Jemena Gas Networks

Tariff Structures

Retailers Forum

Outcomes Report

Tuesday 5 December 2023

9.30 am-11.30 am

Key themes

Overall, the key themes of retailer engagement on this topic included:

- **More detail and communications:** although retailers were comfortable with what was presented, they wanted more detail on the operational side and how it would be communicated to customers.
- **Numbers and clarity of process:** retailers wanted to see some numbers demonstrating the impacts on the different groups of customers and clarity of how it would work in practice.
- **Simplification is the way to go:** retailers agreed that simplifying the tariff blocks was a good thing and switching to a residential/commercial split.
- **Views on the hybrid approach and sharing of risk:** generally, retailers were comfortable with the hybrid approach. However, they questioned the 50/50 split for some of the options and also believe that, in terms of the risk, the party that has the best ability to manage the risk should be considered.
- **Protecting bill shock for customers:** with demand fluctuating and the prices fluctuating with some of the options, retailers wanted to minimise the downside risk of bill shock, particularly for the larger 200 GJ customers that may be most impacted by the changes.

"The devil's in the detail in terms of the operationalization of the process. But in principle, you know, we understand that you know this. This is a feasible approach going forward, some sort of hybrid."

"I think interesting to see how this plays out, especially the fluctuations from one year to the next, and to see how that sort of is perceived, I guess, but customers, and how we're going to, you know, insulate that in our products, and contracts."

"Six blocks was a lot, we'd prefer the four."

"Ability to manage risk should be taken into account as well."

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

Sixteen (16) attendees from regulation, metering and pricing across eight retailers including Energy Australia, Origin, Dodo Power and Gas, Vocus, Alinta, Sumo, Globird and Red Energy. They were also sent some pre-reading and paid stipends to complete the task.

Observers: There was one observer from the Australian Energy Regulator. Sixteen (16) attendees from regulation, metering and pricing across eight retailers, including Energy Australia, Origin, Dodo Power and Gas, Vocus, Alinta, Sumo, Globird and Red Energy.

Format: The session ran for two hours on Zoom using engagement tools such as Mural and Menti and smaller breakout groups. The complete pack presented 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 to provide reasons as to why they voted the way they did.

Jemena did 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

The Jemena team opened the session and asked if there were any burning questions from retailers.

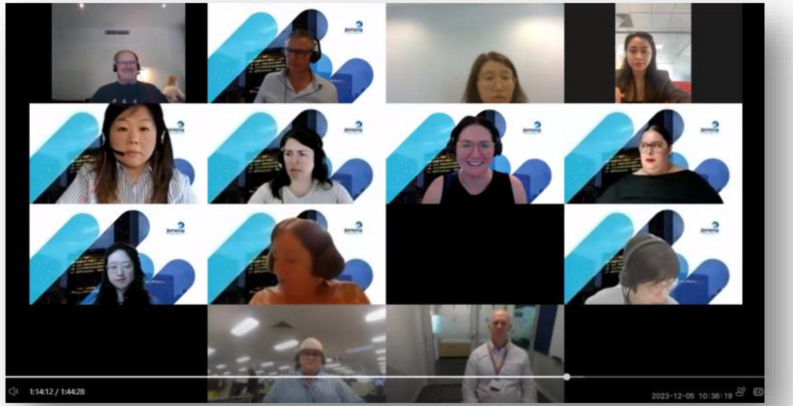
Queries, comments and questions from retailers included:

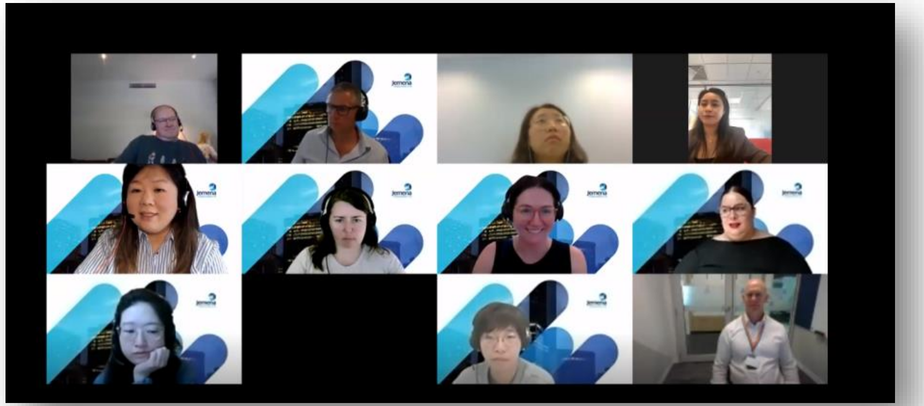
- To highlight the competition rules at the start of the workshop
- When the details for example percentage rates can be shared with retailers.
- If the hybrid option three (limited range sharing plus a 50 / 50 split) is fair and equitable for customers and how the regulator will assess this option.
- It was noted by Jemena that the different hybrid designs create a compromise between the revenue cap and a price cap where either party wears 100% of the risk.
- Retailers noted that conceptually this is a very difficult thing to explain and consult with on customers, especially about the percentage split in the hybrids presented, but from an operational side, customers don't necessarily need to know or understand how it works.

"it's a really difficult thing to explain to customers."

"My question is about fairness and equity, the customers perspectives, and then the how the regulator will assist this is that right? As a distributor."

"If we're going to have breakout sessions and a more in-depth conversation if we can have an acknowledgement around competition law."





Gas pricing, understanding the concepts and asking questions of Jemena

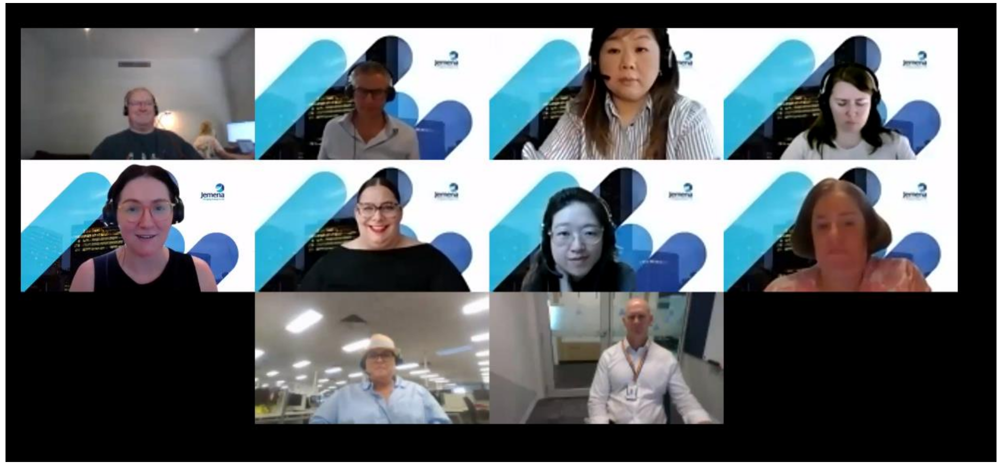
The Jemena team provided some early thinking around pricing structures and gas tariffs (see slides 15-37). Then, the discussion split to breakouts. The questions and feedback from retailers covered many topic areas, including:

