Jemena Gas Networks

Tariff Structures

Small Business Customers

Forum

Outcomes Report

30 November 2023

6.00 – 8.00 pm

Key themes

Overall, the key themes of this consultation with small business customers included:

- **Interest** in the proposed tariff structures and how they can be slowly amended if needed to respond to market dynamics.
- **Asking about a timeframe** for the proposed changes.
- **Wanting communication** of the proposed changes and pricing impacts to different groups.
- The complexity and individual benefits to each group and that there are winners and losers in any scenario.
- The relationship with others in the supply chain, for example, retailers and the other states' tariff structures, including other gas distributors.
- **Small Businesses** attending this consultation demonstrated support for:
  - **reducing** the number of tariff blocks. Reasons included for simplicity and streamlining.
  - **changing** to a residential/commercial tariff split. Reasons included that it was more equitable and fairer, considering the difference in use and that larger customers currently use more of the gas but pay less as a proportion overall compared with the broad customer base.
  - In terms of tariff structures, the majority of the group supports risk sharing in **hybrid option three** *("Limited range" sharing + 50/50 split)* with equal preference for **hybrid option one** *(50/50 sharing mechanism)*, followed by hybrid option two. Reasons given include reducing the burden on any one group of customers, ensuring that risk must be looked at closely, and ensuring that the split could be reviewed over the coming five years.
  - Overall, the group expressed high satisfaction with the consultation session and a willingness and desire to come back for further discussions once the Draft 2025 Plan is published.

Methodology: What we did in the session

The aims and objectives of the session were to:

- Refamiliarise the group with the project team
- Explore the topic area of tariffs and gas pricing, explore immediate questions and consider pricing principles
- Consider and vote for tariff options and pricing mechanisms that are in the interests of all customers.

Attendees

Ten (10) small businesses were in attendance. They're all main gas users and the primary decision-makers on energy in their business, ranging across various industries, including hospitality, retail, manufacturing, medical, accommodation and IT and telecommunications services. These are the same participants who attended our small business Access Arrangement 2025-2030 engagement (all previously attending two sessions each on 18 or 25 October and 1 or 8 November 2023) and were invited back to continue engaging with Jemena on this complex topic. Because of this, the group started with a higher knowledge base; attendees were also sent some pre-reading and paid stipends to complete the task.

Observers: There were no Australian Energy Regulator or Customer Challenge Panel observers at this session.

Format: The session ran for two hours on Zoom using engagement tools such as Mural and Menti and smaller breakout groups. The complete run sheet is included later in this document.

Overview Summary

Section 1: Reintroductions and burning questions (35min)

This section focused on a welcome back and a reintroduction, and the team held a 'burning questions' Q&A to get any key issues out on the table early.

Section 2: Gas pricing, understanding the concepts and asking questions of Jemena (55mins)

In this section, the team recapped the materials in the pre-reading and shared early thinking on tariff options and the reasons why. Then, Jemena held smaller breakout room discussions with participants to dive more deeply into the topic area. Participants were also asked to consider one piece of advice for Jemena about ensuring their tariff options best meet the long-term interests of customers.

Section 3: Voting feedback and wrap-up (25min)

To conclude the session, participants gave feedback via Menti on the pricing principles, the proposed tariff options, the three different forms of risk sharing, the proposed changes to household and business tariffs, and why they voted the way they did. There was a final check-in with participants, an overall thank you, and an invitation to re-engage when the Draft 2025 Plan is released.

Burning Questions from participants

After reviewing the pre-reading materials, small businesses who participated shared various questions and feedback for Jemena. Jemena answered these in session. The questions and comments covered key themes, including:

- **Initial thinking on hybrid options and pricing:** One participant asked about how Jemena is going to handle the revenue vs price cap decision. Another asked what the impacts of each hybrid option on smaller customers might be. Another participant asked about the split of benefits within the hybrid options – currently, it's proposed as 50/50, and wanted to know if other options are being considered, like 30/70.
- **Initial thinking:** Some participants were interested in knowing where thinking on tariff direction had come from within Jemena.
- **National picture:** Others were interested in what all the gas distributors do nationally on tariffs, the differences between each – and whether there would be alignments in future.
- **Comments on the pre-reading included:**
    - They said that they liked the analogies used, including the taco restaurant and the share house example.
    - They read with interest all the submissions from the regulator's review, including the comments from retailers and customer advocacy groups and what approach they are leaning towards, the variation in opinions, and an appreciation of the complexity.
    - To what extent would the hybrid mechanism benefit different groups of customers
    - Some submissions appeared to support the hybrid format.
- **Supply chain relationships:** one participant asked about any contentious relationships between Jemena and others in the supply chain.
- **Timelines:** another participant asked about the timelines of the process and if there's an opportunity to change this.

"There didn't seem to be a consensus between all the gas suppliers. I was just wondering, do you guys actually get together with your distributors? There just didn't seem to be a uniform approach there. They just seemed to be every whichway, and how does this get resolved?"

"I just can't see, obviously, everybody being happy. There is going to be some losers in this, and there seems to be so many stakeholders across the board, like even the retailer groups, they're so broad. The customer advocacy groups are so broad as well. I just don't know how anybody's going to be able to balance the boat type scenario, and make everyone happy, and steady in this. It will be very interesting."

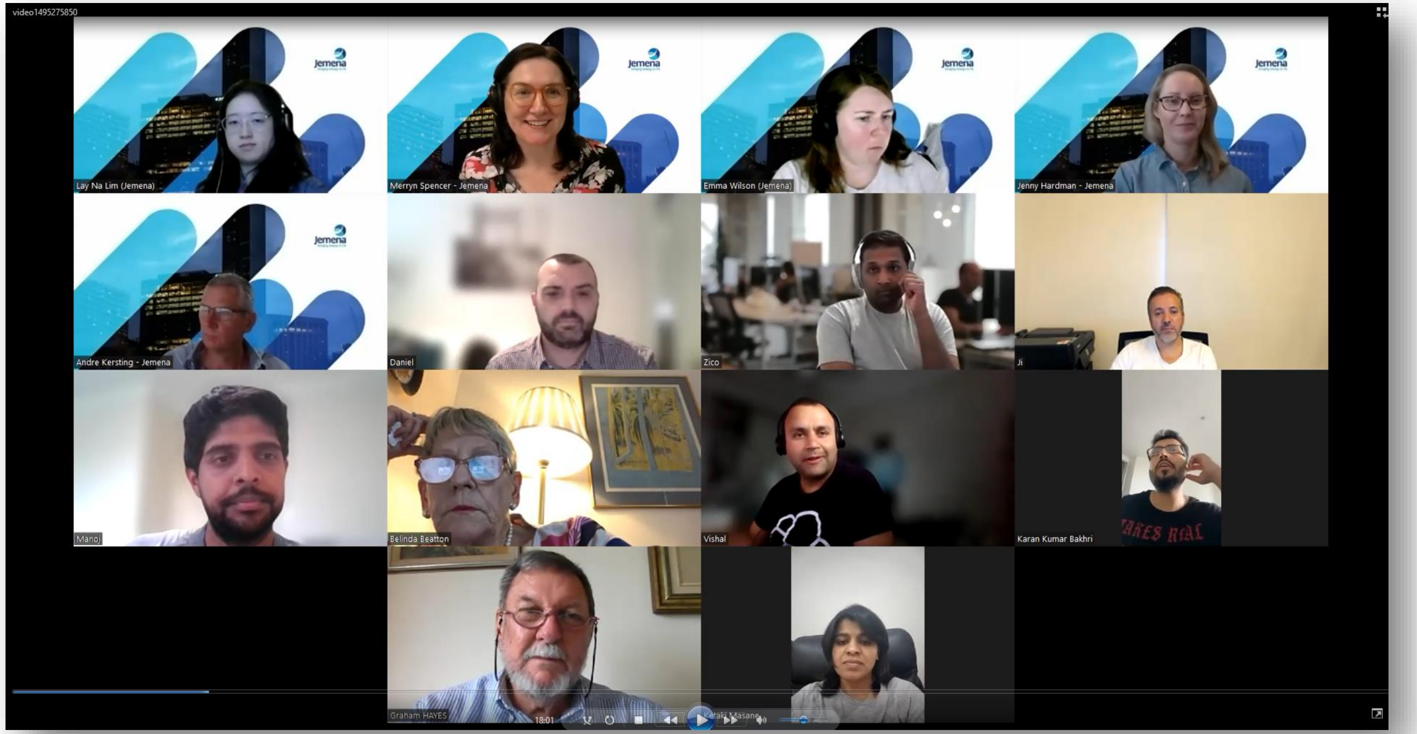
"How is the atmosphere with the distributors at the moment? Is it hot and testy? (…) Are you arguing or is it placid?"

Gas pricing, understanding the concepts and asking questions of Jemena

The Jemena team provided some early thinking around pricing structures and gas tariffs (see slides 20-30).

