



# **Jemena Gas Networks (NSW) Ltd**

## **2010 Access Arrangement Proposal AER Roundtable Discussion – Proposed Tariffs and Tariff Structures**

11 December 2009





## Agenda

Outline of Changes in Services and Tariffs

Changes to Charge Structures

Principles & Impacts of Tariff Changes

Note that the presentation and handout material has been designed to facilitate discussion around particular issues of interest, and are not represented as a complete briefing or as an alternative to reviewing the AA (including the reference service agreement). In the event of any inconsistency between the AA or AAI and the handout material, the AA and AAI will prevail.

## Reference Transportation Services

### Current AA

Tariff Service (<10 TJ)

Capacity Reservation Service (>10TJ)

- overrun charges
- 1-2 year term
- MDQ management

Managed Capacity Service (>10 TJ)

Throughput Service (>10TJ)

Local Network Section Services

Trunk Network Section Services

### New Service Policy

Reference Haulage Service

- single consolidated transportation service
- large and small customer delivery points
- low administration
- charges based on tariff class assignment not service selection.
- MDQ & MHQ define capacity entitlement
- Chargeable Demand used for capacity based charges.

### 2010 AA Proposal

#### New Reference Tariff Policy & Tariff Schedule

Tariff Class Structure & Reference Tariffs

#### Assignment Criteria

Customer Group	Volume (<10 TJ)	Demand (> 10 TJ)
Tariff Category		- Capacity - Capacity – First Response - Throughput
Location	Coastal and Country	11 postcode based Coastal locations and Country  [no location criteria for Throughput]
Tariff Classes	V-Coastal V-Country	DC-01 to DC-11 & DC-Country  DCFR-01 to DCFR-11  DT

#### New Reference Service Terms and Conditions

Reference Service Agreement set out in AA

- No term for reference delivery points.
- Contractual transfer between users aligned with market churn (requires pre notification, all existing information carried over)
- Chargeable demand increases with 9<sup>th</sup> highest withdrawal (forward changes in charges only; no retrospective overrun charges; request resets where permanent reduction in requirements)
- Bulk transfer to establish all reference DPs on new agreement from commencement of AA.

## *Demand Tariff Categories*

### **Demand Capacity (DC) :**

Default category for delivery points which meet the criteria for a Demand Tariff (but have not been assigned to a tariff in DCFR or DT categories)

### **Demand Capacity – 1st Response (DCFR):**

Assignment to this tariff category is made upon User request.

Delivery Points must meet the criteria for a Demand Tariff and also satisfy (to JGN's reasonable satisfaction) the following additional criteria:

- a. peak hourly historical demand is consistently greater than 100 GJ/hr, but no more than the MHQ;
- b. the User has provided the Service Provider with a documented Curtailment Plan for the Delivery Point which is acceptable to the Service Provider and contains ELMS Data required by the Service Provider, contact personnel and site procedures for reducing load in accordance with the ELMS Data, including times for various stages of load reduction;
- c. under the Curtailment Plan and ELMS Data held by the Service Provider, at least 40% of peak historical hourly demand is nominated for reduction in load shedding priority 1 and that reduction could be expected to be reduced within no more than 6 hours of first contact;
- d. the Curtailment Plan and all ELMS Data is up to date (with a minimum review period of 24 months);
- e. the Service Provider is able to continuously monitor hourly demand from the delivery station at the site, or other sampling frequency acceptable to the Service Provider; and
- f. in any load shedding procedure initiated by the Service Provider in the past two years which involved the Delivery Point, the level of hourly demand at the Delivery Point was no more than the hourly demand anticipated after each stage of reduction as set out in the Curtailment Plan.

Reducible load (without damage) in the top 20 delivery points in NSW represents ~ 30% of the total daily metered load. Effective first response shedding of this tier of delivery point would enable 50% of the total "no damage" load reductions to be promptly and effectively secured from 20 contacts, (compared to over 200 contacts to get a similar level of response without a first response approach)

DCFR tariff offers a 50% discount on DC capacity rate charges.

DCFR tariff is aimed as creating effective, fast, planned, measured and accountable initial response to emergency conditions requiring network load shedding.