- Retailers appreciated the sharing of risk going forward, noting that the ‘devil is in the detail’ and the operationalisation of the process.
- They agreed in principle that the hybrid approach is reasonable (see slide 7 for a breakdown of the votes from retailers on each)
- In terms of risk, they noted that the party that has the best ability to manage the risk should take into account the sharing of risk.
- Need consistency and clarity on where prices are going to.
- Don’t want to see bill shock for customers
- Want to see how this plays out in the fluctuation of the prices and how retailers will deal with that in what’s provided to customers
- Retailers are comfortable with the simplified tariff structure (reduce blocks) – simplicity is always welcome

“I want to jump into the detail, but I’ll try and stand back a bit, because clearly it’s too early for that.”

“Having the numbers will be really helpful/”

“Very clear processes for customers. Because we’re going to have some customers that start off with greater than 200 [GJ] and maybe half that plan shuts down for a year (…) we want a position to be able to move them up to a different tariff quite efficiently.”



Tariff structures voting from retailers

Retailers support reducing the tariff blocks and changing to a residential/commercial tariff split. Reasons why are also included here.

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

"Simplicity"

"It makes it easier for customers to customers to understand."

"Going from 6 to 4 blocks seems reasonable"

"Easier to manage, simple, need clarity on movement between tariffs."

"Easy to understand for a customer and retailer perspective, not overly complicated compared to 6 blocks."

"I find it hard to love tariffs in general, however the proposed idea is an interesting concept and makes sense to simplify."

"Quite conceptual at this point in time. Too early to make a call?"

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

"It just makes sense."

"Reflective of customer type."

"How much I like it will depend on the operational aspects related to movements between the tariffs."

"Spreading the costs more to the larger customer types."

"Acceptable to split residential and business. Energy is a tax input to a business."

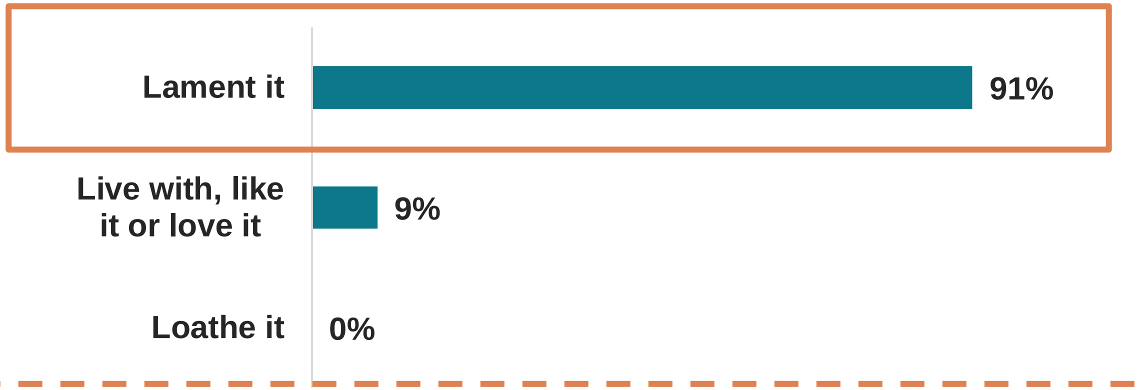
"Makes sense to move away from coastal and country."

*** 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.*

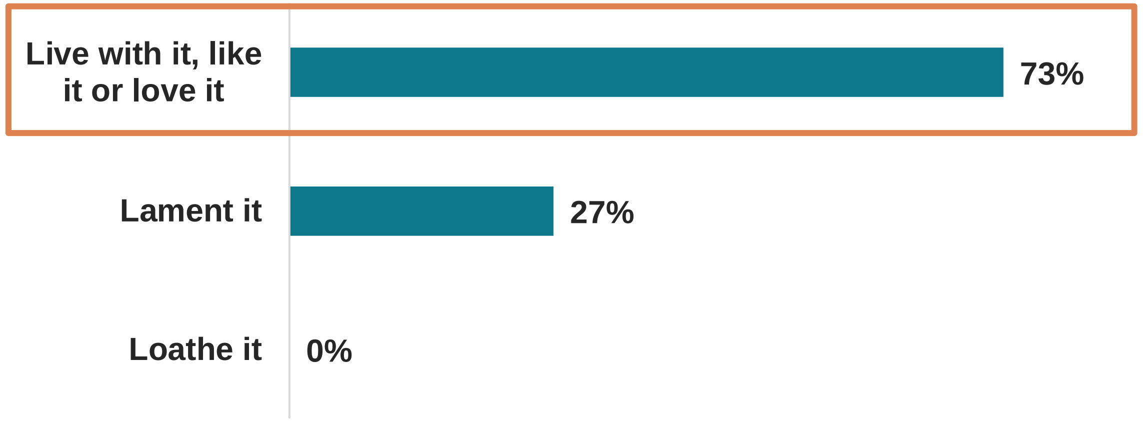
Tariff structures voting

Of the three hybrid options presented, retailers narrowly prefer option two followed by option three. Reasons are they want to see more detail. For complete descriptions of the voting options, please see slide 29.

