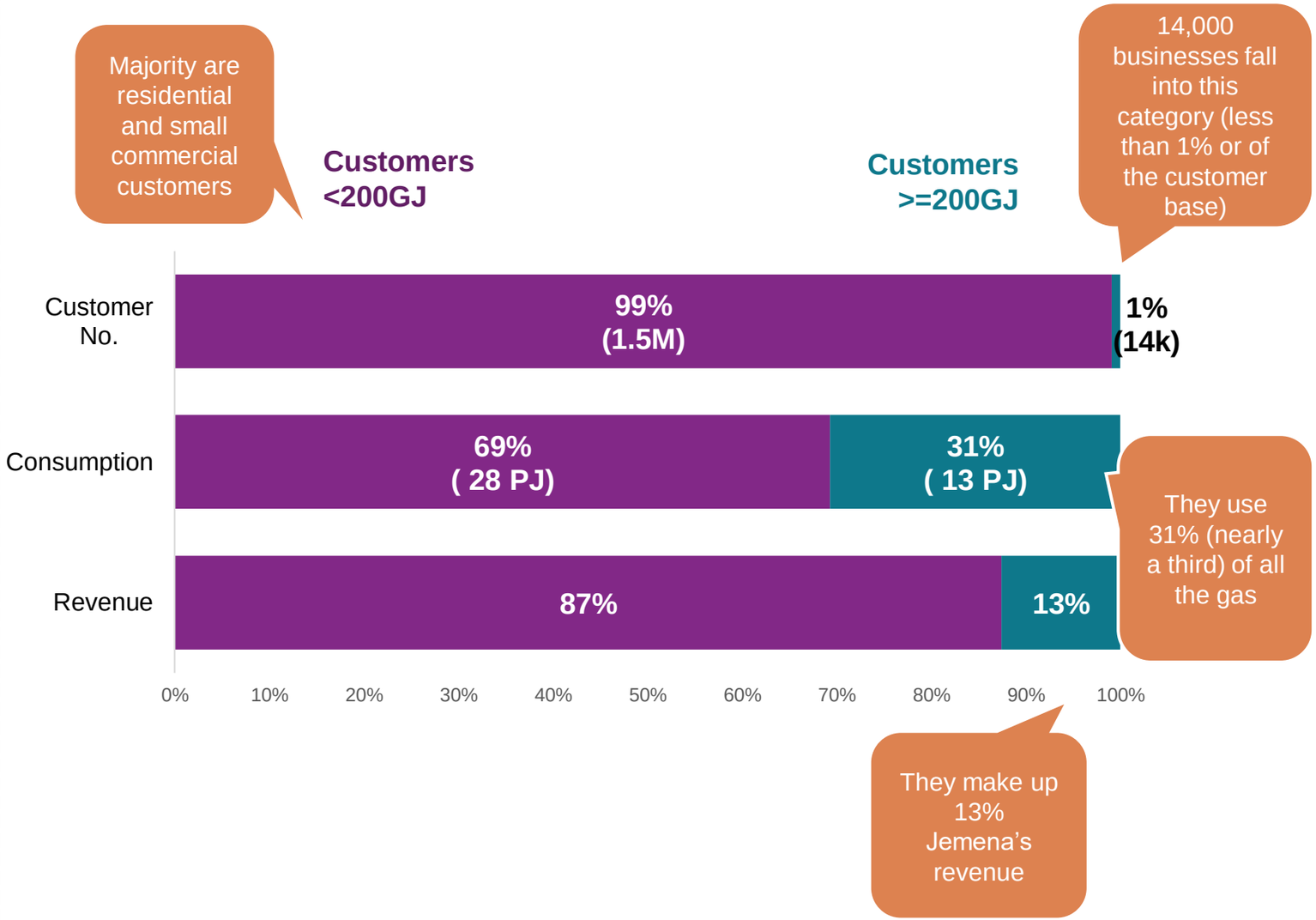
Tariffs can't do two things at once

Focusing on affordability, equity and fairness

Minimising the impact on the winners and losers

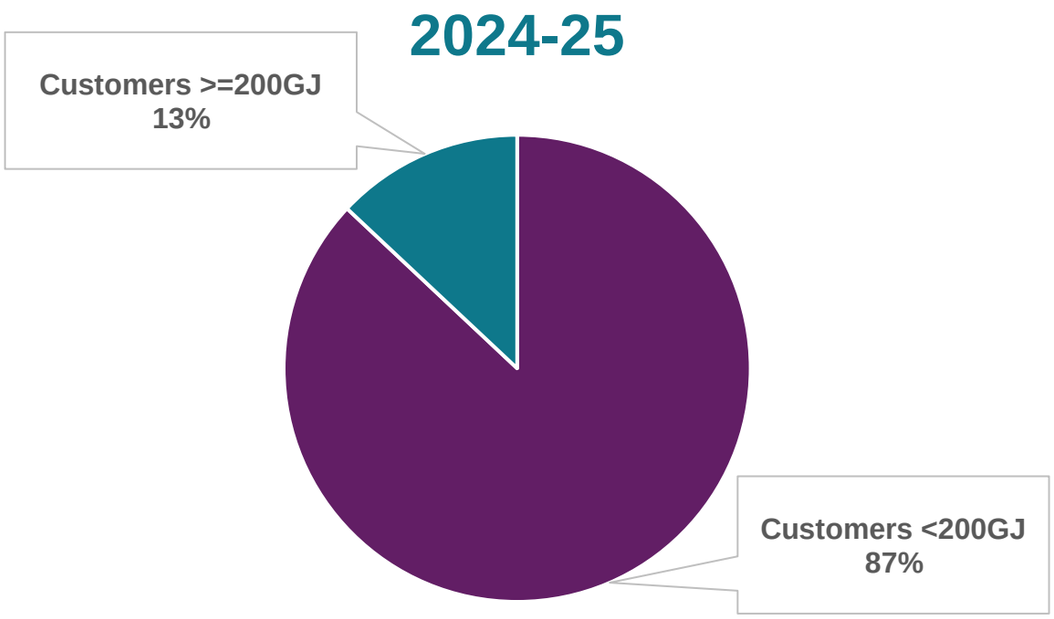
What is the breakdown of customers?

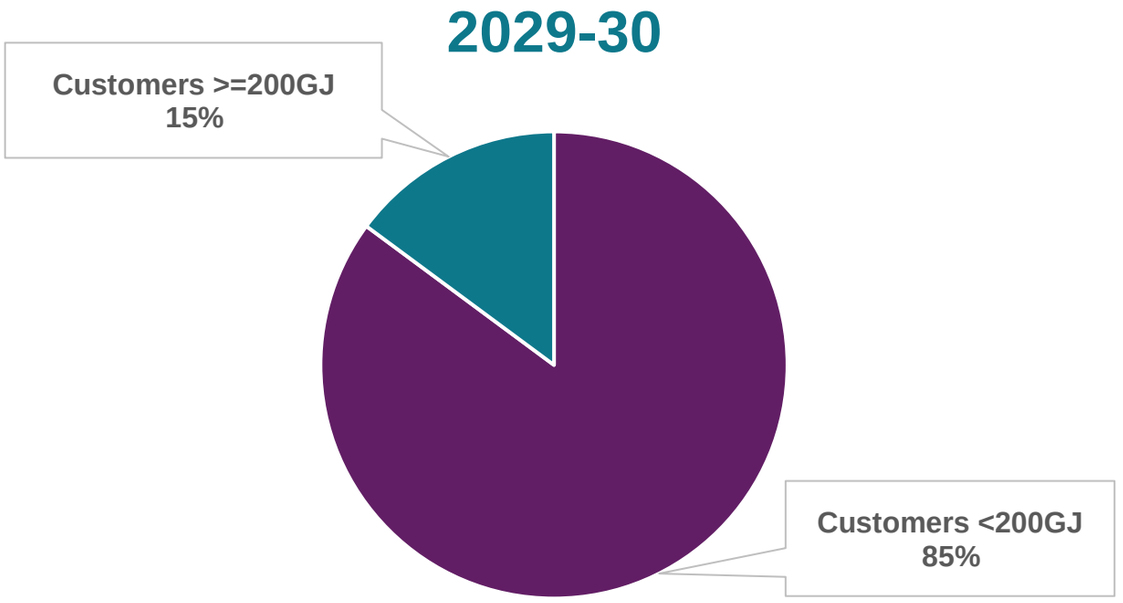
The 200 Gigajoule cut-off is about how much you use.



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

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

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

Who may be impacted by the new structure?

