Submission:

Evoenergy's Gas Network 2021-26 Access Arrangement Proposal to the Australian Energy Regulator

August 2020

About ACTCOSS

ACTCOSS acknowledges Canberra has been built on the land of the Ngunnawal people. We pay respects to their Elders and recognise the strength and resilience of Aboriginal and/or Torres Strait Islander peoples. We celebrate Aboriginal and/or Torres Strait Islander cultures and ongoing contributions to the ACT community.

The ACT Council of Social Service Inc. (ACTCOSS) advocates for social justice in the ACT and represents not-for-profit community organisations.

ACTCOSS is a member of the nationwide COSS Network, made up of each of the state and territory Councils and the national body, the Australian Council of Social Service (ACOSS).

ACTCOSS's vision is for Canberra to be a just, safe and sustainable community in which everyone has the opportunity for self-determination and a fair share of resources and services.

The membership of the Council includes the majority of community-based service providers in the social welfare area, a range of community associations and networks, self-help and consumer groups and interested individuals.

ACTCOSS advises that this document may be publicly distributed, including by placing a copy on our website.

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August 2020

ISBN [xxx-x-xxxxxx-xx-x] (electronic version or print version)

This submission was produced as part of the ACT Energised Consumers Project which is co-funded by Energy Consumers Australia and the ACT Government.

This project was funded by Energy Consumers Australia Limited (www.energyconsumersaustralia.com.au) as part of its grants process for consumer advocacy projects and research projects for the benefit of consumers of electricity and natural gas.

The views expressed in this document do not necessarily reflect the views of the Energy Consumers Australia.

An ACT Government funded initiative.

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Acronyms

ACTCOSS	ACT Council of Social Service Inc.
AGN SA	Australian Gas Networks South Australia
AER	Australian Energy Regulator
CCP24	AER's Consumer Challenge Panel
CESS	Capital Expenditure Sharing Scheme
ECA	Energy Consumers Australia
ECRC	Evoenergy's Energy Consumer Reference Council
GN21	Evoenergy's gas network 2021-26 access arrangement
SACOSS	South Australian Council of Social Service

Introduction

The ACT Council of Social Service (ACTCOSS) welcomes the opportunity to provide feedback to the Australian Energy Regulator (AER) on Evoenergy's access arrangement proposal for its ACT (and surrounding areas) gas distribution network for the period from 1 July 2021 to 30 June 2026 (Evoenergy's GN21 plan).

About ACTCOSS

ACTCOSS represents not-for-profit community organisations and advocates for social justice in the ACT. In partnership with Care Financial Counselling Service, ACTCOSS leads the ACT Energised Consumers Project which is co-funded by Energy Consumers Australia (ECA) and the ACT Government. Through this project ACTCOSS advocates for residential, not-for-profit, and small business energy consumers in the ACT.

This submission has been developed as part of the ACT Energised Consumers Project. This submission has been informed by engagement with ACT energy consumers and community organisations, including through monthly meetings of the ACT Energy Consumer Policy Consortium. The Consortium is attended by representatives from Better Renting, Canberra Business Chamber, Care Financial Counselling Service, Conservation Council ACT Region, and ACT Government. A key focus of the ACT Energised Consumers Project for 2020-22 is the future of gas in a just transition to net zero greenhouse gas emissions in the ACT. ACTCOSS sees the development of Evoenergy's GN21 plan as critical in determining how the future of gas can contribute to a just transition.

ACTCOSS is represented on Evoenergy's Energy Consumer Reference Council (ECRC), the AER's Customer Consultative Group, and the National Consumer Roundtable on Energy.

Our engagement in Evoenergy's GN21 plan development

ACTCOSS has received funding from Evoenergy to support their engagement with vulnerable energy consumers in developing the GN21 plan. While this submission has been informed in part by work performed through this funding, it has been produced independently of our funding arrangement with Evoenergy.

The primary focus of our engagement has been to engage with and advocate for the interests of vulnerable, low-income, and other at-risk gas consumers in the ACT in the development of Evoenergy's GN21 plan. In line with the National Gas Objective, we are concerned about the long-term interests of consumers of natural gas, with a focus on the long-term interests of vulnerable consumers.

The National Gas Objective as stated in the National Gas Law is:

> to promote efficient investment in, and efficient operation and use of, natural gas services for the long term interests of consumers of natural gas

with respect to price, quality, safety, reliability and security of supply of natural gas.

ACTCOSS has had considerable engagement in the development of Evoenergy's GN21 plan. This submission builds on and has been informed by the following engagements to date:

- Submission on the *Evoenergy Gas Network 2021 Draft Plan* (see Attachment 1)[1]
- ACTCOSS's GN21 Energy Consumer Advocacy Workshop and subsequent workshop outcomes report funded by Evoenergy (see Attachment 2)[2]
- Presenting evidence and observing at Evoenergy's 2019 Citizens' Jury
- Participating in Evoenergy's GN21 Draft Plan Deep Dive discussions with local consumers and consumer representatives (Part A), and with consumer advocates (Part B)
- Bi-monthly meetings of Evoenergy's ECRC
- Meetings with Evoenergy
- Monthly meetings of the ACT Energy Consumer Policy Consortium as part of the ACT Energised Consumers Project
- Meetings with ECA, TRAC Partners, the AER Consumer Challenge Panel (CCP24), and the South Australian Council of Social Service (SACOSS).