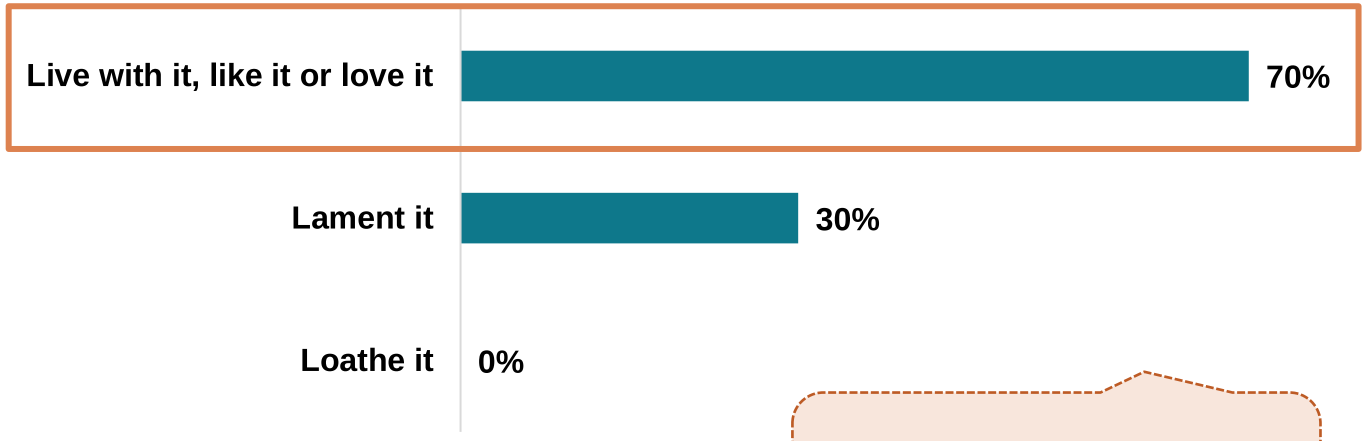
To what extent do you think risk sharing should be through hybrid option 1?



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



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



"More detail of options will help understand better."

"Better assessment or perspective will be provided in the details, conceptually it is an interesting approach, however the devil would be in the detail.

"Managing impact of options will help understand better."

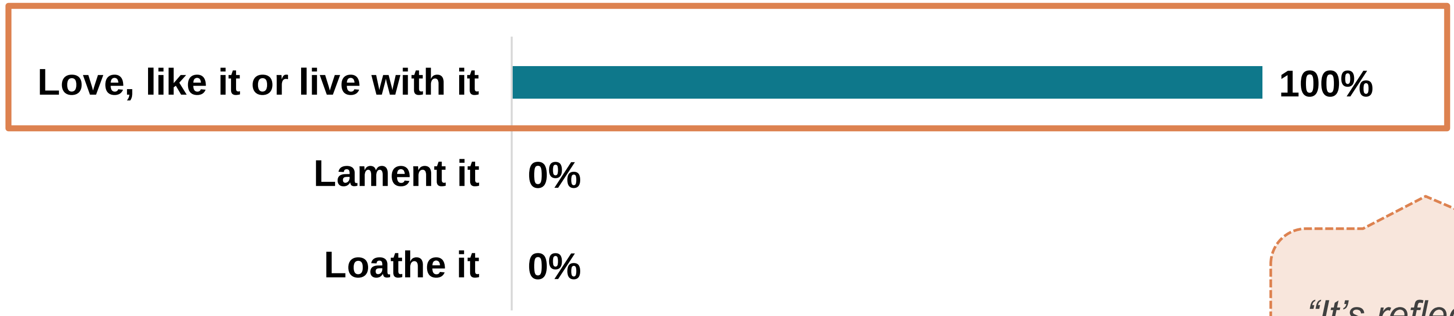
"Would require more information to understand further on impacts to both the customer and retailer."

*** 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.*

Tariff structures voting

Overall, retailers agreed with the pricing principles.

To what extent do you agree with the pricing principles?

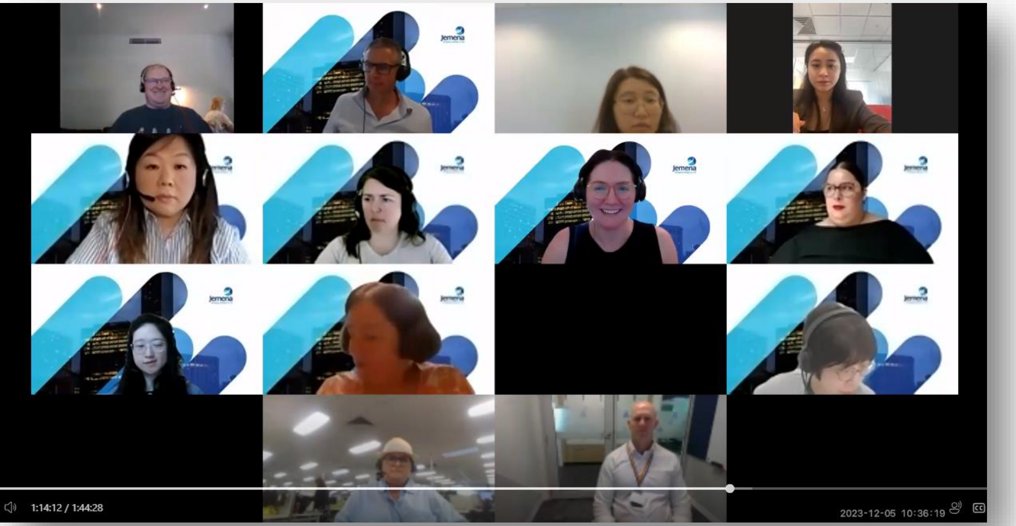


"Got many principles, but may be too many to bring to a tariff design."

"It's reflective of the customer which is always good."

"Seems to be logical principles to have."

"Customer reflective and directed towards simplification."