The questions and feedback from small business customers covered many topic areas, including:

- Clarifying the hybrid options
- The regulator or government's role in the process
- The reasons for the 50/50 split in the various hybrid scenario options.



"If you can quantify that on a particular bill, and just let people see what the actual dollar impact is."

"Does government play any part in the risk discussion?"

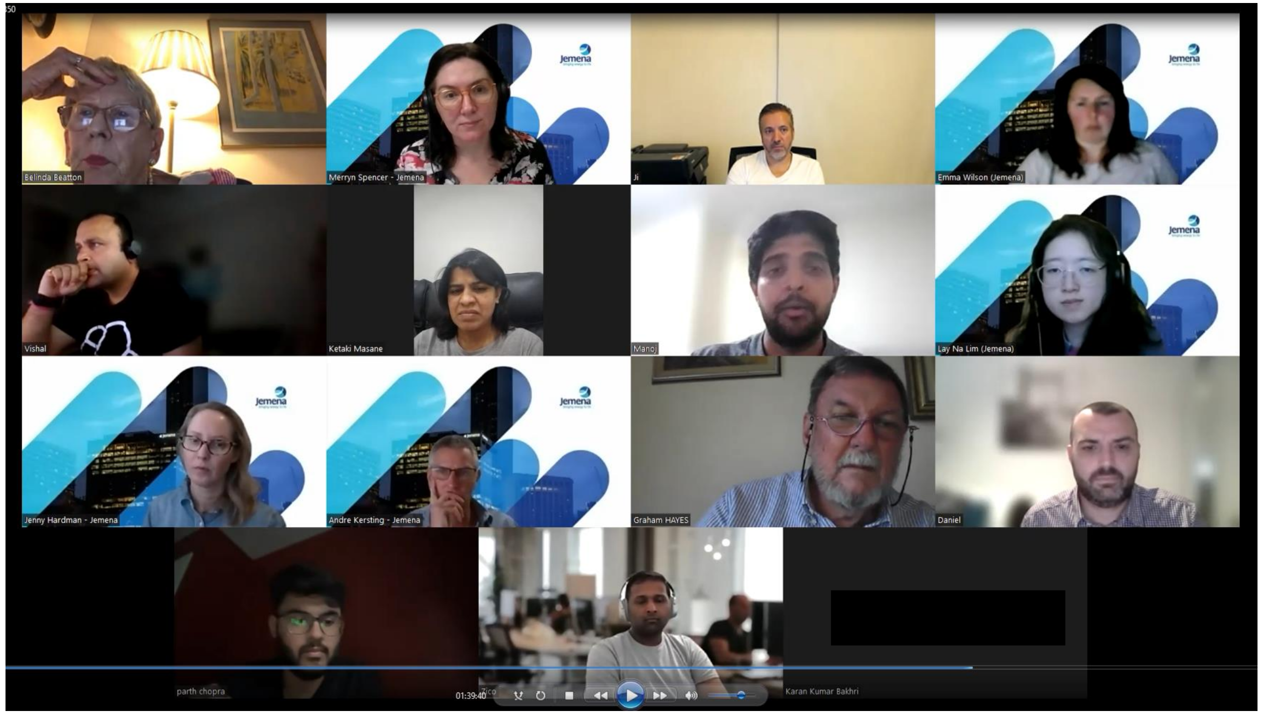
"How are customers going to know just by looking at their bills, that that's the model that's adopted? (…) How is that going to be communicated to customers in an effective way?"

"In your second option, I can understand that, you got a forecast of 10 tenants there, then the actual is 13, when it has bumped up. Then actual, with the sharing mechanism, you were saying that up to 9-12 so it should be more than. Is it right to have 13 and 7 in the column three? With worse than expected, should the number be 6 or 5?"

Gas pricing, understanding the concepts and asking questions of Jemena (continued)

Some of the themes from small business customers from their deep dive with the Jemena team in breakout sessions included:

- The approach to risk and uncertainty and the ability to dynamically respond.
- Some businesses have options to electrify, others can’t.
- Timeframes of when it will come into effect, working with retailers and then with customers.
- Communicating the impact on bills and any changes to the 50/50 split over time.



“As a business user, or a commercial customer, are they only liable to take the risk? So what we come up to because of the revenue cap and the hybrid approach it will be midway? When will it come into action? 1 July 2025. Jemena is going to get the thing sorted by mid-next year and then they’ll put their plan accordingly.”

“How not to lose our customers how we can better invest in biomethane and hydrogen, looking at multiple different avenues?”

“What happens if the number of customers increase? At the same time what happens if they decrease? (…) If like inflation, how dynamic it is. For example, today you have 10 today 7 tomorrow 6, there is a way to plan for it, is there somewhere we can balance with this group of customers, if you lose more, or is it like a market driven dynamic?”

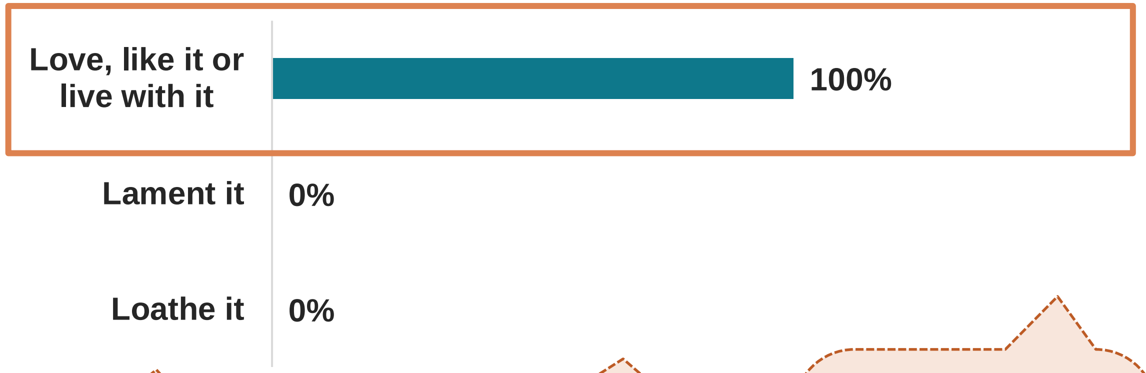
“In terms of managing losses is there a framework? What is the plan? What’s going to happen? (…) Is that going to mean that when pipelines break are they not going to be repaired? (…) is that going to impact the maintenance?”

“We want to know how Jemena was going to deliver to the retailers and how retailers were going to contact the individual customers with this new policy and this new system.”

Tariff structures voting

Small business customer participants voted that Jemena should decrease the number of tariff blocks and change to a residential/commercial tariff split. Some of the reasons are included in the quotes below.

To what extent do you think Jemena should reduce the number of tariff blocks? (6 to 4)



"I think it's the more middle ground option."

"Because I think looking at various options, going with this option of having 4-6 blocks makes only sense."

"Locking the tariff would be neutral approach on Jemena's part and would lay middle ground holistically."

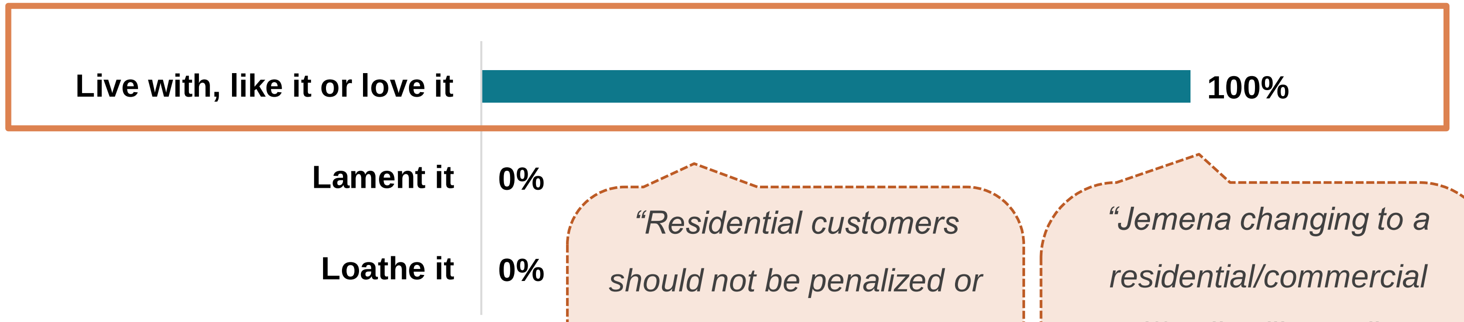
"Like it because I feel as though it is moving in a direction to simplify costs generally."

"it will help to streamline the costing structure."

"Seems like you have progressed to streamlined costs."

*** Note a small base. The rating scale was five points: loathe, lament, live, like it and love it. Scale shown live with, like it and love it.*

To what extent do you think Jemena should change to a residential / commercial tariff split?