Obligation is for delivery points to reduce demand to pre-planned levels (not to reduce by a qty).

No obligation to reserve or withhold reduceable load for "network reductions".

### ***Demand Throughput (DT)***

Assignment to this tariff category is made upon User request.

Delivery Points must meet the criteria for a Demand Tariff

Two purposes :

1. general throughput option to capacity based charges
2. replaces the existing option to request a capped charge (ie: request DT assignment instead)

### ***Changes in Charge Structures***

Volume Tariff Delivery Points:

- existing reference tariff structures maintained for volume customer delivery points
- the present difference in charges between coastal and country customers for the trunk component is expressed as separate V-Country and V-Coastal Tariffs in JGN's proposal.

Demand Tariff Delivery Points:

- *Market Hub Pricing*

Reference haulage service is proposed as a “Hub to point service” versus the existing “point to point” service description.

Network charges will not differentiate between where gas is delivered to the Wilton market hub i.e.: no longer any difference in tariffs between Port Kembla, Horsley Park, Wilton and Rosalind Park.

Trunk costs no longer recovered through separate reference tariff component.

Wilton network demand tariffs restructured to recover trunk costs in a way that:

- a. is consistent with the STTM hub arrangements and market definition
  - b. makes JGN indifferent to future sources of gas and transmission connection points.
- *MHQ Banding for Provision of Basic Metering Equipment charges for Demand Tariffs.*

Charges are proposed to be based on the contractual MHQ of the delivery point and number of runs rather than being determined by the meter set and meter type.

Charges based on MHQ bands of <10, up to 50, up to 100, up to 1000, 1000 GJ/hr and over, and single or double run meter sets.

- *Minimum bill charge for all Demand Tariffs.*

Current pricing creates perverse pricing incentive whereby some customers who move from tariff to demand classes initially experience significant price reduction despite the increase in their capacity requirements – and vice versa.

Minimum Aggregate Charge for all demand tariffs removes these incentives at the threshold between volume and demand customers. Set at \$5k per month so as not expected to be less than charges for large volume customer.

For current demand delivery points – the minimum aggregate charge will be introduced progressively to smooth the transition – starting at ~ \$1.7k per month in 2010/11 and increasing \$10k pa each year until \$5k per month in 2014/15.

- *New DCFR Tariff*

50% reduction in demand capacity rates relative to equivalent DC tariffs.

See previous page.

### *Contract Transition*

Existing reference service agreements reflect old form of services and need to be changed to reflect the new Haulage Reference Service.

In addition the implementation of the STTM in the Wilton network section will also require changes to be made to existing transportation contracts.

The AA includes a transition mechanism to move to new Reference Service Agreements from the commencement of the new AA period, which also aligns with the STTM commencement.

A single contract transition would therefore achieve both objectives.

**Transition mechanism** includes:

- a. the new Reference Service Agreement is set out in full and executable form in the AA. Once the AA is approved, the new agreement will be available to users to take up and execute as a standard
- b. the Reference Service Agreement includes provisions for the “Bulk Transfer” of reference service delivery points from old agreements to the single new agreement.

### *Administration of transition*

Our expectation is that all users will execute a new reference service agreement after the AER's final decision (eta May 2009) and utilise the Bulk Transfer provision from the start of the AA.

Thereby

- a. All existing contracts for reference services will be terminated from time of Bulk Transfer;
- b. JGN and users will avoid the cost and resource of amending existing reference service agreements in time to accommodate STTM and for modified charges;
- c. JGN and market generally avoids the cost and resource of administering dual processes for old and new service structures alongside one another.

### *Legacy services*

If a user does not implement the transition mechanism to the new services and new RSA contracts at the start of the AA then the users existing reference service agreements will not have been terminated. If that were to occur then the contract terms would still refer to the old services however the new reference tariffs in the AA would be for the different new service.