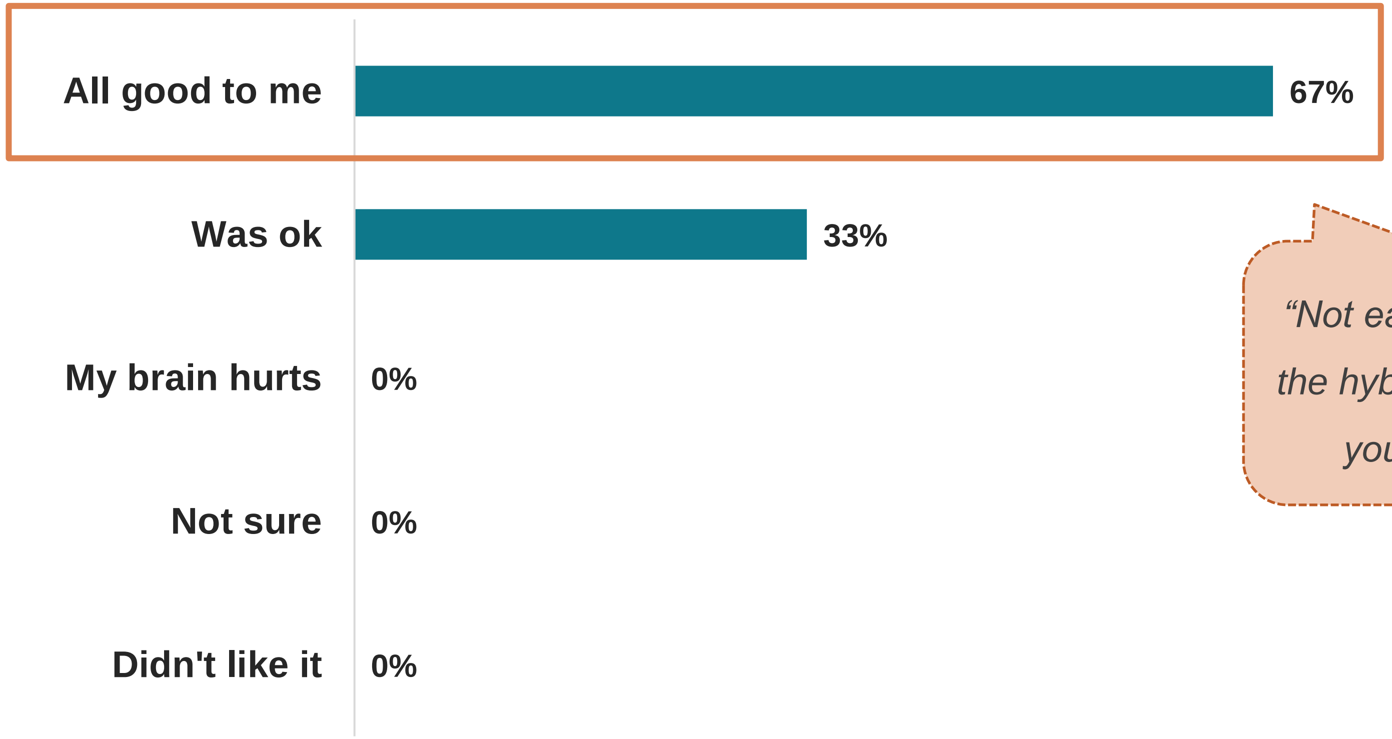


*** Note a small base. The rating scale was five points: loathe, lament, live, like it and love it. Scale shown live, like it and love it.*

Session feedback

Nearly 7 of 10 retailers attending expressed satisfaction with the session and how it was run.

What did you think of our session today?



"Thanks, good simple session straightforward."

"The pre reding was very helpful."

"Not easy explaining the hybrid model, but you did well."

"Good session, more detail to come however was a good mix for the discussion."

*** Note a small base. The rating scale was five points: my brain hurts, didn't like it, not sure, was ok, and all good to me.*

Who attended from the retailers?

Name	Role	Organisation
Corinne Berry	New Connections Group Lead	Energy Australia
Devni Perera	Energy Pricing Analyst	Dodo Power & Gas / Vocus
David Elmankababy	Student Intern	AGL
Fawad Asghar	Senior Specialist Pricing Strategy	AGL
Gary Davies	Manager, Regulatory Policy	Origin Energy
Gayatri (Gaya) Patel	Pricing Analyst	Dodo Power & Gas / Vocus
Jay Whelan	Pricing Operations Manager	Energy Australia
Karen (Yifan) Miao	Operations Support	GloBird Energy
Lucas Tusek	Market Performance Functional Lead	Alinta
Mario Iogha	Market Data Manager	Origin Energy

Who attended from the retailers? (continued)

Name	Role	Organisation
Nancy (Jianan) Zhao	Operation Support	GloBird Energy
Mark Riley	Senior Industry Advisor	AGL
Ram Vaid		
Shirley Agreda	Pricing Analyst	Sumo
Sasha Menovic	Energy Pricing Analyst	Alinta
Sienna Lemos	Connection and Metering Analyst	Alinta
Steve Ford	Pricing Analyst	Red Energy

Jemena attendees + observers

Name	Role	Organisation
Dale Johansen - Observer	Director Networks Pricing	Australian Energy Regulator
Andre Kersting	Gas Networks Regulation Manager	Jemena
Lay Na Lim	Senior Regulatory Advisor	Jemena
Emma Wilson	Gas Networks Pricing Lead	Jemena
Louise Baring	Customer Engagement Lead (Jemena Electricity Networks)	Jemena
Catherine Marshall	Key Accounts Manager & JGN Commercial Stream Lead	Jemena
Jerrie Li	Senior Regulatory Advisor – Regulatory Strategy and Analysis	Jemena
Emille Kueh	Relationship Lead Energy Retail	Jemena
Merryn Spencer	Engagement Lead (Jemena Gas Networks)	Jemena

Session slides

Tuesday 5 December 2023

Jemena

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!

Andre Kersting
Gas Networks Regulation Manager

Lay Na Lim
Senior Regulatory Advisor

Emma Wilson
Gas Networks Pricing Lead

Louise Baring
Customer Engagement Lead (Jemena Electricity Networks)

Merryn Spencer
Engagement Lead (Jemena Gas Networks)

Catherine Marshall
Key Accounts Manager & JGN Commercial Stream Lead

Jerrie Li
Senior Regulatory Advisor – Regulatory Strategy and Analysis

Emille Kueh
Relationship Lead Energy Retail

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

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

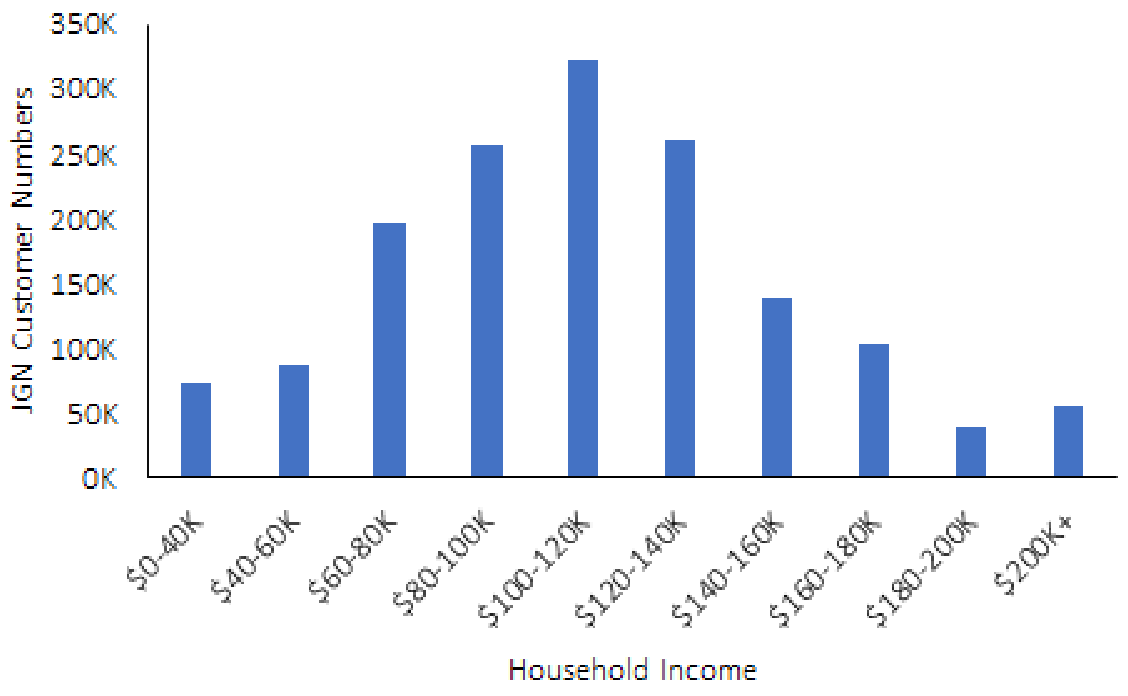
- **98%** of our customer base
- Use **31%** of total gas we deliver
- Include home owners, tenants, vulnerable customers
- Mixture of standalone and high-density housing