In developing this submission, ACTCOSS has benefited from numerous discussions with CCP24, ECA, and TRAC Partners who have provided expert advice on Evoenergy's GN21 plan from an energy consumer perspective. ACTCOSS has also benefited from their engagement – along with our colleagues at SACOSS – with the Australian Gas Network South Australia (AGN SA) 2021-26 access arrangement proposal. This has provided a useful point of comparison. While our views on some issues differ, we are broadly supportive of the submissions to the AER on Evoenergy's GN21 plan by CCP24 and ECA, including the technical report prepared by TRAC Partners for ECA (see Attachment 3).

Outline of key issues

ACTCOSS believes that Evoenergy's GN21 plan is tracking well towards being capable of acceptance by the AER. In April 2020, ACTCOSS made a

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1 ACTCOSS, *Submission: Evoenergy gas network 2021 draft plan*, ACTCOSS, Canberra, April 2020, available at, <https://www.actcoss.org.au/publications/advocacy-publications/submission-evoenergy-gas-network-2021-draft-plan>.

2 ACTCOSS, *GN21 energy consumer advocacy workshop outcomes report: building capacity for people on low incomes, experiencing disadvantage, or at risk or hardship to actively engage in the Evoenergy Gas Network 2021-26 Access Arrangement Review*, ACTCOSS, Canberra, October 2019, available at, <https://www.actcoss.org.au/publications/advocacy-publications/report-gn21-energy-consumer-advocacy-workshop-outcomes>.

submission to Evoenergy on their Draft Plan. Most of the issues we raised in that submission remain as our key concerns in relation to Evoenergy's GN21 plan (see Table 1).

ACTCOSS supports Evoenergy's decision to cease network expansion in new developments in the ACT in the 2021-26 access arrangement period. Our view is that the same decision could also apply to market expansion in the NSW component of Evoenergy's network, as well as expansion of the network in 'brownfield' sites in existing suburbs. Otherwise, Evoenergy's GN21 plan responds well to the ACT Government's policy of net zero emissions by 2045, as well as taking positive steps to address affordability concerns raised by consumers. The GN21 plan delivers a welcome reduction in network prices by about 4% in 2021-22, followed by stable prices for the remaining four years.

Evoenergy's consumer engagement identified clear community advocacy for them to support their vulnerable customers through all elements of a transition. We welcome Evoenergy's commitment to work with stakeholders to understand and consider the needs of vulnerable customers and what they can do to help as they develop their transition roadmap. We encourage Evoenergy to undertake work now to ensure that their revised access arrangement proposal is based on an adequate understanding and consideration of the needs of vulnerable customers.

This submission starts by outlining ACTCOSS's focus on the future of gas in a just transition to net zero greenhouse gas emissions in the ACT. It then discusses four key issues that we believe require further attention: responding to stranded asset risk; forecast gas demand; incentive schemes; and tariffs. We also identify three additional factors likely to have an impact between now and when Evoenergy will submit its revised access arrangement proposal to the AER in January 2021, namely: the impact of COVID-19; the forthcoming *ACT Sustainable Energy Policy 2020-25*; and the 2020 ACT Election.

Table 1 Key issues, recommendations, and questions

Issue	ACTCOSS Recommendations and Questions
Vulnerable customers	ACTCOSS recommends that Evoenergy's GN21 plan should be informed by an evidence base on vulnerable customers that can provide insights into: which customers are vulnerable; what makes these customers vulnerable; the impact of the GN21 plan on these vulnerable customers; and what specific measures Evoenergy could include in the GN21 plan to support vulnerable customers and improve their circumstances over the 2021-26 period.
Responding to stranded asset risk	ACTCOSS recommends that Evoenergy provide a more detailed cost/benefit analysis of the key scenarios for accelerating depreciation. Ideally this would include a distributional analysis or other assessment of equity outcomes with a focus on impacts on vulnerable gas consumers.