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)

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 friends/5 years = $1,000 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

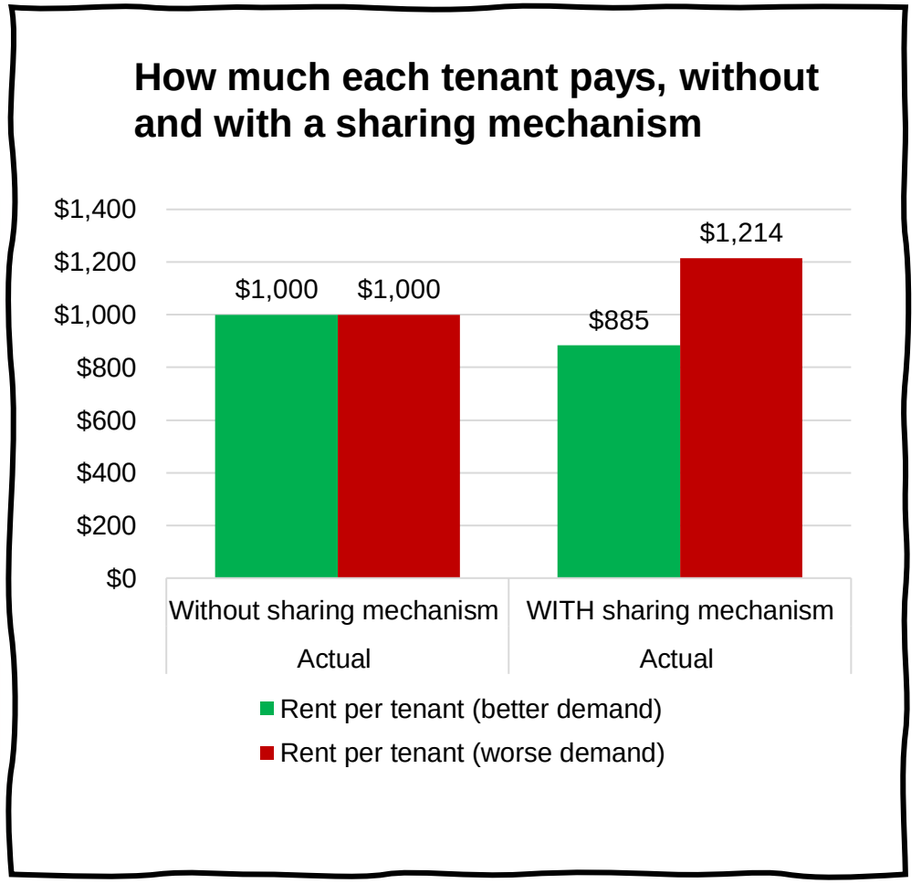
	Share house analogy 	Impact to customers	Jemena bringing energy to life
Hybrid option 1:	Anything below or above 10 housemates, the up- and down-side risk is shared equally.	Risk/reward is equally shared between JGN and customers.	Risk/reward is equally shared
Hybrid option 2:	Landlord bears up- and down-side risk as long as demand is within a range (i.e. 9-11 housemates). Beyond this range, housemates 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 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 Without sharing mechanism	Actual 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.