To provide transparency on pricing for the old legacy services (if they were to continue due to non termination of an existing contract) a price reference has been included of the reference tariffs as at the last day of the current access arrangement plus 40%. 40% was determined as a build up of:

- 34.3% price change to reflect the average change in costs due to change in cost of service between access arrangements; plus
- 5-6% to act as an additional incentive for users to transition to new services and also a component for the additional unnecessary costs that JGN would incur as a result of having to maintain administration capability for both the old and new services along side one another – (billing and service administration as well as additional contract administration to negotiate and make amendments to accommodate STTM and any other necessary updates).

## Key Price Effects

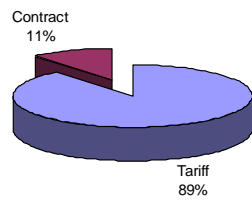
- Principles applied to pricing
  1. Except where specific restructuring has been applied to tariffs, JGN has retained the existing tariffs and charge components as the “step off” prices to determine future tariffs. Historical pricing relativities are therefore preserved and inherent in structure of future tariffs – except to the extent of any restructuring.

Hence the underlying weighted average price change of 34.3% is present across all tariffs. This is the only price change that 99% of customers on the JGN network will face.

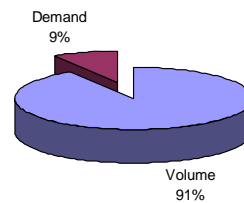
2. Where restructuring of existing tariff components has occurred then the restructured “2010 step off” prices for tariff modelling were derived from existing tariffs on a revenue neutral basis e.g.:
    - a. V-Coastal 2010 step off price determined by adding the 2010 trunk charge and the 2010 local network charge
    - b. merged DC step off prices for the various demand customer zones determined by adding the various 2010 local network zone rates to incremental postage stamp rates calculated to recover the same revenue as current demand related trunk services. Incremental postage stamp rates for each declining tariff rate block have been shaped to maintain current equivalent total trunk revenue shares per block of chargeable demand. (i.e.: proportion of trunk revenue recovered from customers of a given size bracket is the same. Note that trunk location has not been reflected in this structural adjustment because postage stamp approach is an appropriate approach for the new “hub to point” service). Adjustment creates the same revenue share as the trunk revenue currently collected from demand related services
    - c. Provision of Basic Metering Equipment 2010 step off prices recover same total revenue as current demand meter equipment charges.
  3. JGN considers that it has demonstrated that all tariff outcomes (including new tariffs and components – DCFR and minimum bill) meet the relevant requirements of the NGL and NGR.
- Outcomes
    - volume tariffs - 34.3% average price change between access arrangements
    - demand tariffs - outcomes dependent on individual circumstances



Share of revenue by customer group 2005 IPART Decision



Share of revenue by customer group JGN Proposal



	Key Factors – Are individual factors significant for customer pricing outcomes ?					Overall Outcomes
	<i>Weighted average price change (34.3%)</i>	<i>Tariff restructure to combine trunk &amp; local network</i>	<i>New Minimum aggregate for demand tariffs</i>	<i>Tariff restructure to base meter charges on MHQ</i>	<i>New DC First Response Tariff</i>	
Large Demand Customers > 1 PJ per annum	Significant	Significant – but depends on location	-	-	Yes	Outcome varies depending on location. DCFR tariff results in similar or reduced tariffs to present. Very large customers that do not take DCFR could see 80-100% increase – however these increases are still only of order of \$0.20 to \$0.40/GJ and are of the order of 5% of delivered gas cost (assuming \$6/GJ gas)
Medium Demand Customers ~250 TJ per annum	Significant	Significant - but depends on location	-	-	-	Outcome varies depending on location. - in Sydney 45-55% is common; however this actual increase is typically only between \$0.26 and \$0.56/GJ. For >\$6 gas cost at gate, this is still less than 10% of total retail gas price.
Small demand customers	Significant	Less significant - but depends on location	Significant	Potentially significant	-	<i>Minimum Bill effected:</i> Percentages can be large (because current tariffs are small), however total dollars for minimum bill are never more than the amount a 10 TJ customer would pay (and substantially less during transition phases). <i>Other:</i> 34.3% increase is dominant factor – 11 to 13% increase in retail gas cost.
Volume customers	Significant	-	-	-	-	34.3% average increase for volume customers.