Issue	ACTCOSS Recommendations and Questions
Responding to stranded asset risk	ACTCOSS provisionally recommends – pending the outcome of further stakeholder engagement – that the application of accelerated depreciation to new and existing assets (capital expenditure) be the subject of a wider AER consultation process rather than part of the consideration of Evoenergy's GN21 plan.
Responding to stranded asset risk	ACTCOSS recommends that the AER and/or the AEMC undertake a fit-for-purpose review of the gas law and rules to see how these might need to be changed to meet the National Gas Objective in the context of governments' net zero greenhouse gas emissions policies.
Incentive schemes	ACTCOSS recommends that Evoenergy undertake further consumer engagement on the Capital Expenditure Sharing Scheme (CESS) that is informed by more detailed information about performance measures, Evoenergy's baselines and historical performance against these measures, and industry benchmarks.
Tariffs	ACTCOSS recommends that Evoenergy respond to consumer feedback by undertaking an analysis of equity and sustainability impacts of declining block tariffs to ensure there is alignment with the key themes of Evoenergy's consumer engagement.
Forecast gas demand	How does the Evoenergy's GN21 plan fit within the legislated target of a 50-60% reduction in greenhouse gas emissions (from 1990 levels) by 2025?

Our focus: the future of gas in a just transition to net zero emissions in the ACT

A key focus of ACTCOSS's work under the ACT Energised Consumers Project for 2020-22 is to examine the future of gas in a just transition to net zero greenhouse gas emissions in the ACT. This work will focus on ensuring vulnerable gas consumers are not left behind in this transition and that, wherever possible, their circumstances are improved. ACTCOSS's primary concern in relation to Evoenergy's GN21 plan is to ensure that it supports a just transition to net zero emissions in the ACT by delivering fair and equitable outcomes for vulnerable gas consumers. Wherever possible, the GN21 plan should support intra- and inter-generational equity in a way that contributes to improved wellbeing for vulnerable gas consumers. We see this as being closely aligned with the focus of the National Gas Objective on the long-term interests of consumers of natural gas with respect to price, quality, safety, reliability, and security of supply of natural gas.

Net zero emissions targets and actions in the ACT

The ACT has legislated to reduce emissions (from 1990 levels) by:

- 40% by 2020
- 50–60% by 2025
- 65–75% by 2030
- 90–95% by 2040
- 100% (net zero emissions) by 2045.

These staged targets provide important context which is missing from Evoenergy's GN21 plan. These legislated targets indicate that a further 10-20% reduction in greenhouse gas emissions is to be achieved in the ACT by 2025. This will require a focus on natural gas and transport given the achievement of 100% renewable electricity in late 2019.

While only indicative, the ACT Government has undertaken modelling that suggests that to achieve these targets there would need to be 'around 60,000 existing households not connected to gas by 2025, increasing to 90,000 in 2030 and all houses by 2045'.[3]

As shown in Table 2 below, there are 10 measures in the *ACT Climate Change Strategy 2019-25* aimed at reducing emissions from natural gas, including supporting consumers to transition from natural gas to electricity. Table 2 provides a more comprehensive list than that provided in Evoenergy's GN21 plan, which includes only the first three measures. This longer list provides a clearer indication of the ACT Government's intentions and actions to transition away from natural gas within Evoenergy's GN21 plan period of 2021-26.

Table 2 Actions to reduce emissions from natural gas and to transition from natural gas to electricity, ACT Climate Change Strategy 2019-25

No.	Goal	Action	Timing
4.03	Reduce emissions from gas	Amend planning regulations to remove the mandating of reticulated gas in new suburbs.	By 2020
4.04	Reduce emissions from gas	Conduct a campaign to support the transition from gas by highlighting electric options and savings opportunities to the ACT community.	From 2020
4.05	Reduce emissions from gas	Develop a plan for achieving zero emissions from gas use by 2045, including setting timeframes with appropriate transition periods for phasing out new and existing gas connections.	By 2024

[3] ACT Government, *ACT Climate Change Strategy 2019-25*, Environment, Planning and Sustainable Development Directorate, Canberra, ACT 2019, p. 39, viewed at, <https://www.environment.act.gov.au/cc/act-climate-change-strategy>.

No.	Goal	Action	Timing
4.09	Climate-wise, zero emissions public housing	Continue to upgrade to efficient-electric appliances in existing public housing properties where technically feasible and assess the cost and benefits of shifting to all-electric public housing.	From 2019
4.10	Climate-wise, zero emissions public housing	Ensure all newly constructed public housing properties are all-electric (fitted with electric appliances) from 2019.	From 2019
4.12	Climate-wise, zero emissions low income homes	Trial facilitating access to interest free loans or other innovative finance for gas to electric upgrades and deep retrofits of low income homes.	By 2022
4.18	Climate-wise, zero emissions buildings	Trial incentives and other measures to encourage all-electric, high efficiency apartment and commercial buildings.	By 2024
4.19	Climate-wise, zero emissions buildings	Expand the Energy Efficiency Improvement Scheme to increase support for low income priority households and further encourage a shift from gas to high efficiency electric appliances.	From 2020
5.13	Zero Emissions Government	Ensure all newly built or newly leased Government buildings and facilities are climate-wise and all-electric (where fit for purpose).	From 2020
5.14	Zero Emissions Government	Replace all space and water heating systems in Government facilities with electric systems at the end of their economic lives (where fit for purpose).	From 2020