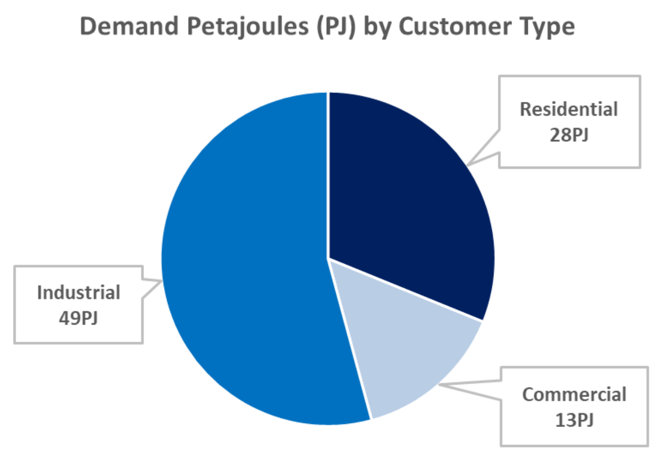
Business

- **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?

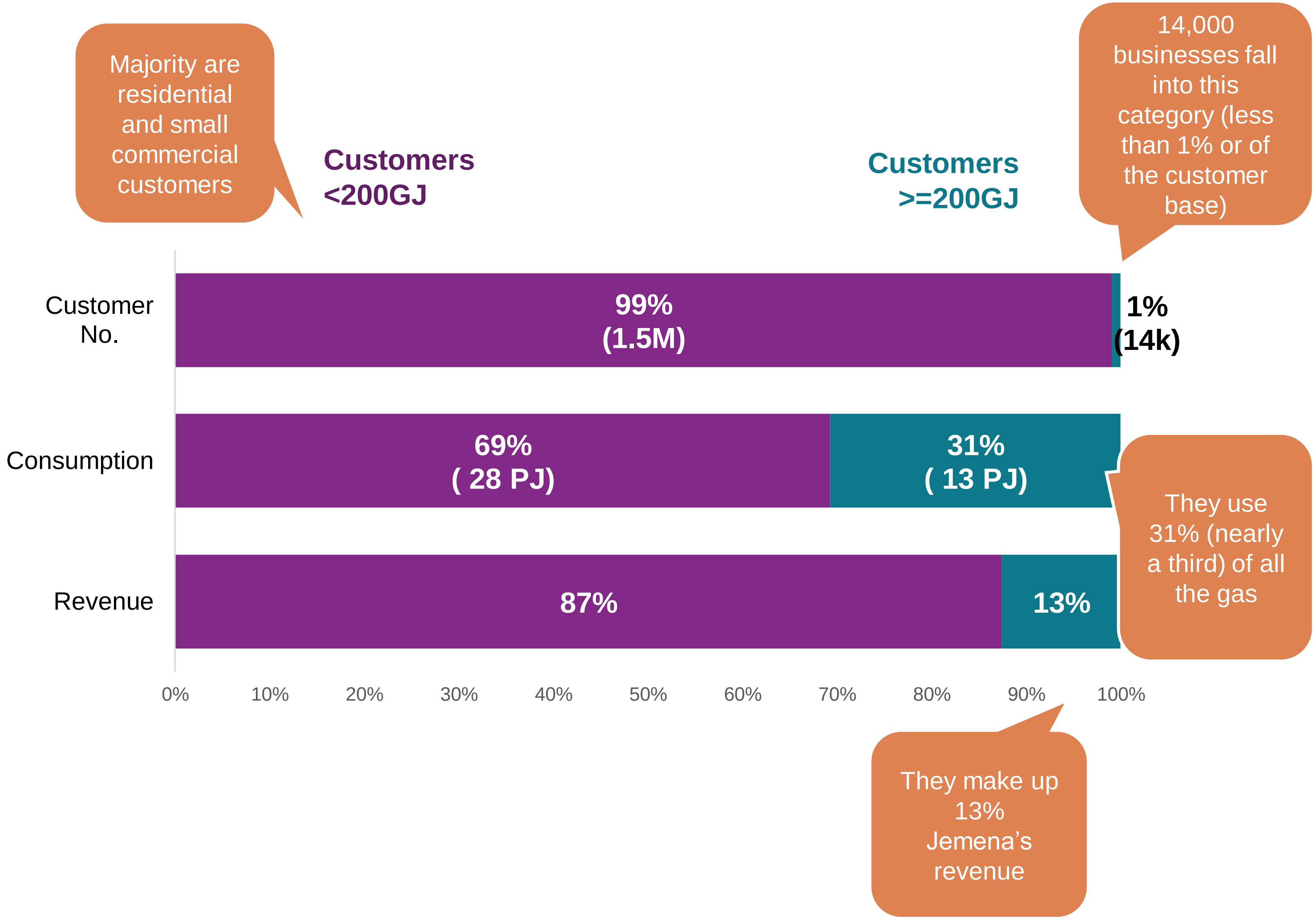
Tariffs can't do two things at once

Focusing on affordability, equity and fairness