"Residential customers should not be penalized or have pressure put on them to shift in costs in same proportion as higher use corporate/industrial users."

"Jemena changing to a residential/commercial tariff split will contribute and the bringing the mutual risk factor to a low and will reduce the pressure on the market and related industries."

"I think it's a more equitable breakdown when I looked at the usage breakdowns."

"That will help reduce burden on any one group of customers."

"Better to have an optional split, dynamic to the market share the group command and doesn't put a lot of pressure on just one group."

"I think it should be fair for all consumers."

"Residential/commercial split will reduce burden on customers and seems appropriate."

"Commercial being more contributor in the revenue should pay bit more than residential and more over commercial will be passing this to the end consumer. More over corporates are easy to take this hit."

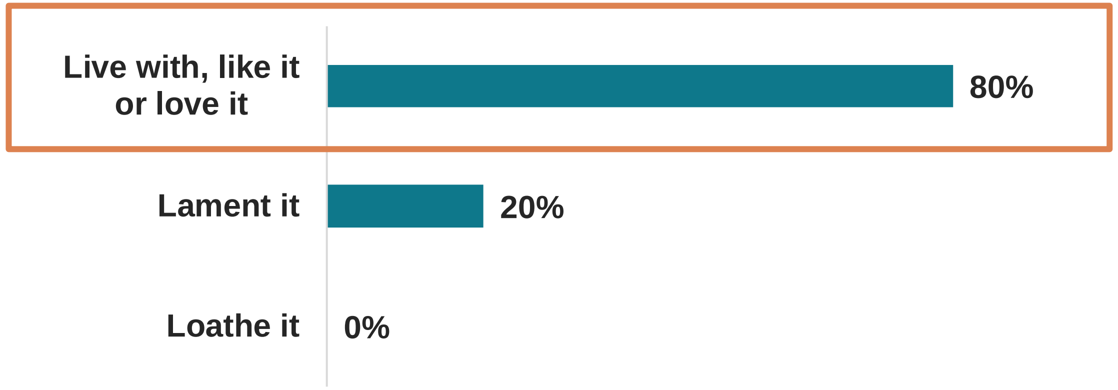
"Given that we have progressed to this meeting, we see that we see the sharing, still time to see further."

"Just seems fair."

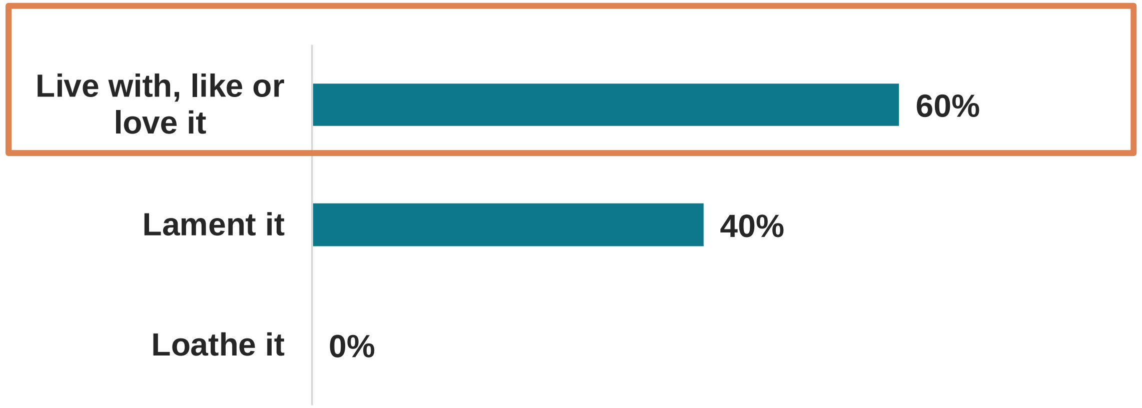
Tariff structures voting

Of the three options presented, hybrid option three was the preferred by small businesses, and the reasons are included. Refer to slide 34 for the complete details of options.

To what extent do you think risk sharing should be through hybrid option 1?



To what extent do you think risk sharing should be through hybrid option 2?



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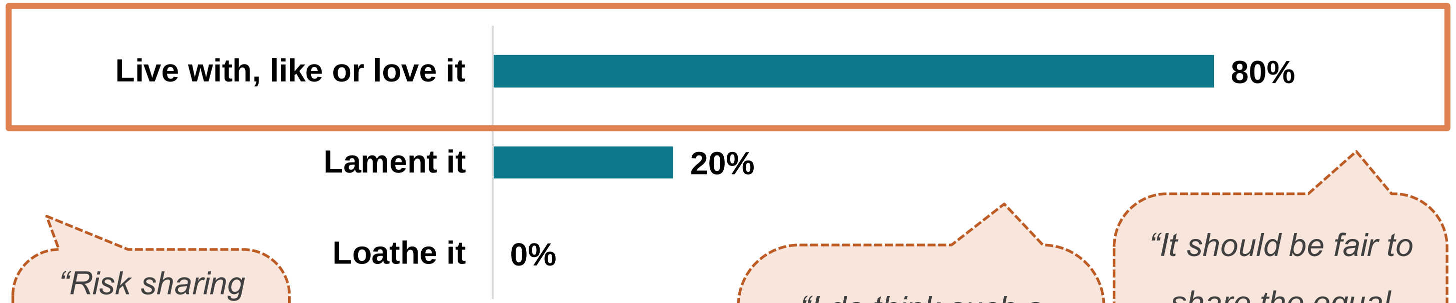
To what extent do you think risk sharing should be through hybrid option 3?



"Risk sharing should be through hybrid to keep a balance of pressure among the related groups and industries."

"Option 3 is the most palatable however it would be good for it to be set on a sliding scale over the 5 year plan."

"I do think such a complex framework there will need to be a greater level of transparency. I feel just directing to a website is not good enough."

"It should be fair to share the equal cost between Tenants and the Landlord."

"50/50 makes more logical sense with the current situation and unpredictable future/forecasting."

"Feel that Jemena should be taking short-term risk…up and down and ratio reviewed with time/.

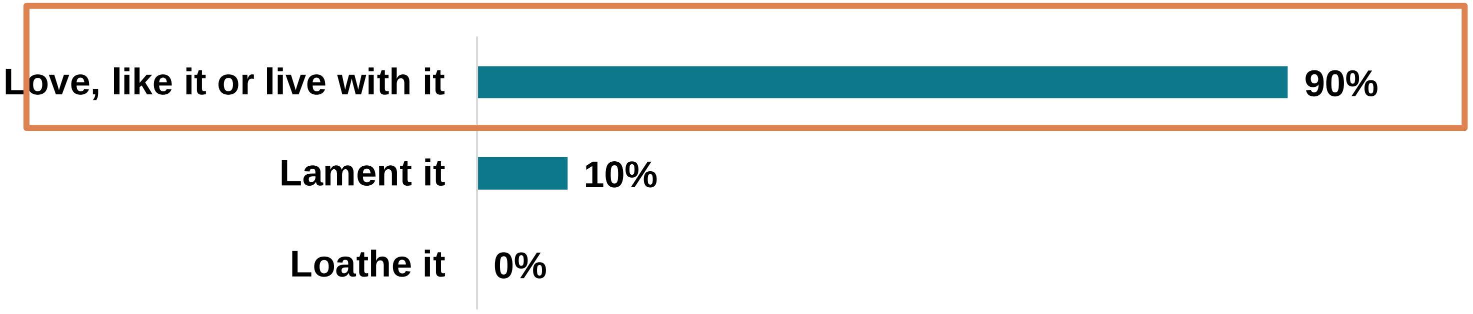
"Sharing equal load which looks fair with the current market structure."

"I see this timing is too early, as a reasonably larger user, we are getting more and more info to help us. Risk is risk we must look closely."

Tariff structures voting

Overall, small business customers generally agreed with the pricing principles, with the reasons why extending to equity and fairness.

To what extent do you agree with the pricing principles?



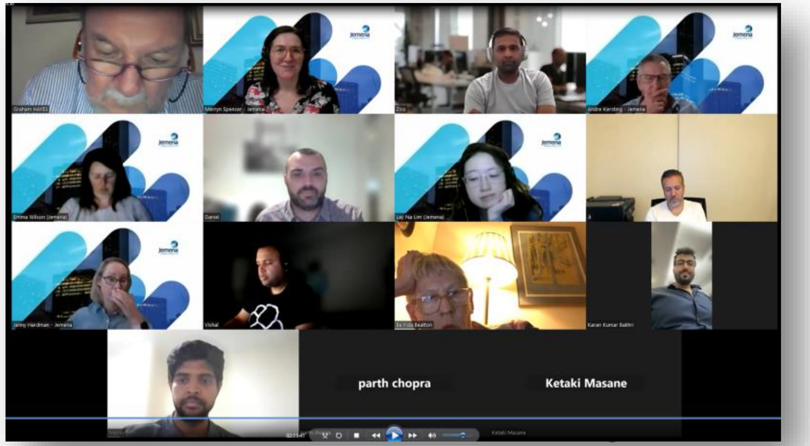
"Fairness is a fundamental principle that needs to be maintained."