ACT Government commitment to a just transition to net zero emissions

Several the measures in Table 2 are targeted at supporting low-income households to transition from natural gas to electric appliances and systems. Under the *ACT Climate Change Strategy 2019-25* the ACT Government has,

> …committed to a just transition to net zero emissions that supports low income households and the most vulnerable in our community, and will

> work with industry to re-train affected workers and pursue opportunities for new, zero emissions industries.[4]
>
> …Government will seek to partner with vulnerable households and community service providers to ensure low income households can participate in the shift to net zero emissions and are not disproportionately affected by new measures. A coordinated mix of concessions, rebates, loans, education, dispute resolution and consumer advocacy programs will be required. These will be designed to address the barriers faced by groups such as low income households, renters, those in public housing, elderly people, people with disabilities and illness, sole parents, people in energy poverty or who are working but on low incomes and not eligible for current concessions.[5]

As shown in Table 2, the ACT Government has committed to 'develop a plan [by 2024] for achieving zero emissions from gas use by 2045, including setting timeframes with appropriate transition periods for phasing out new and existing gas connections'. The ACT Government has also committed to 'partner with community service organisations to identify vulnerable and disengaged sectors of the community and implement measures to support their participation in shifting to net zero emissions'.[6] The ACT Energised Consumers Project led by ACTCOSS is a key partnership initiative to support this, and in 2020-22 a key focus of the project will be the future of gas in a just transition to net zero emissions in the ACT.

Community advocacy for Evoenergy to support vulnerable customers

Over the 2021-26 period of the GN21 plan, Evoenergy will also produce a transition roadmap for achieving net zero emissions by 2045. We welcome Evoenergy's commitment, in response to consumer feedback, to 'work with stakeholders to understand and consider the needs of vulnerable customers and what we can do to help as we develop our transition roadmap'.[7]

We commend Evoenergy on its consumer engagement efforts and for incorporating many of the views and priorities of consumers into the GN21 plan. We especially welcome Evoenergy's efforts to engage with, and understand the needs of, vulnerable consumers. We note that the overarching themes identified

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[4] ACT Government, *ACT Climate Change Strategy 2019-25*, Environment, Planning and Sustainable Development Directorate, Canberra, ACT 2019, p. 4, viewed at, <https://www.environment.act.gov.au/cc/act-climate-change-strategy>.

[5] ACT Government, *ACT Climate Change Strategy 2019-25*, Environment, Planning and Sustainable Development Directorate, Canberra, ACT 2019, p. 47, viewed at, <https://www.environment.act.gov.au/cc/act-climate-change-strategy>.

[6] ACT Government, *ACT Climate Change Strategy 2019-25*, Environment, Planning and Sustainable Development Directorate, Canberra, ACT 2019, p. 7, viewed at, <https://www.environment.act.gov.au/cc/act-climate-change-strategy>.

[7] Evoenergy, *Overview – Access arrangement information, ACT and Queanbeyan-Palerang gas network 2021-26, Submission to the Australian Energy Regulator*, (Evoenergy GN21 Overview), Evoenergy, Canberra, June 2020, p. 17, viewed at, < https://www.aer.gov.au/networks-pipelines/determinations-access-arrangements/evoenergy-access-arrangement-2021-26/proposal>.

in Evoenergy's consumer engagement reflect strong community support for addressing the needs of vulnerable consumers as part of a just transition to net zero greenhouse gas emissions in the ACT by 2045 (see Box 1).

Box 1 Overarching themes identified in Evoenergy's consumer engagement[8]

Environmental sustainability

Environmental sustainability, as embodied in the ACT Government's climate change policy leading to net zero greenhouse gas emissions from activities in the ACT by 2045, has widespread support in the community. We have recognised this in our 2021-26 plan by, consistent with the ACT climate change strategy, assuming that our gas network will not be expanded into new ACT suburbs while a transition roadmap is being developed; assuming lower numbers of new connections and declining gas use of gas in response to policy; and minimising investment in the network and accelerating depreciation of new long lived assets in view of the uncertainty future of the network pending a decision by 2024 on the nature of the transition.

Responsible transition

As well as incorporating the elements discussed above under Environmental sustainability for acting consistently with the ACT climate change strategy, responsible transition also involves a least cost and orderly transition to net zero emissions. This involves our working with other stakeholders to develop a roadmap to net zero emissions, and sharing with our community findings on the costs and benefits associated with various options for achieving net zero emissions, including both electrification and renewable gas options, and with **emphasis on the needs of vulnerable customers**. The impacts of accelerated depreciation should be further explored, including the AER providing necessary certainty to customers and to network owners as to how asset stranding is to be managed.

Safe and reliable service

Many consumers will continue to use gas during the transition to net zero emissions, and Evoenergy needs to maintain a reliable service and to ensure absolutely that the network remains safe for them, network technicians, and the general community.