Minimising the impact on the winners and losers

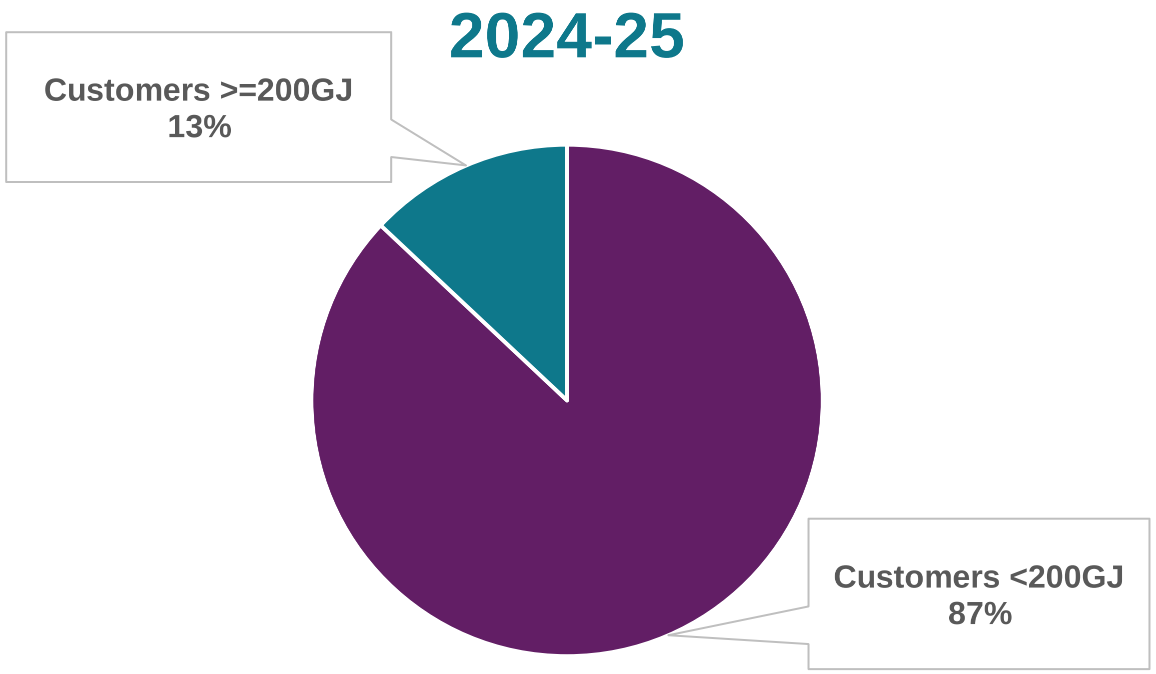
What is the breakdown of customers?

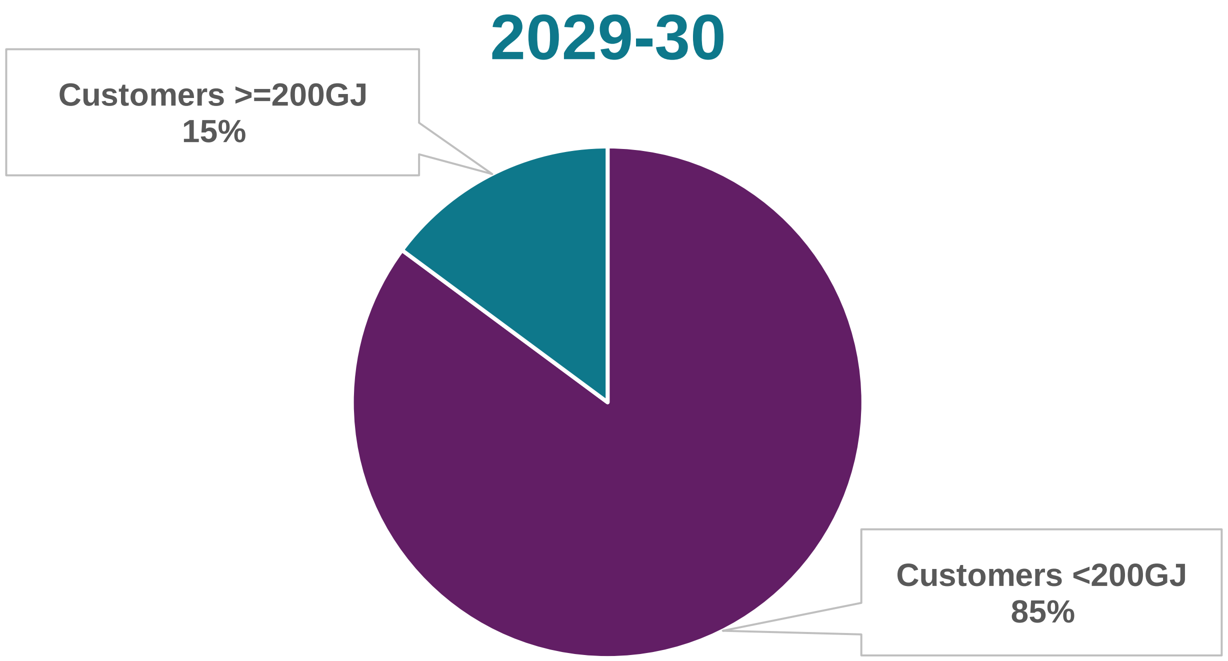
The 200 Gigajoule cut-off is about how much you use.