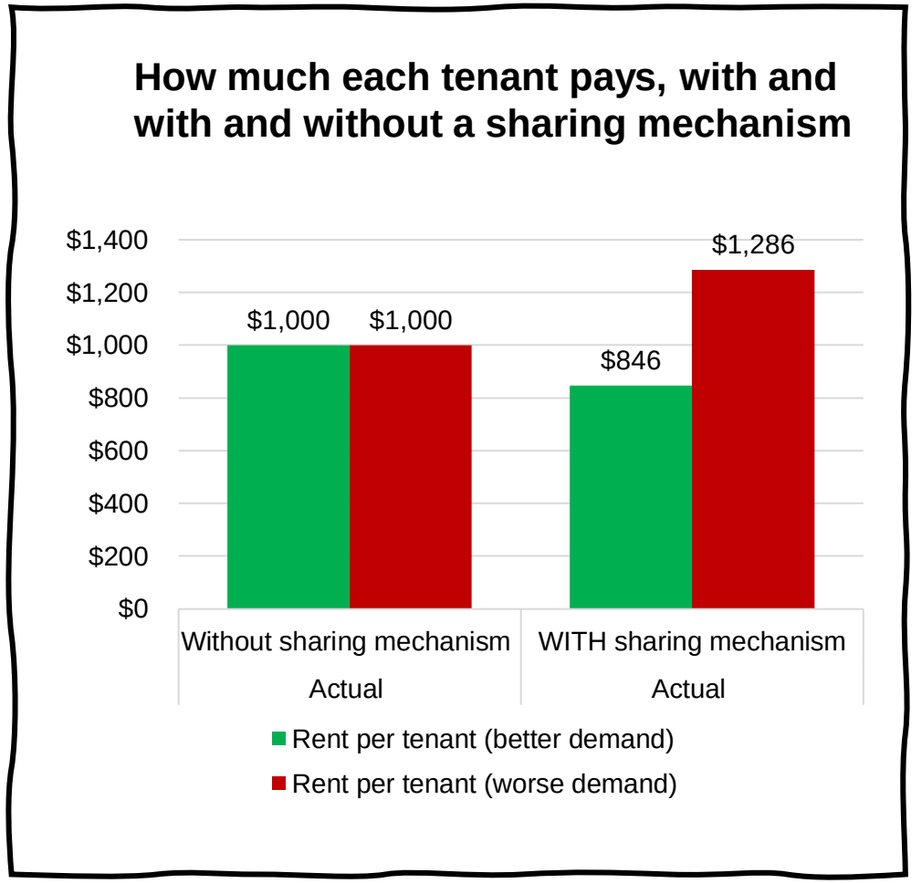


Hybrid Option 2: “Limited range” sharing (1 tenant)

	Forecast	Actual Without sharing mechanism	Actual 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)