Affordability and fairness

Consumers are concerned about the high price of gas services and note the need to ensure that Evoenergy's network prices promote affordability wherever possible. Supply charges as well as disconnection fees are seen as unfairly high. Gas consumers sometimes see fairness as requiring flatter tariff structures. They are concerned that declining block tariffs lack progressivity, and perhaps even encourage higher gas consumption counter to ACT Government policy objectives. They support tariff simplification. They also support incentive schemes which encourage lower network expenditure, so long as there are measures in place to ensure continued focus on performance measures that they value.

[8] Evoenergy GN21 Overview, p. 14.

This submission highlights key areas where we believe further work is needed now – as a critical part of the GN21 plan – to better understand and consider the needs of vulnerable consumers.

ACTCOSS recommends that Evoenergy's GN21 plan be informed by an evidence base on vulnerable gas consumers that can provide insights into: which customers are vulnerable; what makes these customers vulnerable; the impact of the GN21 plan on vulnerable customers; and what specific measures Evoenergy could include in the GN21 plan to support vulnerable customers and improve their circumstances.

Participants in ACTCOSS's GN21 Energy Consumer Advocacy Workshop held in August 2019 were interested in finding out whether Evoenergy has data on gas customers experiencing hardship in the region, including data from the ACT Civil and Administrative Tribunal (ACAT) and the Energy and Water Ombudsman NSW (EWON).[9] There is no evidence in Evoenergy's GN21 plan that such data about vulnerable customers has been gathered, analysed or used to inform Evoenergy's decision making.

The development of an evidence base on vulnerable gas consumers would be particularly useful in informing Evoenergy's GN21 plan in relation to responding to stranded asset risk, forecasting demand, and assessing the equity impacts of tariffs.

Responding to stranded asset risk

The ACT Government has stated that 'avoiding investment in infrastructure and appliances that will lock in emissions from natural gas will be critical for meeting long-term [net zero emissions] targets'.[10] Over the 2021-26 period of the GN21 plan, Evoenergy and ACT Government will both be developing plans to achieve zero emissions from gas use by 2045. Evoenergy's transition roadmap 'will look at options including closing our gas network; using our network to transport renewable gas; or a combination of these and/or other possible options'.[11]

The option of 'closing our gas network' presents the scenario that by 2045 the ACT's gas network infrastructure will become unused – a stranded asset. In the context of stranded asset risk for Evoenergy's gas network, a vulnerable gas consumer includes anyone who would face significant barriers to transitioning from natural gas – those most at risk of becoming stranded customers. For example, gas customers who are private renters would be vulnerable due to the split incentive between landlords and tenants where transitioning from gas to electric systems represents a cost for the former and a potential benefit for the

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[9] ACTCOSS, *GN21 energy consumer advocacy workshop outcomes report: building capacity for people on low incomes, experiencing disadvantage, or at risk or hardship to actively engage in the Evoenergy Gas Network 2021-26 Access Arrangement Review*, ACTCOSS, Canberra, October 2019, p. 8, viewed at, <https://www.actcoss.org.au/publications/advocacy-publications/report-gn21-energy-consumer-advocacy-workshop-outcomes>.

[10] *ACT Climate Change Strategy 2019-25*, p. 66.

[11] Evoenergy GN21 Overview, p. 1.

latter. A key concern for ACTCOSS is how Evoenergy's GN21 plan responds to stranded consumer risk alongside stranded asset risk – especially for vulnerable gas customers who are at significant risk of being stuck on the gas network due to being unable to transition readily from natural gas and, as a result, would be likely to face even higher gas costs as these are spread over a smaller customer base.

As noted in Appendix 4.3 of Evoenergy's GN21 plan – a report prepared for Evoenergy by Incenta Economic Consulting on responding to stranded asset risk – the ACT Government has already introduced measures aimed at addressing stranded consumer risk that may also impact on Evoenergy's stranded asset risk:

> The ACT Government has indicated it will work with retailers to support consumers wishing to switch from gas to electric appliances with tailored programs to smooth the transition. It notes that as customers switch to electricity the price of gas will increase given network costs will be spread across fewer customers. The Government's proposed approach to this issue appears to be to speed up the transition away from gas, including to provide support to lower income customers that use gas to switch. The implication being that customer numbers may be very low much earlier than 2045 such that cost recovery is very difficult. There is no discussion on the implications this will have for the gas pipeline business.[12]

As noted in the GN21 plan,

> Evoenergy's approach to the 2021-26 access arrangement period in the face of uncertainty pending the government's decision on the future of the network, is to minimise investment to that necessary to maintain the safety and reliability of the network; plan for no connections in new ACT developments and declining new connections in other areas; and to accelerate depreciation on new, long lived assets.[13]

ACTCOSS supports most of Evoenergy's response to stranded asset risk outlined in the statement above which aligns largely with ACT Government policy and consumer feedback. We are yet to arrive at a final view on Evoenergy's proposal to accelerate depreciation on new, long-lived assets.