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

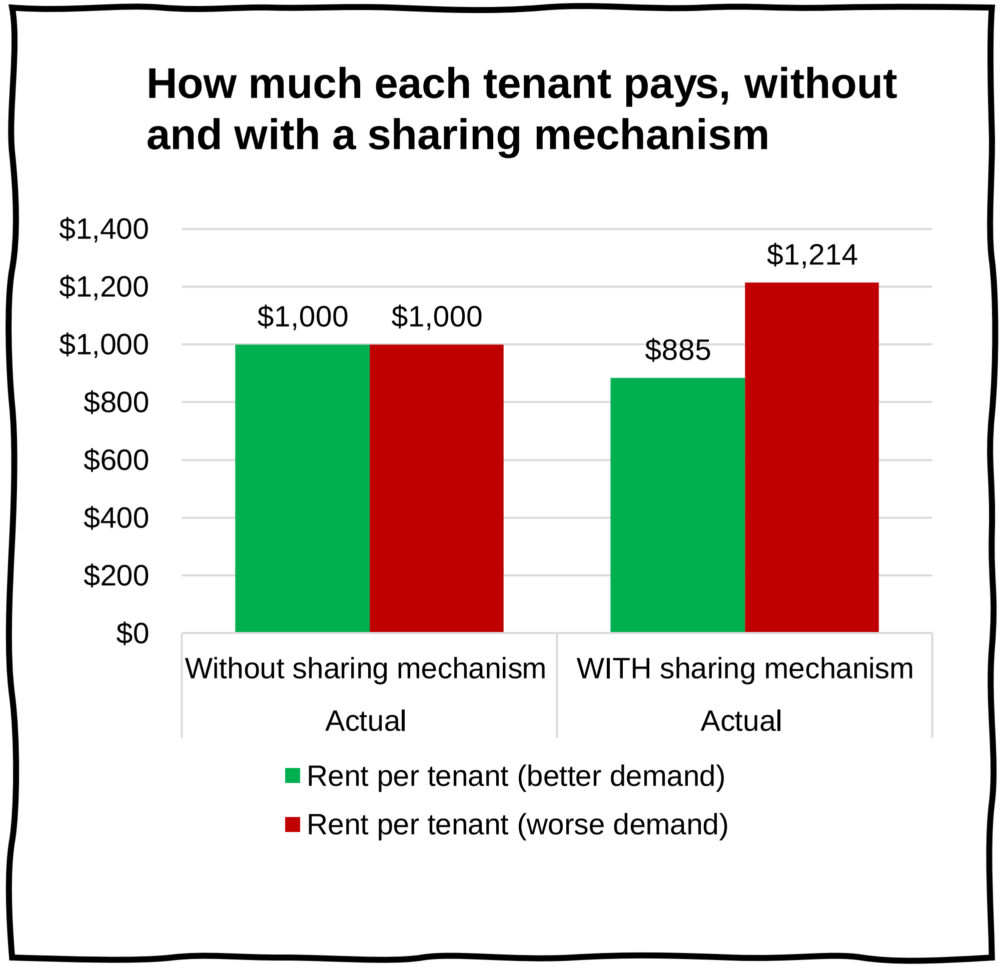
As a **landlord**, how would you protect yourself against tenants leaving? You could state that if tenants start leaving the house, the rent of the remaining tenants would increase. E.g. if 5 friends leave halfway through, then the remaining 5 friends would have to pay double the rent.

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.



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

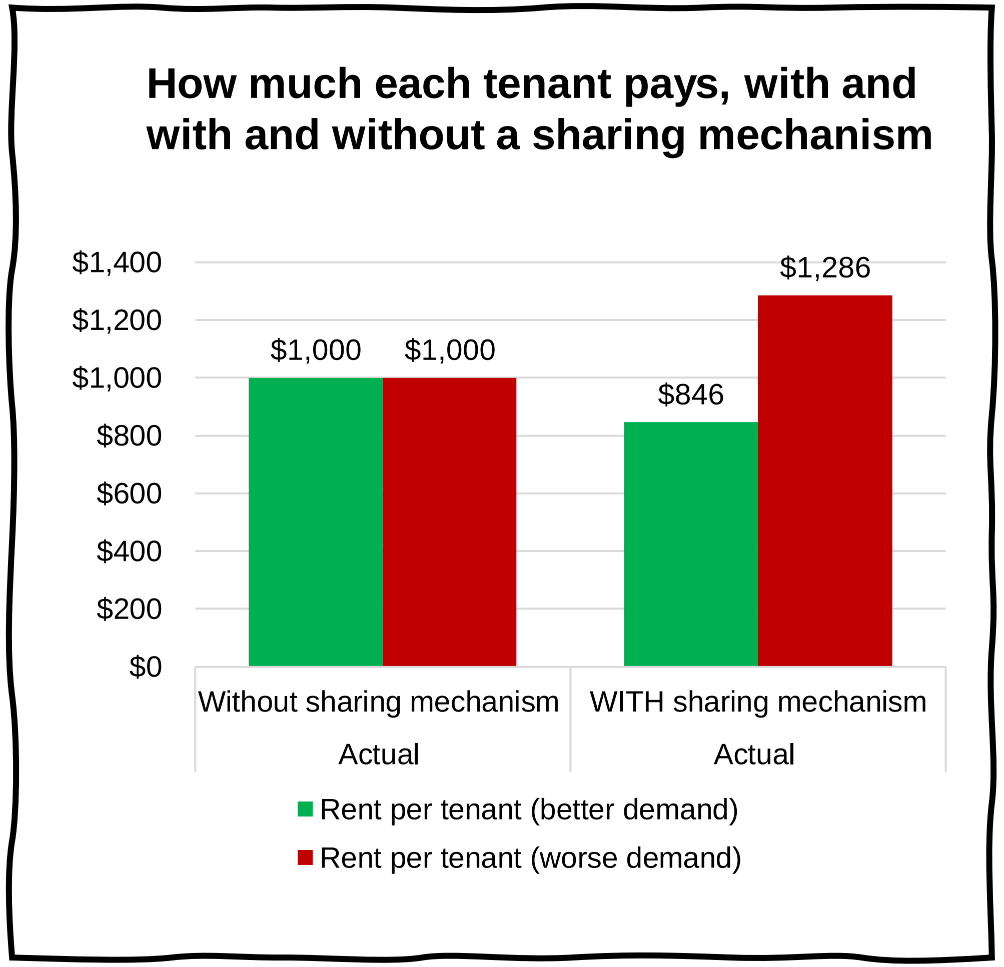
	Share house analogy	Impact to customers	Jemena
Hybrid option 1:	Anything below or above 10 housemates, the up- and down-side risk is shared equally.	Risk/reward is equally shared between JGN and customers.	Risk/reward is equally shared
Hybrid option 2:	Landlord bears up- and down-side risk as long as 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 2: “Limited range” sharing (1 tenant)