"Complex…"

"Pricing approach could be better and more promising than anticipated."

"It think equity is the essential key."

"Seems like the best option…"



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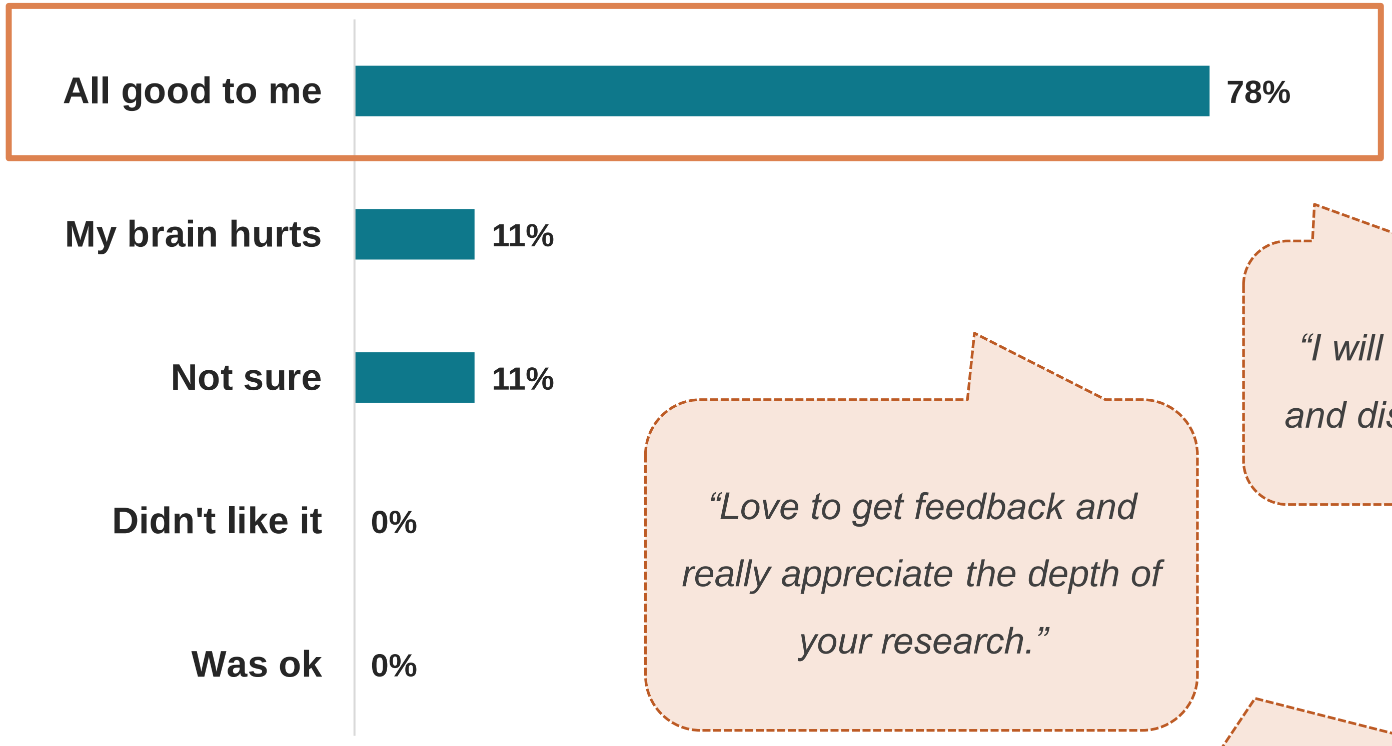
Session feedback

Nearly 8 out of 10 small businesses attending expressed satisfaction with the session and expressed interest in returning for a follow-up session.

What did you think of our session today?



"Thank you so much for today."

"Yes I will love to discuss further once the draft plan is rolled out."

"I will love to come and discuss further."

"Very informative and deep. Looking forward to the draft plan and thanks for involving us."

"Love to get feedback and really appreciate the depth of your research."

"I would really like to come back for next session if there are any. Would like to know what are the plans and how the retailers are taking the changes. Thank you so much."

"As said last time, great to be involved in such a heavy and interesting topic."

*** Note a small base. The rating scale was five points: loathe, lament, live, like it and love it. Scale shown live, like it and love it.*

Session slides

Thursday 30 November 2023

Jemena

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

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!

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

Ground rules

Be ready to be challenged

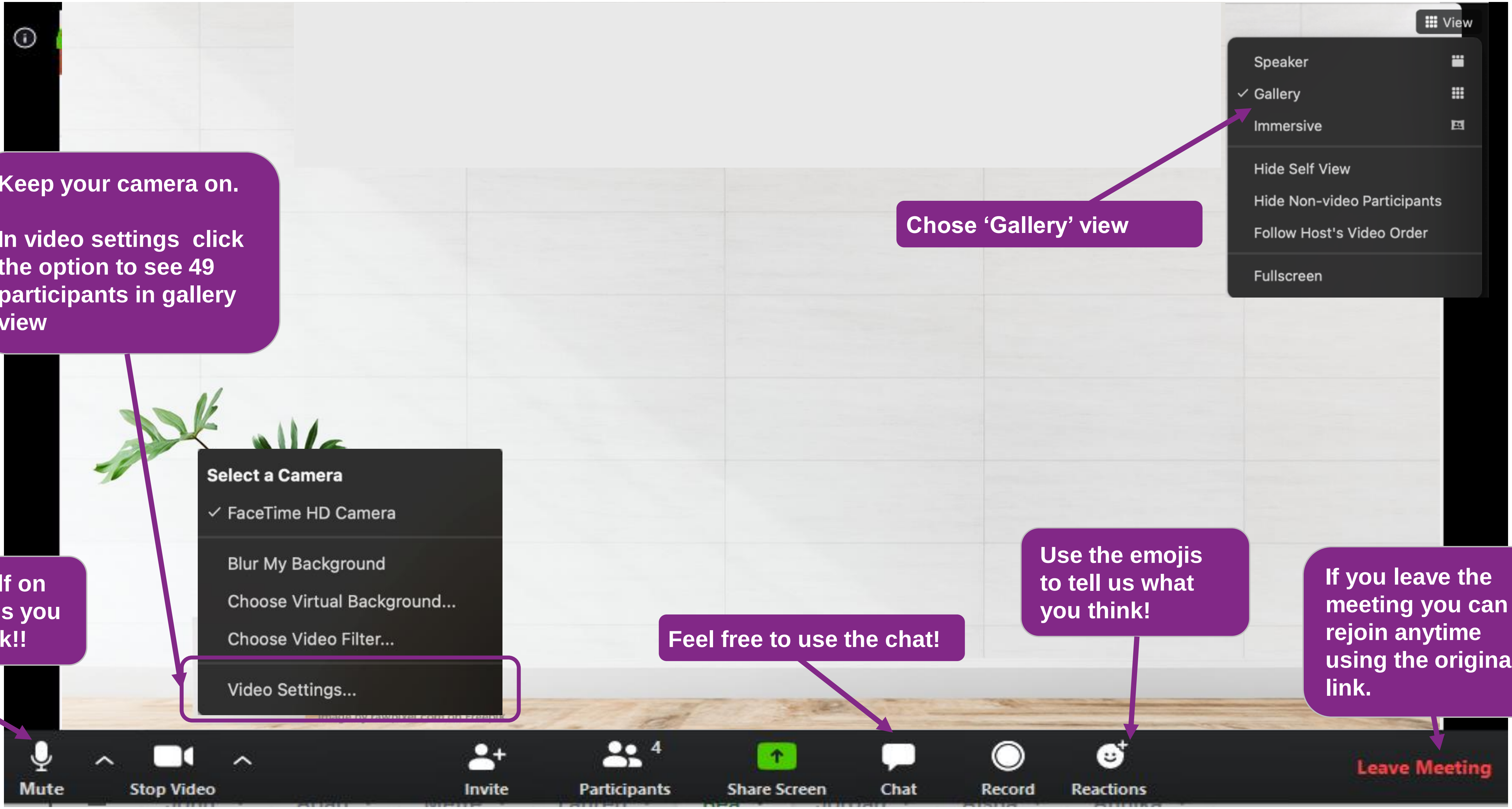
Everyone has their say

Listen, don’t interrupt

Keep contributions relevant to the subject

Be respectful

Navigating the Zoom Room



Keep your camera on.

In video settings click the option to see 49 participants in gallery view

Chose ‘Gallery’ view

Keep yourself on mute - unless you want to speak!!

Feel free to use the chat!

Use the emojis to tell us what you think!

If you leave the meeting you can rejoin anytime using the original link.

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!