ACTCOSS supports Evoenergy's plan for further stakeholder engagement (deep dive workshops) on stranded asset risk as noted in their presentation at the AER's online public forum on the GN21 plan held on 4 August 2020.[14] We welcome this as a direct response to ACTCOSS's submission to Evoenergy on their Draft Plan. ACTCOSS will participate in this further engagement in good faith and with an open mind as to whether we would be able to support

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[12] Evoenergy, *Appendix 4.3, Responding to stranded asset risk, Incenta Economic Consulting, Access arrangement information, ACT and Queanbeyan-Palerang gas network 2021-26*, Evoenergy, Canberra, 2020, p. 2, viewed at, < https://www.aer.gov.au/networks-pipelines/determinations-access-arrangements/evoenergy-access-arrangement-2021-26/proposal>.

[13] Evoenergy GN21 Overview, p. 1.

[14] Evoenergy, *Gas network 2021-26 access arrangement proposal*, presentation to AER public forum, 4 August 2020, viewed at, <https://www.aer.gov.au/system/files/Evoenergy%20-%20Presentation%20to%20public%20forum%20-%20August%202020.pdf>.

Evoenergy's response to stranded asset risk in the GN21 plan based on the available evidence.

ACTCOSS's view is that in pursuing a just transition to net zero emissions it is not fair and equitable to expect consumers to bear the full risk of Evoenergy's response to stranded asset risk. In our submission to Evoenergy on its Draft Plan we noted that:

> In order for us to support Evoenergy's approach, we would need to be confident that this approach ensures the equitable distribution of financial risks so that those exposed to risks have the ability and incentive to manage them. A critical question is who should pay – consumers (current or future), shareholders, Evoenergy, or the ACT Government. Our view is that it is not reasonable to expect consumers to bear the full risk of Evoenergy's gas assets becoming stranded due to the perceived climate change mitigation risks (see Attachment 1, pp. 15-16).

We noted that Evoenergy had supported the following Citizens' Jury recommendation in principle:

> Recommendation 5: Evoenergy, in consultation with relevant parties (including Government, retailers and consumers), to develop consumer-centred policy to protect consumers from unexpected transition issues; consumers being stranded if critical mass exodus occurs. The purpose of this recommendation is to give consumers certainty.[15]

Our view is that, in response to this consumer feedback, Evoenergy must demonstrate how their proposed response to stranded asset risk would be consumer-centred in relation to the equitable distribution of financial risk.

In relation to this, Evoenergy's GN21 plan states that:

> By ensuring that the customers who receive the benefits pay a fair share of the cost, our proposal will go some way to address the concerns raised that vulnerable groups of customers will be harmed. Without a reduction in asset lives, these customers who are unable or prefer not to switch from gas will be left paying for connection capex. Reducing the asset lives will ensure that existing customers (who received 100 per cent of the benefits) contribute towards the costs before they disconnect.[16]

We are yet to be convinced that: this is the only or best available option; that it provides sufficient protection for vulnerable customers; and that it would result in a fair and equitable distribution of costs.

In the technical report prepared by TRAC Partners for ECA on Evoenergy's GN21 plan, it is noted that:

> We would have expected a more detailed cost/benefit analysis to assess the impact on today's and tomorrow's customers of the following scenarios:

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[15] Evoenergy, *Evoenergy 2019 Citizens' jury: Evoenergy gas network 2021–26 review response to recommendations*, Evoenergy, Canberra, 2020, p. 11, viewed at, <https://www.evoenergy.com.au/about-us/about-our-network/gas-five-year-plan/gas-network-consultation-program>.

[16] Evoenergy GN21 Overview, p. 24.

- Accelerating depreciation of existing and new long-lived assets from 2021 onwards
- Accelerating depreciation of long-lived assets from 2026 onwards
- Accelerating depreciation of new assets from 2021 onwards and for existing assets from 2026 onwards (see Attachment 3, p. 15).

ACTCOSS recommends that Evoenergy provide a more detailed cost/benefit analysis of the key scenarios for accelerating depreciation. Ideally this would include a distributional analysis or other assessment of equity outcomes with a focus on impacts on vulnerable gas consumers.

In response to questions raised as part of Evoenergy's Deep Dive Part A workshop, Evoenergy stated that its 'ambition as a business is that in time the network will distribute renewable gas'.[17] While we agree with Evoenergy that the GN21 plan is taking place amidst considerable uncertainty, there is potentially a tension between its stated ambition and the proposed accelerated depreciation of new, long-lived assets if this covers new, long-lived assets that would remain useful to distribute renewable gas, and therefore have greater chance of having a life after 2045.

We would otherwise question why the accelerated depreciation of new, long-lived assets does not result in an economic life to 2045 to align with the ACT's legislated net zero emissions target. Evoenergy proposes shortening the asset lives for three categories of new investments as follows:

- high pressure mains from 80 years to 50 years (c. 2071-76)
- medium pressure mains from 50 to 30 years (c. 2051-56)
- medium pressure services from 50 to 30 years (c. 2051-56).

