Round table discussion about Jemena's proposed tariffs and tariff structure

Location: ACCC Offices, Level 7, 123 Pitt Street, Sydney

Time: 9.30 am – 12 noon

Date: Friday, 11 December 2009

Attendees

AGL:
Danni Calkin, Commercial Deals Manager
Stephen Dwayhe (SD), Head of Gas Portfolio Management (via VCU from ACCC Melbourne office)
George Foley (GF), Manager Gas Market Development (via VCU from ACCC Melbourne office)
Jenny Hart, Manager Business Analysis
Gonzalo Melchor, Commercial Manager, Major Customers

CSR:
Geoff Rudland (GR), General Manager Supply Chain

EnergyAdvice:
Phil Randall (PR), Managing Director
Ian Delahunty (ID), Contracts & Regulatory Manager (via VCU from ACCC Melbourne office)

EnergyAustralia:
Catherine Marshall (CM), Executive Manager Energy Pricing
Garry Foo, Pricing Analyst - Gas

Jemena:
Alf Rapisarda (AR), General Manager Energy Networks
David Anthonisz (DA), Project Manager - JGN Access Arrangement
Scott Martin (SM), Manager Commercial Operations
Robert McMillan (RM), Associate Economist

Origin:
Steven Macmillan (SM), Regulatory Analyst (via VCU from ACCC Melbourne office)

Qenos:
Andrew Cheah (AC), Botany Feedstock & Energy Coordinator

QHGP:
Garbis Simonian (GS), Managing Director

AER:
Mike Buckley (MB), Gwenda Gleeson (GG), Henryk Smyczynski (HS), Brett McCarthy

1. Introduction

Mike Buckley (MB) thanked everyone for attending the round table and noted the AER is currently reviewing Jemena's proposal and tariff structure. MB stated the purpose of today's meeting is to confirm our knowledge of the proposal and give Jemena an opportunity to outline its proposal for the new tariffs and tariff structure. A note of the proceedings will be taken and circulated. This will not be a transcript. We are seeking to find where there is consensus on issues and which issues are in contention. This will be taken into account for the draft decision.

2. Overview of Jemena's tariff proposal

Henryk Smyczynski (HS) went through a power point presentation summarising the AER's understanding of Jemena's tariffs proposal. HS noted that the 'Tariff Structure Change' slide contrasts the different tariff structure between the two access arrangements. Jemena has blended the trunk into the local network and capped charges are no longer offered. Volume charges vary with location but there will be coastal and country tariff classes. Metering services will continue to be offered and gas swaps will no longer be offered due to the introduction of the short term trading market (STTM). HS went through the presentation slide showing the breakdown of the proposed tariff structure and the demand tariffs slide which shows that some tariffs to the demand customer segment have increased or decreased by more than P0 due to restructuring of trunk charges and introduction of minimum bill and the first response emergency supply curtailment tariff.

3. Overview of issues arising from submissions

Gwenda Gleeson (GG) noted that the main issues arising from submissions concern the change in tariff structure and how the new structure affects tariffs. There are also issues with legacy services, meter services, the basis for escalating rates and minimum bill charges. A lot of the submissions do not support these changes and GG noted that the round table provides an opportunity to explore the issues and seek Jemena's explanation to support theses changes.

MB asked if there were any other issues which should be discussed. Andrew Cheah (AC) would like to discuss the removal of the summer tranche and the introduction of the chargeable demand. George Foley (GF) would like to discuss the change in the volume tariff structure and the 34 per cent P0 adjustment.

MB noted the P0 adjustment can be discussed in general but the round table is more about the tariff structure. The P0 adjustment is about the whole proposal.

Phil Randall (PR) would like to discuss weather variation and how it affects tariffs going forward. GG and MB indicated that forecast demand is a separate matter and was not being considered at this meeting.

4. NGR tariff setting rules

MB noted we are mapping the existing access arrangement and what is proposed against the rules and the cost of providing reference services. The tariff classes need to be economic and reflect cost. Tariffs need to be justified on an economic efficiency basis. MB noted that a lot of information is contained in Jemena's confidential appendix so it would help if we could go into Jemena's reasoning for the change in the tariff structure that is not available to interested parties.