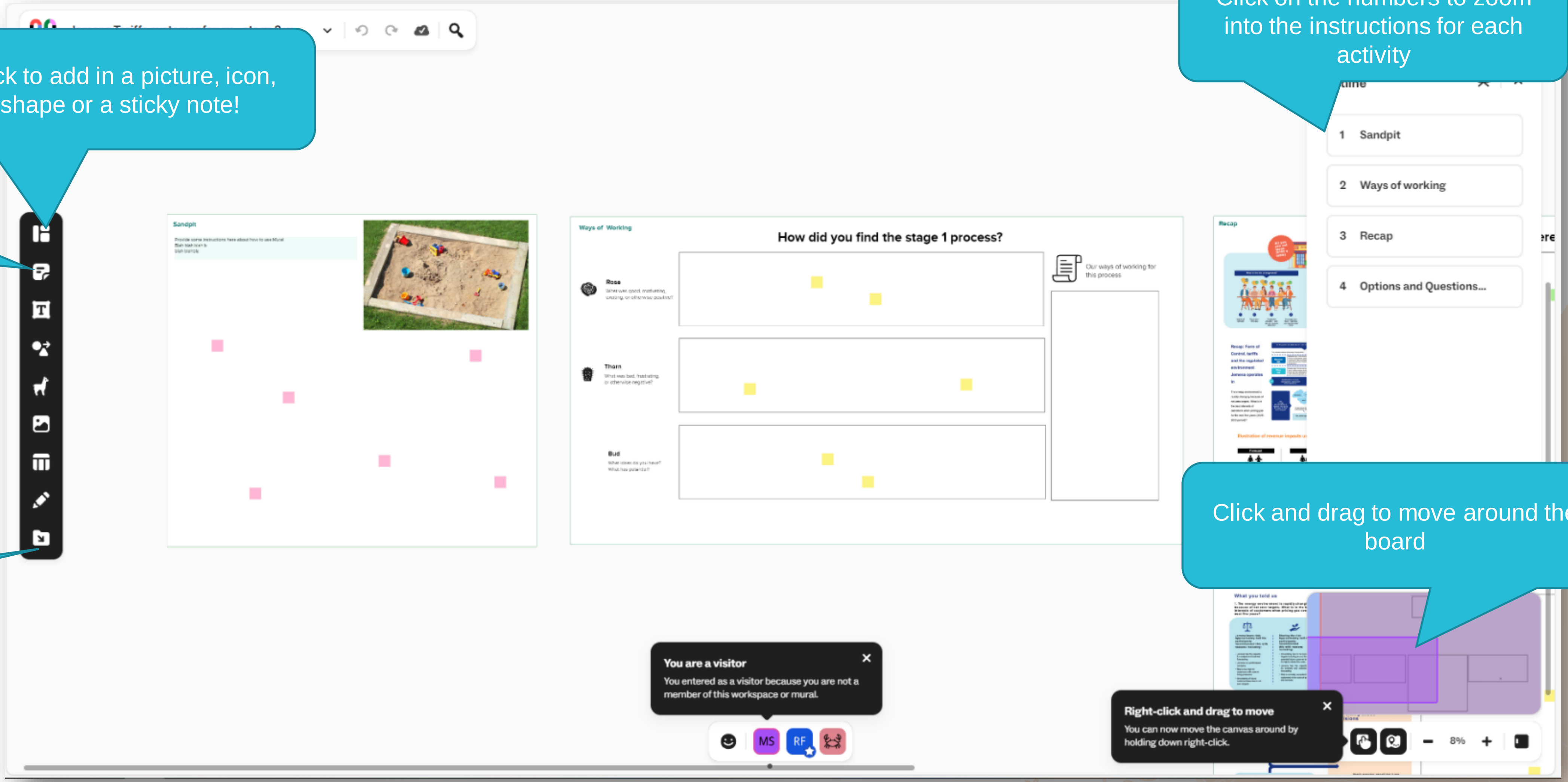
Click on the numbers to zoom into the instructions for each activity

To add a stick 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 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

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

They can earn revenue in two ways, through either:

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

OR

Combination of both

Hybrid approach - customer and Jemena share the risk

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 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

Electricity

Hydrogen

Wind

Gas

Solar

Biomethane

Batteries

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?

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 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.

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.

Source: P 21, Australian Energy Regulators' Issues Paper – tariff variation mechanism report online here.

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

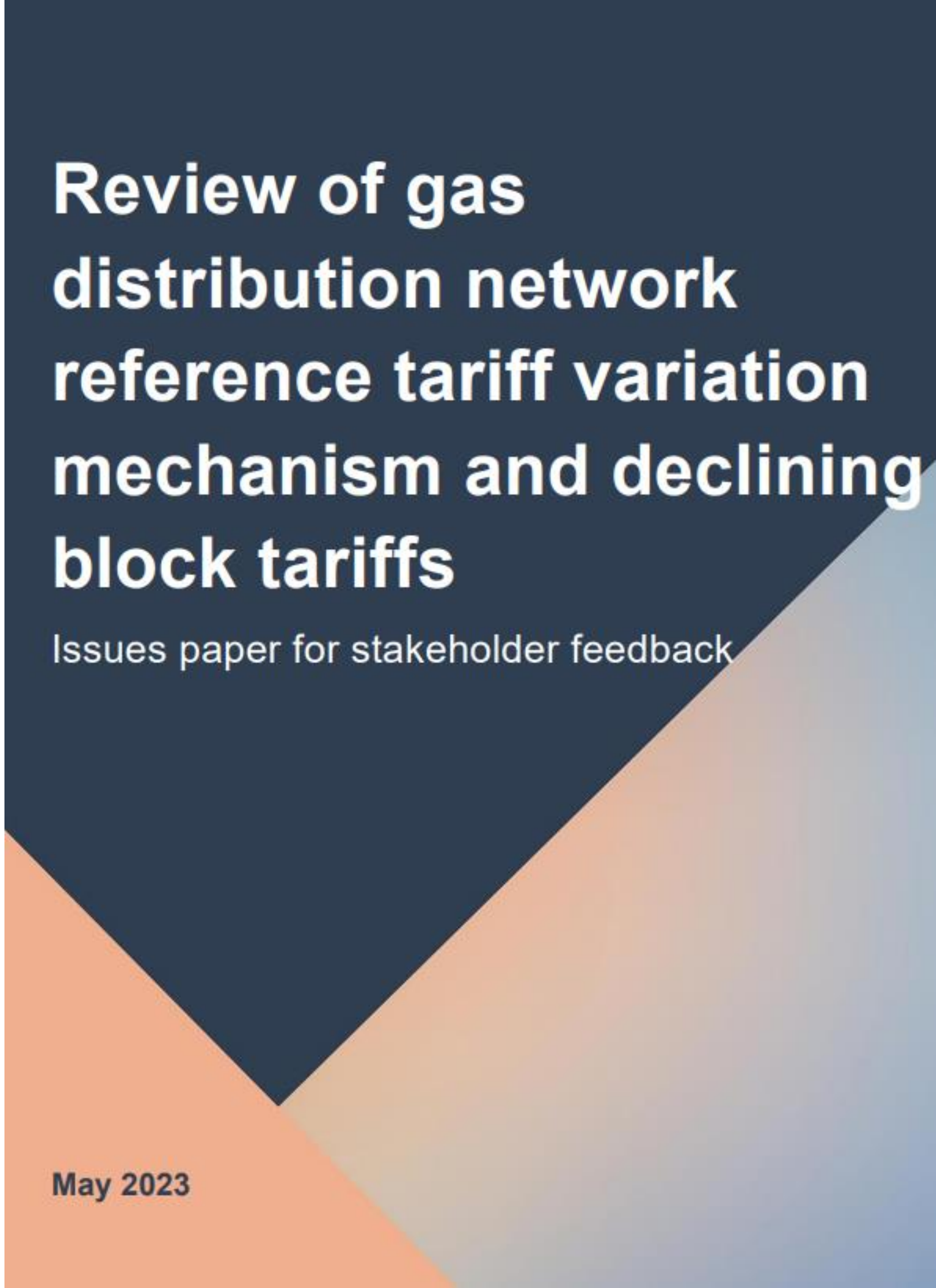
Simplicity: understandable, minimising transaction costs and applicability of overseas pricing structures

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 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.