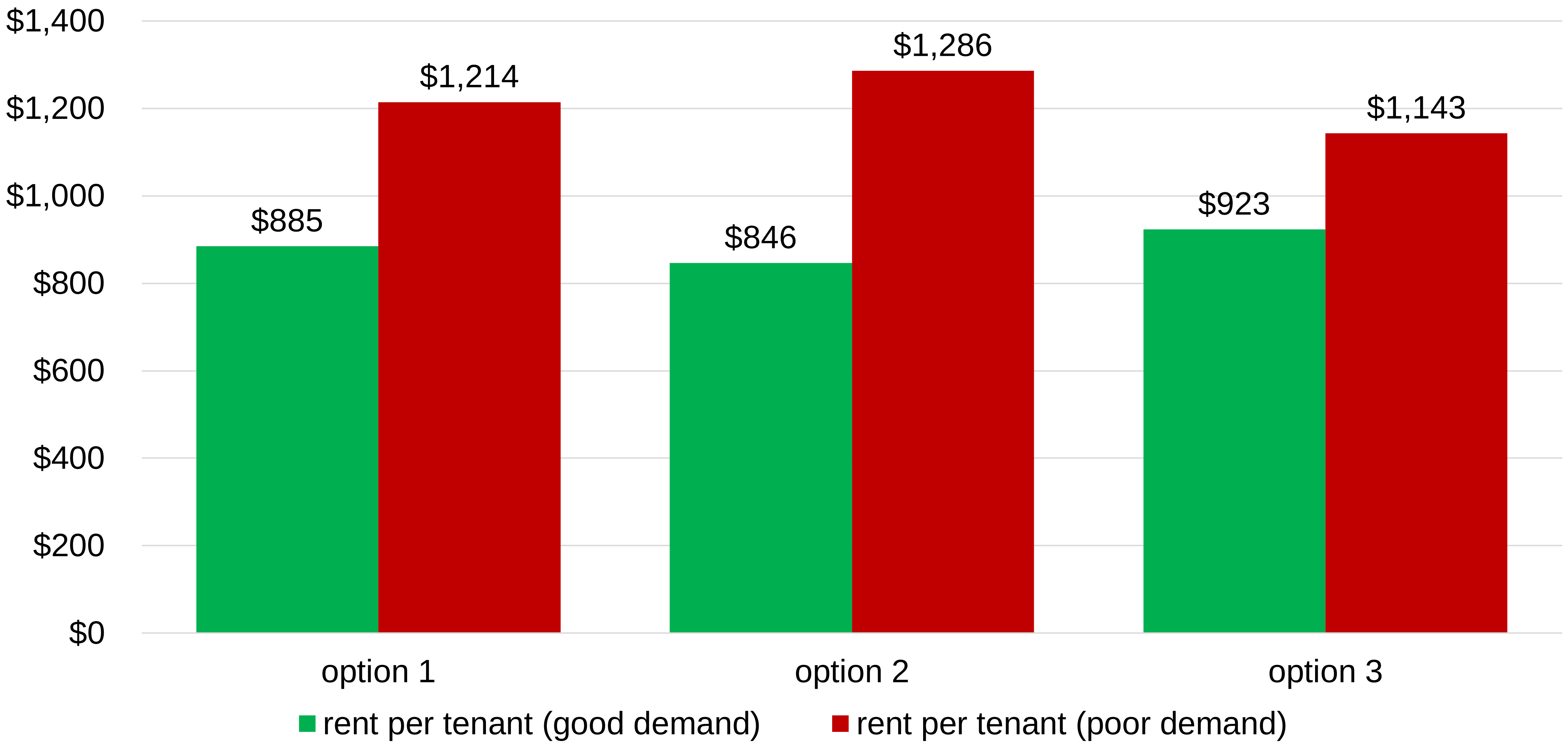
	Forecast	Actual Without sharing mechanism	Actual WITH sharing mechanism
Better than expected			
No. of tenants	**10**	**13**	**13**
Total rent (how much the Landlord gets)	$10,000	$13,000	$11,000
Rent per tenant	**$1,000**	**$1,000**	**$846**
Worse than expected			
No. of tenants	**10**	**7**	**7**
Total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



Comparison of different rents across the options for risk sharing

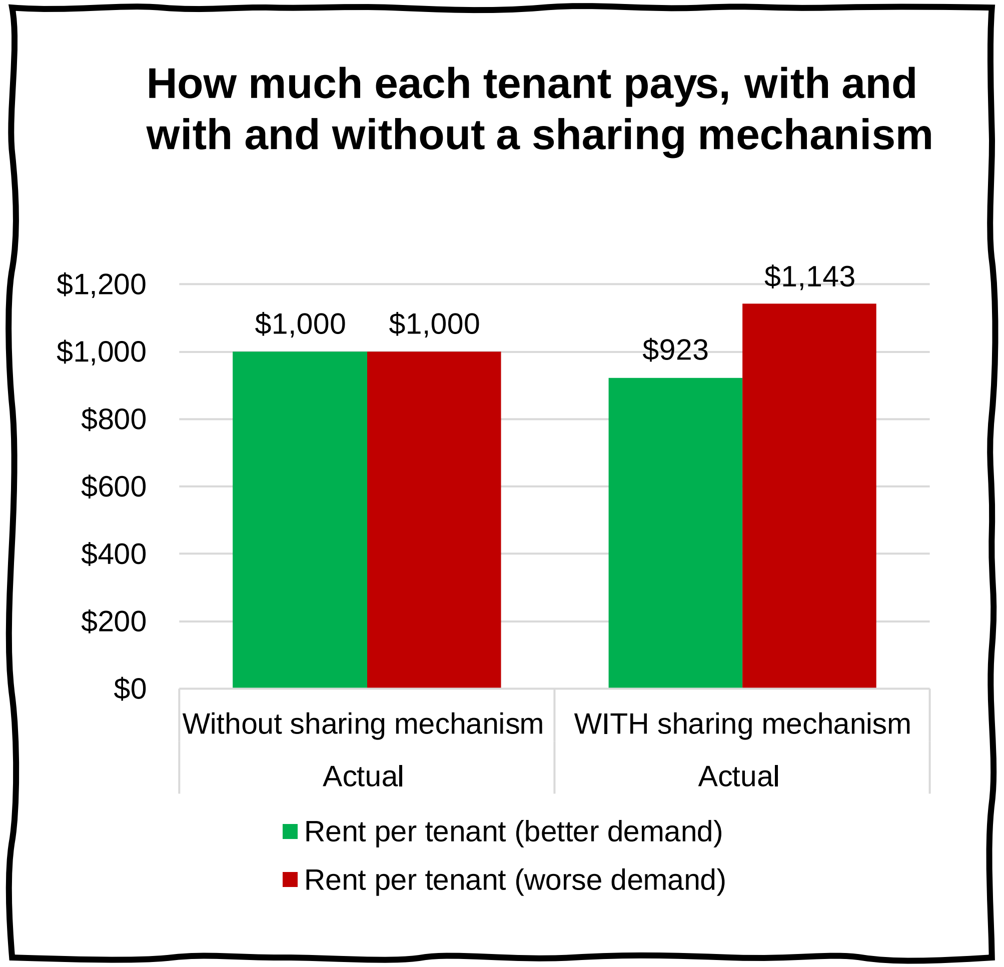


Hybrid Option 3: "Limited range" sharing + 50/50 split

	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



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.

Jemena

Break!

Back in 5 minutes

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!

Jemena

Wrap up and conclude

Jemena