A further challenge we face in assessing Evoenergy's proposal to accelerate depreciation on new, long-lived assets is not yet knowing how the ACT Government and Evoenergy roadmaps will align and intersect in terms of responding to stranded asset risk, and the interaction with responding to stranded consumer risk. For example, there may be an arguable case for ACT Government compensation for stranded asset risk for capital expenditure spent until the end of the current access arrangement period. It is unclear what impact ACT Government's part-ownership of Evoenergy might have on the options available. We question the limiting of options to a binary choice between 'removing' (e.g. accelerated depreciation) and 'compensation' as outlined in Incenta's report for Evoenergy on responding to stranded asset risk.

ACTCOSS's view is that Evoenergy's proposal to reduce the asset lives of its new investments must have clear consumer support following further stakeholder engagement. Such consumer support must be based on sufficient evidence and consumer confidence that the proposed approach would deliver a fair and equitable distribution of costs relative to alternative approaches. The evidence base must include an adequate assessment of the impact the

17 Evoenergy, *Part A Deep Dive Q and A*, Evoenergy, Canberra, 2020, p. 1.

proposed approach would have on vulnerable gas consumers, clearly demonstrating that it would be in their long-term interests.

Based on our current understanding and concerns, ACTCOSS would be unlikely to support Evoenergy's proposal to accelerate depreciation for new, long-lived assets as part of the GN21 plan. Evoenergy's GN21 plan proposes this as a small first step that is intended to be followed by a much larger, more significant step in accelerating depreciation of existing assets in the next access arrangement period. Without understanding what impact those bigger steps will have – especially on vulnerable gas consumers – we do not currently have confidence that taking a first step in this direction in Evoenergy's GN21 plan would be in the long-term interests of consumers.

ACTCOSS provisionally recommends – pending the outcome of further stakeholder engagement – that the application of accelerated depreciation to new and existing assets (capital expenditure) be the subject of a wider AER consultation process rather than part of the consideration of Evoenergy's GN21 plan.

ACTCOSS recommends that the AER undertake a fit-for-purpose review of the gas law and rules to see how these might need to be changed to meet the National Gas Objective in the context of governments' net zero greenhouse emissions policies.

Forecast gas demand

Compared to Evoenergy's Draft Plan, the GN21 plan is less inconsistent with the ACT's legislated greenhouse gas emissions targets and the *ACT Climate Change Strategy 2019-25* given the reduced forecast of customer numbers and less expansion capital expenditure. Evoenergy's GN21 plan still includes an expansion in customer numbers - customer numbers are forecast to grow by 3% (around 5,000 customers), with a total of 157,300 customers forecast by 2025-26. At the same time, annual gas usage per customer is expected to fall by approximately 16% between 2019-20 and 2025-26, from 42 to 36 gigajoules per customer.

The apparent lack of alignment between Evoenergy's GN21 plan and the ACT's legislated target of a 50-60% reduction in greenhouse gas emissions (from 1990 levels) by 2025 remains a concern for ACTCOSS. We expect that the forthcoming *ACT Sustainable Energy Policy 2020-25* and the ACT Government's 2024 deadline for determining transition periods for phasing out new and existing gas connections will see the establishment of targets to significantly reduce natural gas customer numbers from current levels over the next 5-10 years.

In our submission to Evoenergy on their Draft Plan we asked whether developers would want to install gas connections to new suburbs in the ACT now that it is not mandated. We are also keen to know whether developers will want to install gas connections in existing suburbs – especially in new medium-

density/high-rise developments. We are particularly concerned about how this might contribute to stranded asset/customer risk.

Evoenergy note in their GN21 plan that:

> …historically, we have captured a large share of the medium density/high-rise sector across the ACT and in NSW. Developers have preferred centralised gas hot water plants which are cheaper, take up less space, and perform better in colder climates. At this stage, developers are continuing to choose gas for these developments, but are increasingly telling us they are looking to move away from gas.[18]

We have concerns that developers ongoing choice of gas may result in a significant number of stranded gas customers in medium-density/high-rise developments where they are likely to face significant barriers to transitioning from natural gas to electricity if required or preferred.

Evoenergy also note that:

> Whether or not to connect new customers in reticulated areas is not a decision over which Evoenergy has discretion. We must comply with the access regime set out in the [National Gas Law] and the Rules. As an open access network, we are required to make connection offers and provide third parties with access to our network.
>
> In almost all cases, we must undertake connections without asking for a capital contribution toward the cost. We can only impose connection charges when expected revenue is less than the capex required for the connection. Almost all connection applications pass this test. Even if we assume that the gas network will be inactive in 2045, new connections in areas of existing network coverage would still clear this hurdle since:
>
> - it is unlikely that a new connection would disconnect within 10 to15 years — the typical life of gas appliances; and
> - as connection costs are low, it takes on average only seven years for a connection to yield more revenue than the capex incurred.