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	**Affordability and Equity** 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.	**Sharing of demand risk** • 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.	**Pricing for efficiency (as required by the rules)** • 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

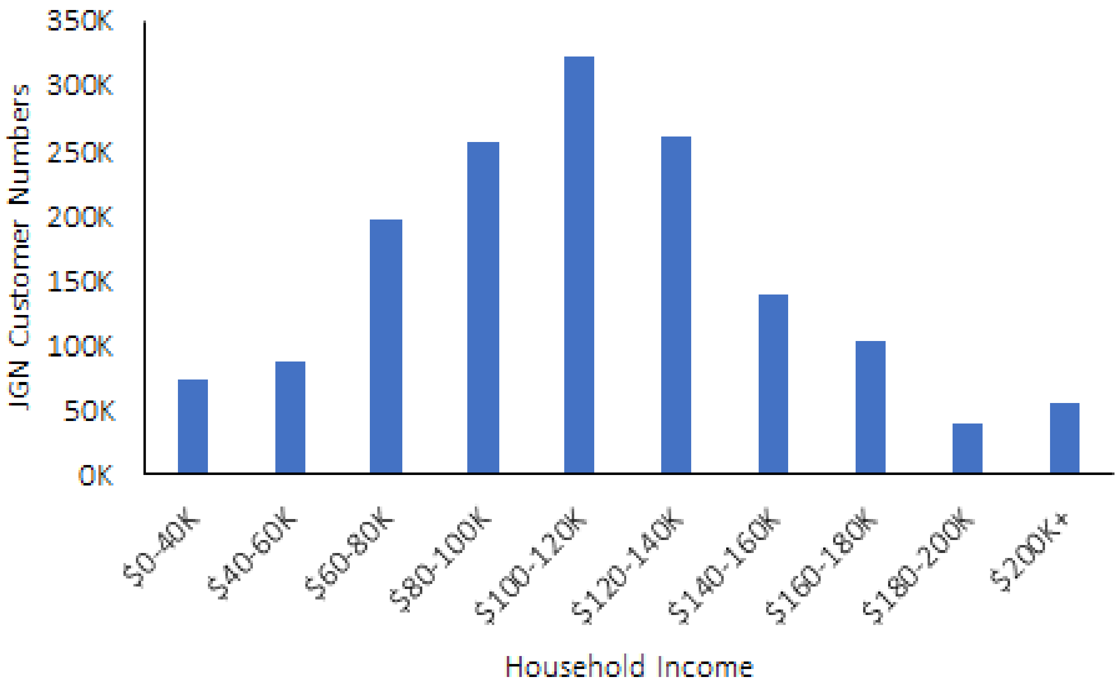
- **98%** of our customer base
- Use **31%** of total gas we deliver
- Include home owners, tenants, vulnerable customers
- Mixture of standalone and high-density housing

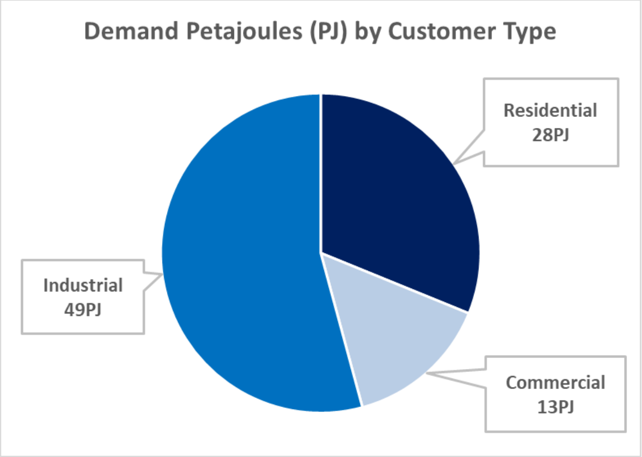
Business

- **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 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

Current typical	Production	Transmission Pipelines	Distribution Pipelines	Retailer	Your Bill
15 gigajoule customer	21%	3%	36%	41%	$820

Typical annual household 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.

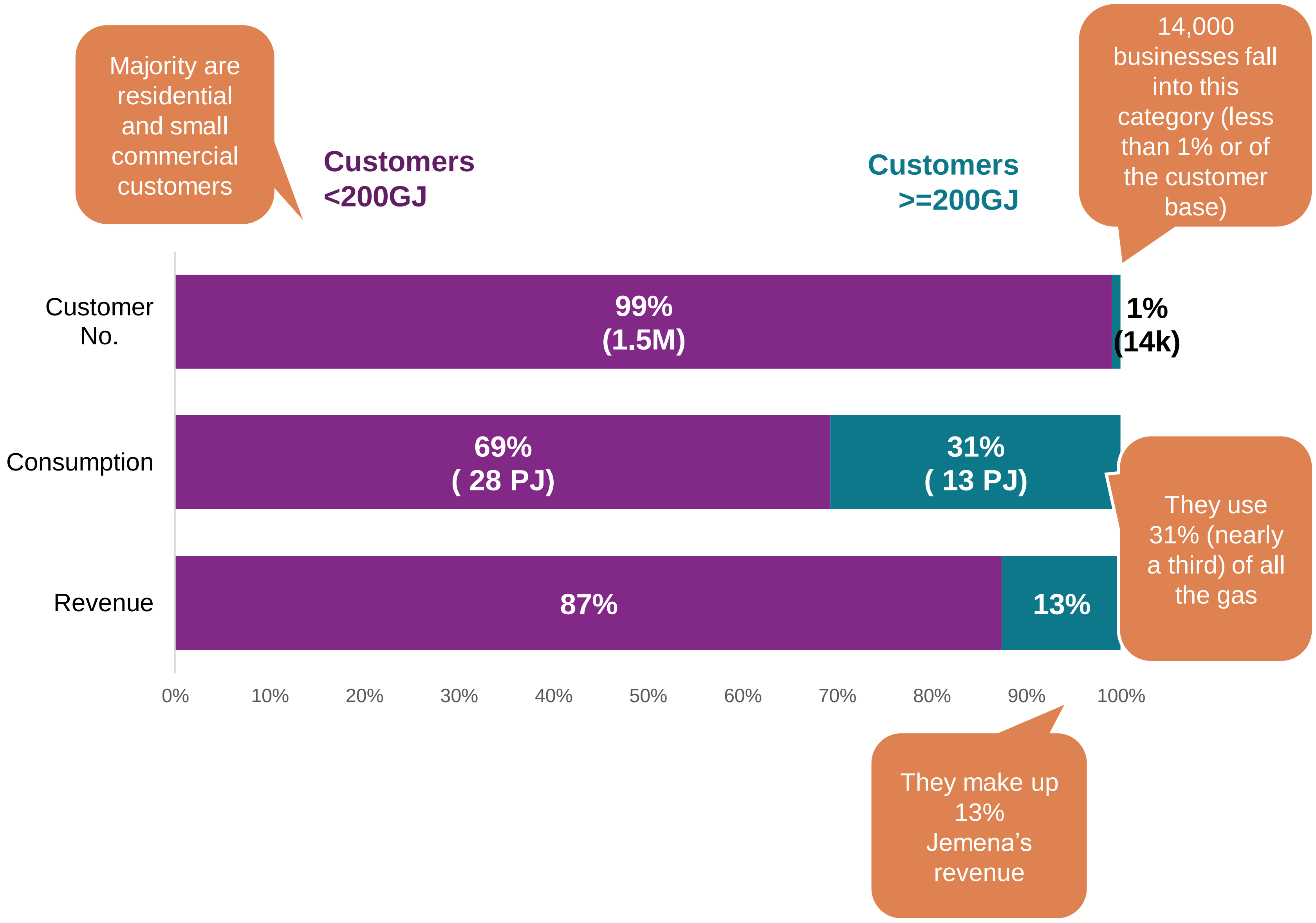
Why are we doing this?

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

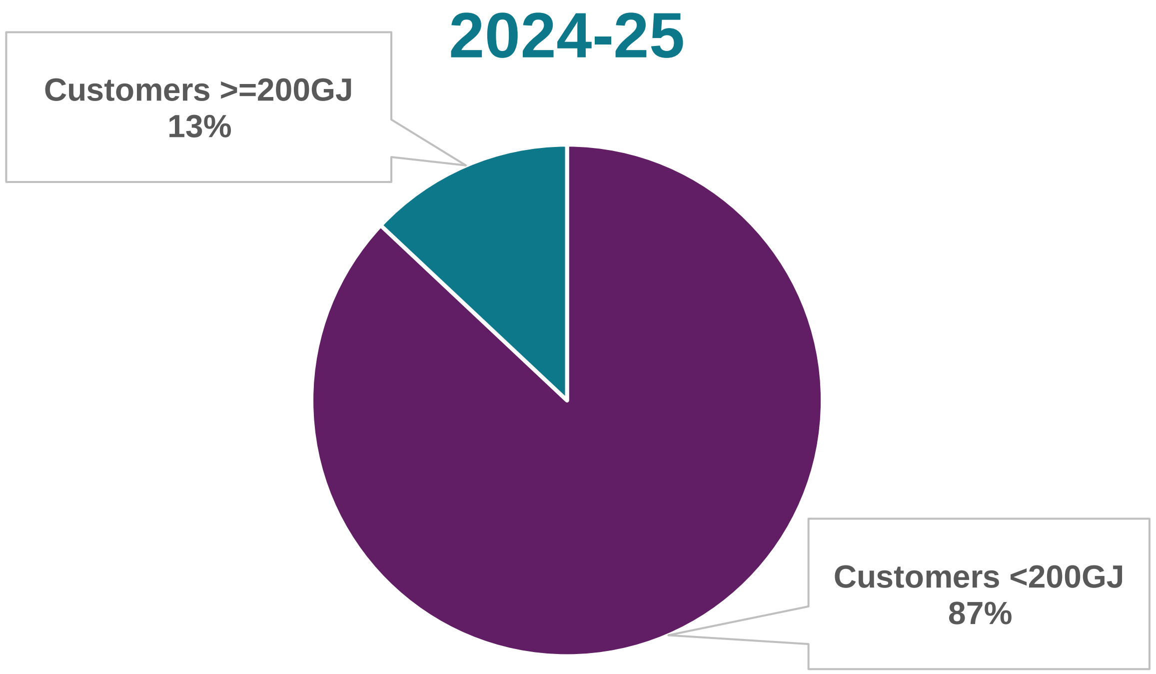
Why 200 Gigajoules?

