

Standardisation Cost Charges for 2019*

| Charge | Description | Basis for the charge | EGP | QGP | DDP | NGP | VicHub |
|--|---|----------------------------|--------|--------|--------|--------|--------|
| Base Standardisation Cost Charge[^] | An administration charge levied on each GTA and OTSA. The charge is levied monthly in arrears. | \$ per agreement per month | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 |
| Firm Service CBU MDQ Charge – Primary GTAs only ^{**} | A variable charge levied on primary shippers only and applied to any firm service MDQ held but not utilised by a shipper in a given month. The charge applies to MDQ that is sold by way of bilateral or exchange trade and contracted but unominated (CBU) MDQ. The charge is levied monthly in arrears. | \$ per GJ | 0.0048 | 0.0220 | 0.0003 | 0.0166 | 0.0018 |
| CTP and DAA Cost Recovery Charge | A variable charge levied on secondary shippers only and applied to MDQ acquired by shippers by means of secondary trades during a given month, whether through bilateral trade, the capacity trading platform (CTP) or the day ahead auction (DAA). The charge is levied monthly in arrears. | \$ per GJ | 0.0048 | 0.0222 | 0.0003 | 0.0168 | 0.0018 |

* Charges exclude GST and are to be charged for the period 1 March 2019 to 31 December 2019.

** The services subject to the 'Firm Service CBU MDQ Charge' are firm services where firm has the meaning given in Part 25 of the National Gas Rules.

[^] The monthly 'Base Standardisation Cost Charge' for 2019 is an annual charge of \$10,000 split over 10 months.

Methodology for calculating cost recovery charges

The cost recovery charges are calculated so that Jemena recovers no more than the standardisation costs that are recoverable under Rule 634 of the National Gas Rules. In doing so, we seek to recover most of those costs via a fixed – rather than variable – charge to help reduce distortions to efficient trade. We then seek to allocate any residual costs across pipelines and between primary and secondary shippers in a way that promotes efficient use of our pipelines through variable (per GJ) charges levied on MDQ which is the subject of secondary trades or the day ahead auction.

The charges for a given year are calculated by determining what standardisation costs to recover in that year and then allocating those costs across pipelines, primary and secondary shippers, and fixed and variable charges. Once allocated to each charge, the cost is divided by the expected chargeable quantity for the charge to get a cost per chargeable quantity (or standardisation cost charge).

There are two key steps to applying the methodology:

1. **Estimate the costs to recovery in a given year.** This is done by combining the estimated standardisation costs that we expect to incur during that year with a share of any unrecovered standardisation costs that we incurred in prior years but have not yet recovered through the cost recovery charges.

We do this by:

- a) Tracking our past standardisation costs incurred and cost recovery revenue earned in a notional 'Unrecovered Costs Account' – this account adjusts for financing costs each year and operates like a bank account does (i.e. with costs incurred added, revenue earned removed, and financing costs applied to any outstanding balance)
- b) Multiplying the closing balance of the Unrecovered Costs Account for the prior year by a cost recovery rate (between 0% and 100%) that determines what share of that balance we expect to recover in the year ahead – this rate is set to smooth the recovery of standardisation costs over time to, among other things, align with the expected life of the costs incurred
- c) Adding that share of the Unrecovered Costs Account to expected standardisation costs for the year to get the costs to be recovered that year.

Maintaining an Unrecovered Costs Account ensures that we do not over recover standardisation costs. Any revenue that we earn through past cost recovery charges or as proceeds from the DAA are taken off that account – and so reduce the balance that we seek to recover through future cost recovery charges. An explanation of our standardisation costs and how they were incurred is provided in the next section.

2. **Allocate the costs for a given year across the charges.** This is done by first allocating the standardisation costs to be recovered in a given year across pipelines. We have used the expected number of contracts per pipeline to determine the allocation shares.

The costs for each pipeline are then reduced by the expected revenue earned from the fixed charges based on the expected number of contracts per pipeline. To determine the fixed charge revenue we pre-determine the annual fixed charge common to all pipelines and shippers and multiplied this by the estimated number of contracts per pipeline.

The residual costs per pipeline are then allocated between primary and secondary shippers based on our estimate of the respective usage between primary and secondary shippers. The costs allocated to primary shippers is divided by estimated MDQ held but not utilised by a shipper for the year to get the Firm Service CBU MDQ Charge for each pipeline. The costs allocated to secondary shippers is divided by estimated secondary MDQ acquired by those shippers through bilateral trades, CTP or DAA to get the CTP and DAA MDQ Charge.

Description of standardisation costs and how they were incurred

Standardisation costs are the incremental costs that we incur in establishing and maintaining the transportation and other agreements, systems and processes needed to facilitate capacity trading and day ahead auctioning, as required by Parts 24 and 25 of the National Gas Rules.

We incurred and expect to incur establishment costs to (among other things):

- Develop and vary our standard and existing gas transportation agreements to facilitate capacity trading and the day ahead auction
- Amend our information technology systems and internal processes to facilitate information exchange with the Australian Energy Market Operator
- Engage external assistance in review and analysis of draft consultation material, preparation of submissions, development of new internal processes and project management
- Recruit new staff needed to apply the new capacity trading and day ahead auction processes
- Train our staff on how to comply with the new obligations and apply the new processes.

We also expect to incur ongoing costs to facilitate capacity trading and the day ahead auction, including employee costs and system maintenance and replacement from time to time.

Our standardisation costs do not include the costs associated with upgrading IT systems and processes that were already planned to be carried out, or are required for other functions. Further, Jemena did not have its own automated capacity trading platform prior to the gas market reforms (Jemena facilitated manual basic bespoke trades).