5. Outline of proposed tariffs and tariff structure

Scott Martin (SM) distributed a handout based on briefings given to retailers and major customers prior to the public forum which JGN had updated for issues raised in stakeholder submissions.

5.1 Reference Transportation Services

SM noted that the 'Reference Transportation Services' page of the handout shows the change in tariff structure. With the reclassification of the trunk, Jemena proposes to change the tariff structure to reflect how the networks physically operate. Jemena proposes a single haulage service which applies to large and small customers. There will be one contract and charges will be based on the user's tariff class not the service they seek. Structurally there has been a large change in tariff structure for the demand customer segment and Jemena has tried to maximise the amount of transparency in making this change. The tariff zones and classes correlate to the current ones. Summer tranche flexibility is provided because chargeable demand increases with the 9th highest withdrawal (most service providers work off the first highest).

AC noted that chargeable demand is ratcheted up and his concern is whether it will be symmetrically applied. MB noted that this was discussed at Jemena's terms and conditions round table.

5.2 Demand Tariff Categories

SM went through the 'Demand Tariff Categories' page of the handout. SM noted that the first response tariff meets the operational requirements of the network. There have been a few major events where Jemena needed to load shed and had to call 200 customers over a 24 hour period. This was not a satisfactory way to quickly shed load because everyone had to be contacted in a non-discriminatory way. The top 20 delivery points represent 30 per cent of the daily market load who can load shed. Since they have access to a significant tranche of load, Jemena can get a significant load shed from a few customers. This will reduce the impact on other customers. Customers need an incentive to put procedures in place to respond quickly. Jemena has had preliminary discussions with customers regarding the first response tariff. The first response tariff is set up to promote the safety and reliability of the network at times of emergency load curtailment.

Stephen Dwayhe (SD) agreed that the first response tariff is a good thing for the market but would like to know how many customers will commit to it. SM noted that the tariff is required for operational response purposes. Alf Rapisarda (AR) noted that the way Jemena has set this up means there is nothing the retailer can do without customers' consent. There is risk here that Jemena can over or under estimate the likely uptake of the first response. This is a forecasting risk.

5.3 Changes in Charge Structures

SM went through the 'Changes in Charge Structures' page of Jemena's handout. SM noted that under the STTM, Jemena cannot be certain of the receipt point and it is not possible for anyone to say where they are getting their gas from. The hub is a single distribution node.

PR queried what would happen if a new pipeline comes in from Newcastle. SM said that if another source of gas came into the system then it will be included in the hub calculation. PR thinks this will result in perverse outcomes. SD noted it is just a hub now. SM said the price does not change due to the location of the receipt point. PR noted that connection to Jemena's network for Newcastle customers would be too expensive compared to current pricing for a new supply connection from the north.

AR said that bypass will not be the case unless they want to be outside the broader market. The Council of Australian Governments (COAG) has decided that Sydney/Newcastle and Wollongong were to constitute a single market for gas under the STTM. Zonal pricing in the trunk would interfere with this objective. SD asked whether Jemena would review pricing if customers bypass the Jemena network. AR noted that what customers choose to do is beyond Jemena's control and the pricing would stand for the next five years.

PR asked if Jemena would seek a tariff variation if demand forecasts are incorrect. Jemena stated it is only asking for a variation in demand due to weather and is exposed to all other demand forecasting errors.

MB noted this is one of the major drivers of the P0.

SM noted that in relation to MHQ banding for basic metering equipment charges, Jemena is changing the way the charges are determined by linking to MHQ rather than meter type. PR noted that this was a massive improvement as it provided greater transparency and ease of calculations for users.

SM explained the proposed minimum bill charge and noted that, depending on location, as customers move from 9000 to 11 000 GJ p.a. there would be a significant drop in effective charges. A number of approaches to address this loss of revenue were considered. A simple way is to put a floor on the level of demand charge and this will remove uncertainty and price volatility. PR noted that all Jemena is doing is increasing charges for smaller demand customers and the best way to deal with the matter is to lower tariffs. PR noted that Jemena's proposal is not cost reflective. AR noted that, from Jemena's perspective, 10TJ is an artificial value. Catherine Marshall (CM) noted that this creates another perverse price signal.