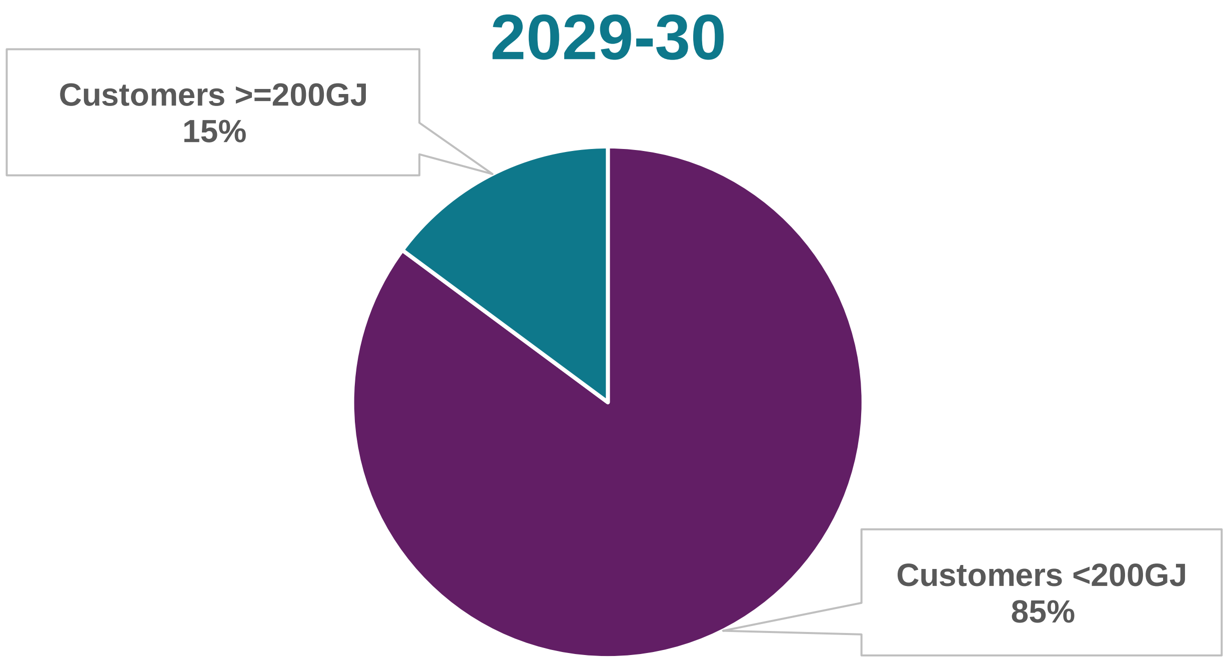
The 200 Gigajoule cut-off is about how much you use.



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 (Blocks 1–2)

~ Block 5 (Block 3)

~ Block 6 (Block 4)

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

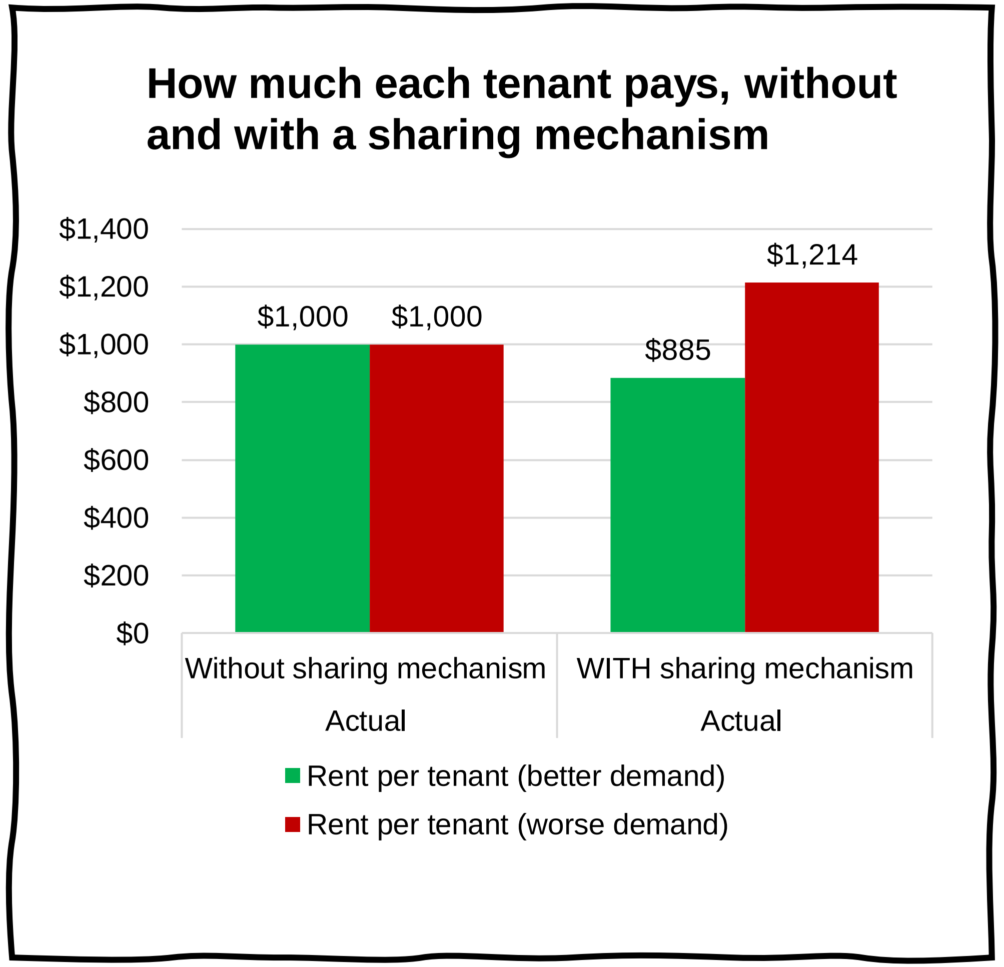
	Share house analogy 	Impact to customers	Jemena bringing energy to life
Hybrid option 1:	Anything below or above 10 customers, the up- and down-side risk is shared equally.	Risk/reward is equally shared between JGN and customers.	Risk/reward is equally shared
Hybrid option 2:	Landlord (i.e. JGN) bears 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 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.