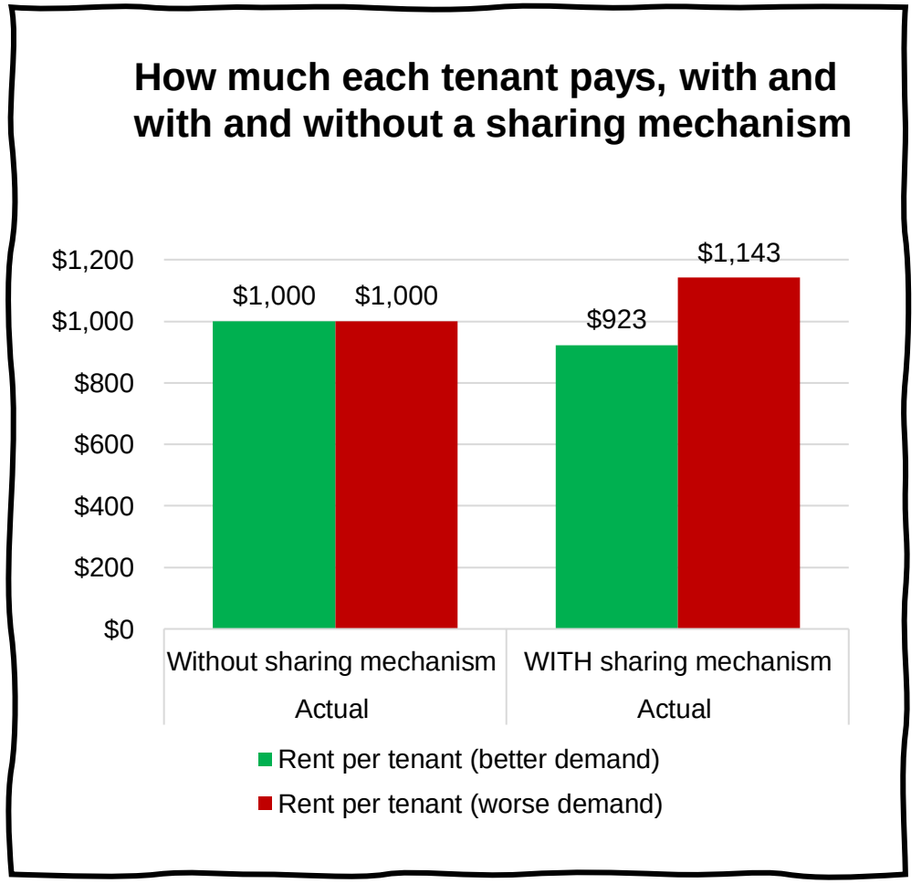


Hybrid Option 3: “Limited range” sharing + 50/50 split

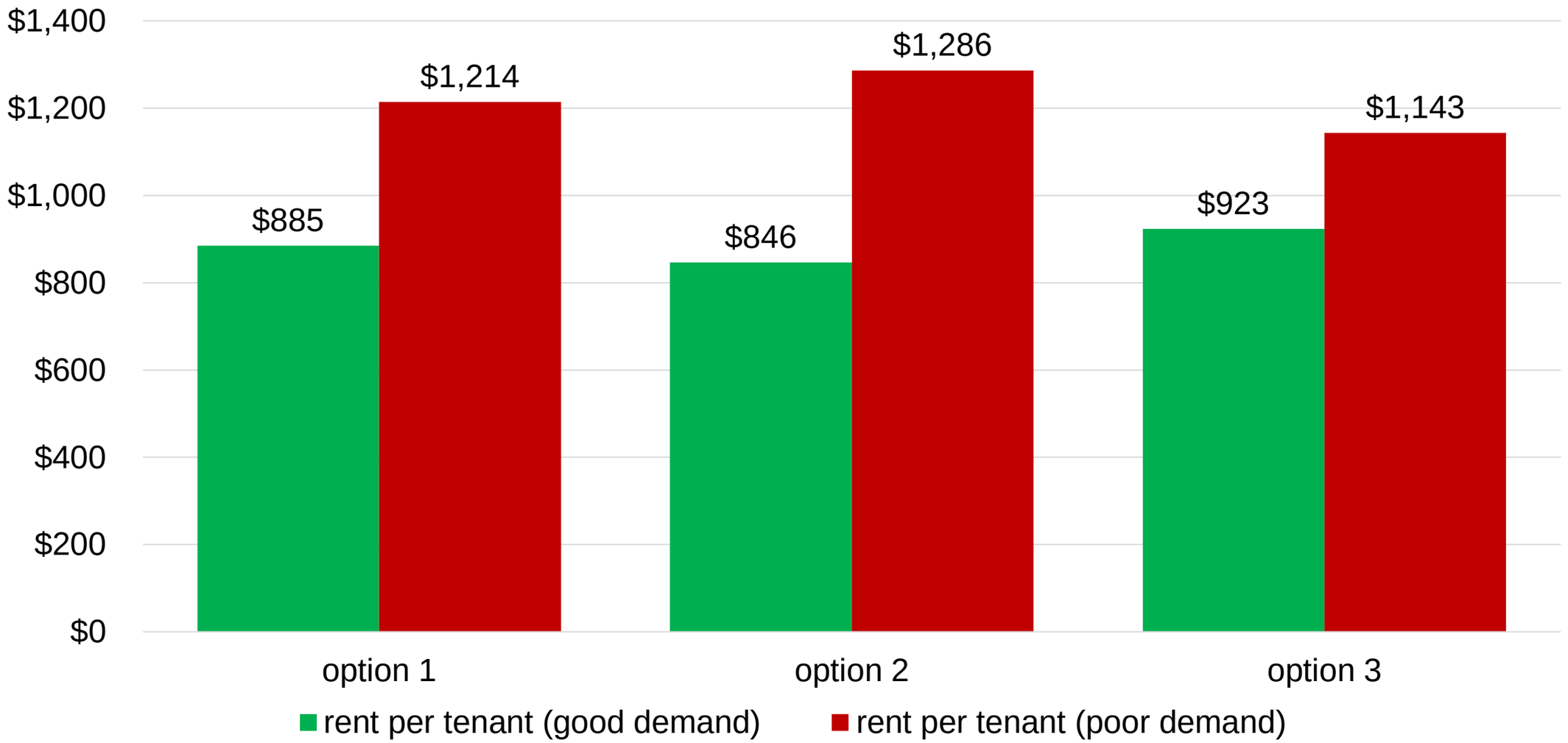
	Forecast	Actual Without sharing mechanism	Actual WITH sharing mechanism
Better than expected			
No. of tenants	**10**	**13**	**13**
Total rent (how much the Landlord gets)	$10,000	$13,000	$12,000
Rent per tenant	**$1,000**	**$1,000**	**$923**
Worse than expected			
No. of tenants	**10**	**7**	**7**
Total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

Jemena

Voting on Menti

Consider all you've heard today.

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

Jemena

to hear,
listen
and think

Jemena

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.