PR noted that if CSR put a brick plant in Newcastle it will cost them 40 per cent less than if it was located next to the receipt point at Wilton or Horsley Park—this is a perverse outcome. SM said that location along the trunk no longer comes into it. GS said that if location does not matter then why have 10 (network) zones. SM noted that the (network) zones were retained for transparency and cost reflectivity within the physical *local* network.

PR noted that bypass opportunities have been eliminated because the distinction between the trunk and network in tariff pricing has been eliminated. AR noted that partial bypass of the network was not a logical option from a technical or commercial perspective (i.e. any bypass to a customer site would be a complete bypass of the network) and hence the issue of a single price or separate prices was not related to the issue of potential bypass. AR also noted that even if a separate price was retained for the trunk and local network, the total price will be the same and the current access arrangement only provides this as a bundled reference service. MB asked why the charge is more expensive for Horsley Park than Newcastle. AR noted that the receipt points were south of Newcastle and there was point to point pricing. This can no longer be done so the trunk has collapsed into a node. AR noted that by the end of the access arrangement there will be a supply point in the north. PR stated that the balancing is lost; prices for big customers in Newcastle are substantially decreased but others in Sydney have a substantial increase. SM noted that the postage stamp approach of the trunk results in this outcome. AR stated that Jemena is entering a new market which is imposed on it and Jemena thinks this new structure provides the right outcome to facilitate the new market. We are starting from a low base because, in the past, Sydney customers were benefiting if their plant was near the receipt points to the trunk infrastructure.

Geoff Rudland (GR) stated that when a company plans the establishment of a factory it will take into account access to energy. The price increases proposed for CSR are material for its business and it is unrealistic in the current climate for CSR to pass this through. AR stated that the low prices in Sydney have only been in place for the last 10 years and has only affected the plant location decisions of very few customers. AR noted that demand customers are less than 15 per cent of revenue.

PR noted that the huge decrease in network pricing over time was about the IPART requiring AGL to be cost reflective. AR stated this was not correct because overall it is cost reflective. PR noted that 10 years ago users were looking at bypassing the network. The previous and existing AA pricing structures required Jemena's pricing to be cost reflective against the threat of bypass of all or part of the network – but that the proposed pricing structure removed that reflectivity by removing separate trunk and local network pricing and deleting the negotiated service provisions relating to partial use of network (which has been approved by IPART in the last AA review). AR noted that Jemena is responding to the change in the market structure.

AC noted that large users in the Botany area are seeing significant price increases like CSR.

GS stated that Jemena has admitted that a pipe will come into Newcastle so Jemena's network can be bypassed. GS noted that one customer is 50 per cent of the market and Jemena wants to change the formula to protect itself and its revenue. By shifting revenue from Newcastle to Sydney, customers in Newcastle receive a reduction in tariffs by 50 per cent. GS suggested that Jemena is concerned about possible bypass of the network in the Newcastle region. Jemena should bear the cost of the change in the market and not shift the revenue around.

AR stated that no customer in Newcastle represents 50 per cent of Jemena's revenue. The STTM eliminates Jemena's bypass concerns and in terms of costs they are what they are and at the end of the day Jemena's total revenue does not change.

SM noted that the minimum bill charge will be transitioned over 5 years.

5.4 Contract Transition

SM went through the ‘Contract Transition’ page of the handout. SM noted that it is necessary to have a contingency plan for users who will not transition across.

SM stated the current (legacy) services will not exist in the future and they will not be reference services. Jemena cannot cancel existing contracts and therefore requires the introduction of legacy services.

5.5 Key Price Effects

SM went through the ‘Key Price Effects’ pages of the handout. SM noted that the P0 adjustment is in all the reference tariffs and that 99 per cent of customers have no change other than the P0. The rest are affected by the restructuring of the market.