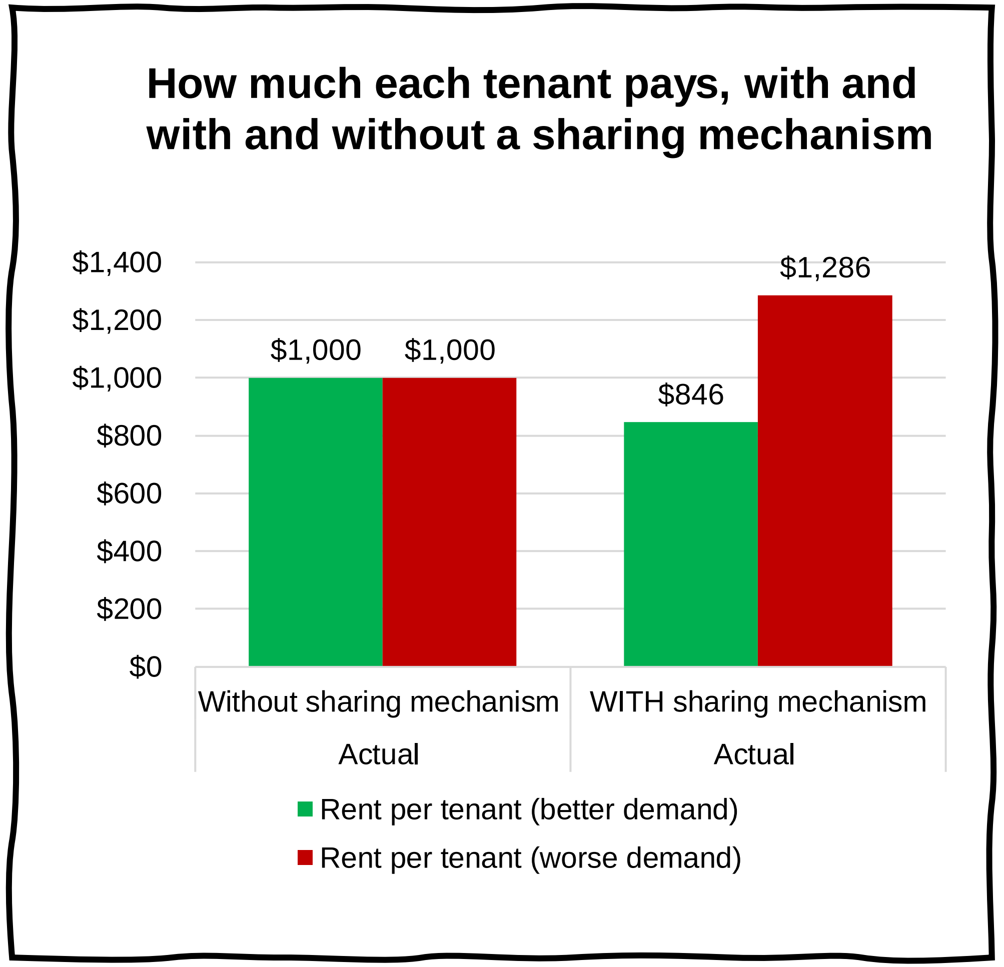


Hybrid Option 2: “Limited range” sharing (1 customer)

	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)

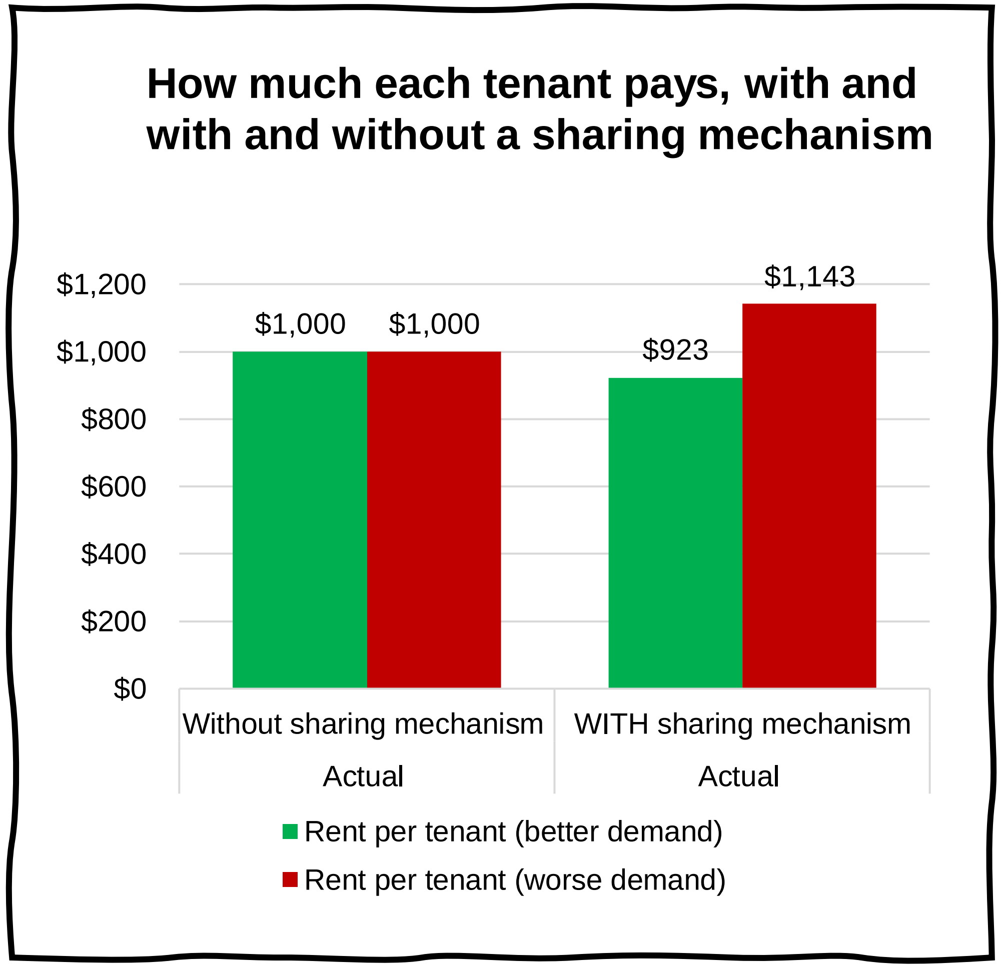


Hybrid Option 3: “Limited range” sharing + 50/50 split

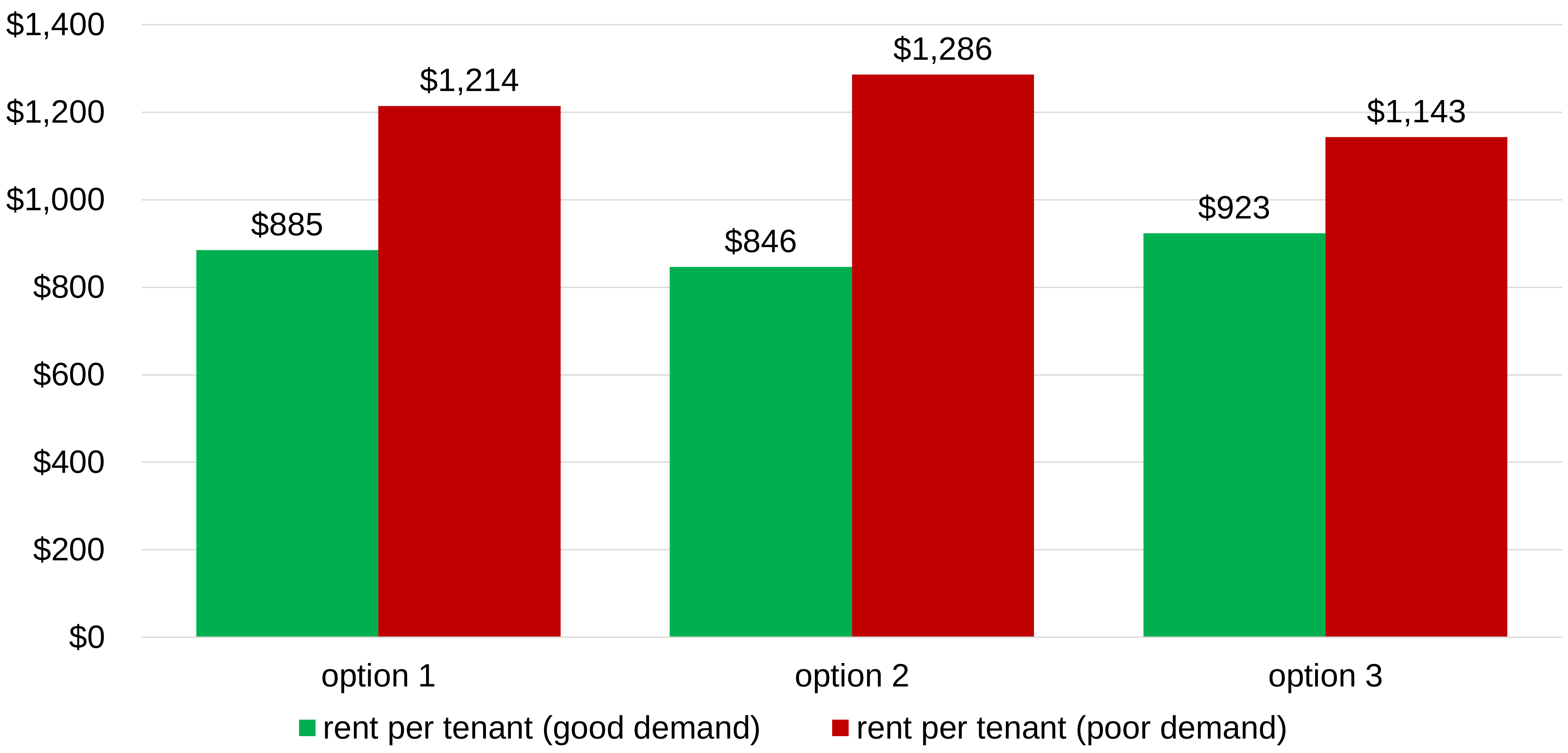
	Forecast	Actual Without sharing mechanism	Actual WITH sharing mechanism
Better than expected			
No. of tenants	**10**	**13**	**13**
Total rent (how much the Landlord gets)	$10,000	$13,000	$12,000
Rent per tenant	**$1,000**	**$1,000**	**$923**
Worse than expected			
No. of tenants	**10**	**7**	**7**
Total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

Jemena

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!

Jemena

Wrap up and conclude

Jemena

Jemena