MB asked if the trunk has been allocated to customers according to use. SM said the trunk has been allocated by size. MB asked whether the trunk has previously been disproportionately paid for in Newcastle. If there is only a short distance from the receipt point then it was cost reflective but now it is not.

AR said it was price reflective because there are 7 pricing zones and it depends on where you enter the network.

PR asked why the postage stamp only applies to the trunk and not the local network. PR stated that introducing postage stamp for trunk only was essentially implementing an inequitable and discriminator cost allocation methodology. Robert McMillan (RM) said that in the local network Jemena wanted to maintain the existing cost reflectivity because this asset was not affected by the STTM hub market structure in the same way as the trunk is. PR stated that Jemena should be subject to bypass risk.

MB sought confirmation that Jemena’s current revenues for demand customers will remain the same in the next access period even though the base charge will increase by 34 per cent. SM confirmed this.

GS stated that Jemena should not take into account the first response in the total revenue position. CM noted it is a revenue neutral position because of the assumptions made for first response.

Volume tariffs

GF stated that the split of volume tariffs into coastal and country should only occur if the difference between the tariffs is significant. AGL does not understand why the split is necessary and notes it will result in increased costs to AGL. DA asked if AGL currently differentiates between them. GF said they do not but they still need to assign customers to tariff classes. AR said Jemena is trying to maintain the relativity of what was used in the past. GF asked if this could be reconsidered. AR said Jemena’s proposal is on the table.

First response tariff and STTM

SD said it is not clear how the first response tariff will work if a retailer puts a bid in the STTM. Where does Jemena come in to provide information to retailers which might have a curtailment product (in addition to Jemena’s curtailment product)? How will the two products work together? SM said Jemena is not proposing a curtailment product. What it is proposing does not come into the commercial play at all—it is only an operational thing. SM noted that the minimum pressure requirements are in the access arrangement. SD asked whether Jemena will publish the pressure levels on a daily basis. SM said that Jemena would not. AR noted that there will need to be protocols between the STTM and operators so Jemena would be looking to the STTM to be responsible for that. MB asked whether there will be some advance notice that this will occur. GS would like to know if an event was a genuine crisis or something else. AR stated any problems are likely to be in the short term and usually upstream; the responsibility for this is with AEMO as the market operator.

Other issues

Ian Delahunty (ID) asked why Jemena was using 13 year old postcode information. SM said it was still valid data and the costs do not change even though the boundaries may change. PR noted that current postcodes should be used for greater transparency.

GF stated that the P0 principle of having a large increase at the start of the access arrangement results in price shocks which should be avoided and smoothed over the 5 years. MB noted that the approved revenues and smoothed revenues need to be revenue neutral over the 5 years so the AER will take into account AGL's submission. RM noted that Jemena has also attempted to minimise the price shock in the subsequent period. MB noted that the smoothed revenue in the final year should reflect the costs in the final year. AR noted that Jemena needs the right cash flow to fund capex.

AC raised his concerns with the removal of the summer tranche. SM stated that there are only a small number of summer tranche customers and Jemena wanted to simplify it and give everyone 9 days each year. AC said the proposal means that Qenos can no longer manage its costs.

SD said the proposal does not provide the correct incentives for peaking power plants going forward. SM noted that the charges are based on an annual charge. AR said that the proposal was in respect of Reference Services and that it was likely that peaking power plants will sign up on a different basis.

GS stated that in the past there have been all sorts of delays and difficulties in connecting to Newcastle. GS wondered if the difficulties could be removed through the introduction of regulatory rules. AR noted that the difficulties were not due to decisions made by Jemena. Duke Energy decided to go to Horsley Park of its own accord.

PR noted that users need to get access to the meter data. Jemena noted that metering data is available to Demand customers through a direct connection to the meter. In addition, where requested, Jemena has offered to provide monthly data to end users in addition to the data routinely provided to retailers under service agreements. AR noted that Jemena had offered a data service to EnergyAdvice for its clients. PR responded that access to the meter data service should be available directly to all end users, not just to retailers.

6. Close

MB closed the meeting.