ACTCOSS is concerned this obligation combined with developers' preference for gas might result in customer numbers increasing above the GN21 plan forecast of 3% and requiring more capital expansion than Evoenergy has forecast for the 2021-26 period.

Evoenergy's consumer engagement found strong community advocacy for support for vulnerable gas consumers as part of a responsible transition. In response, Evoenergy has committed to work with stakeholders to understand and consider the needs of vulnerable customers and what we can do to help as we develop our transition roadmap. In forecasting gas demand, we see value in Evoenergy's forecast gas demand including baseline data on the number and types of vulnerable gas customers. This data could then guide forecasts, track impacts over time, and inform support or mitigation measures for vulnerable customers in line with the overarching themes identified in Evoenergy's consumer engagement.

[18] Evoenergy GN21 Overview, p. 25.

Capital Expenditure Sharing Scheme

In the GN21 plan, Evoenergy proposes to 'introduce a new Capital Expenditure Sharing Scheme (CESS), based on the designs recently approved by the AER in Victoria and NSW'.[19] Evoenergy state that:

> We believe the proposed CESS is in the long-term interests of our customers and will help further improve the efficiency of our capital expenditure program, keeping downward pressure on bills. In developing our proposal, we consulted widely with customer and community groups with a focus on ensuring the proposed CESS reflects customer priorities for network safety and reliability.[20]

In our submission to Evoenergy on their Draft Plan we noted that we saw value in there being a strong incentive for Evoenergy to maintain high performance standards, and therefore minimise impacts of outages for affected customers. We also noted that:

> We are uncertain about the value of Evoenergy adopting a Capital Expenditure Sharing Scheme (CESS) under GN21 … It is unclear whether customers want or would benefit from the proposed CESS. Evoenergy's Deep Dive Part A workshop sought feedback from stakeholders on the most appropriate performance measures and weightings for the CESS. This skipped the key step of seeking feedback from stakeholders on whether a CESS should be adopted … it would be useful to provide stakeholders with further information about performance measures, baselines, and benchmarks.

We noted that if a CESS is to be adopted it is essential that:

- The metrics represent decisions that Evoenergy has under its control
- The metrics/weightings reflect the importance to or impact on customers (customer-centred)
- The targets are set at levels that truly represent achievements beyond business as usual such that the scheme does not simply represent a 'easy wins' or 'low-hanging fruit' for Evoenergy
- The scheme is designed such that it is generally symmetric – i.e. the quantum of incentive payment and the probability of meeting the target is such that Evoenergy has a close to equal likelihood of earning a positive payment as a negative one.

ACTCOSS recommends that Evoenergy undertake further consumer engagement on the CESS that is informed by more detailed information about performance measures, Evoenergy's baselines and historical performance, and industry benchmarks.

Evoenergy states there was broad stakeholder support for retaining the Efficiency Carryover Mechanism incentive scheme for operational expenditure

[19] Evoenergy GN21 Overview, p. 34.

[20] Evoenergy GN21 Overview, p. 34.

and the introduction of the CESS. We suggest that further engagement is needed to ensure consumers have a clear understanding of how these incentive mechanisms work – including if/how they work in the consumers' interests.

Tariffs

ACTCOSS supports Evoenergy simplifying tariffs by abolishing unused tariffs as part of the GN21 plan.

Evoenergy's Draft Plan noted that:

> Evoenergy has declining usage rates, meaning the price per unit falls the more gas is used. This helps encourage utilisation of the gas network, and minimise the bill impacts of higher usage during peak times of the year.[21]

In our submission to Evoenergy on the Draft Plan we noted our interest in Evoenergy undertaking analysis of declining block tariff impacts in relation to:

- Equity outcomes – Evoenergy presented data to the Energy Consumer Reference Council (ECRC) meeting on 31 October 2019 that indicated that while low-income gas consumers have lower gas usage per quarter, the impact of the declining usage rate is not likely to be inequitable. There remains a concern that the declining usage rate is not progressive and may not equally benefit low-income households who have lower gas usage per quarter. We would value more detailed analysis of the declining usage rate in relation to equitable outcomes for low-income households.
- Sustainability outcomes – the declining usage rate appears to work against ACT Government policy objectives in relation to reducing greenhouse gas emissions from natural gas consumption. A tariff structure where the unit price of gas is reduced as consumption increases beyond appears to incentivise higher consumption levels and hence emissions.

In the GN21 plan, Evoenergy notes that this feedback was received from multiple stakeholders to which their response is: 'Evoenergy is not proposing to change its current declining block structure'.[22] Further justification of this response is provided in *Attachment 10: Reference Services and Tariffs*:

- Use of a declining block structure reflects the requirements of the [National Gas Objective] as it promotes the efficient use of the natural gas services and is in the long term interests of consumers of natural gas
- A declining block tariff reflects the declining costs of meeting incremental demand as there are economies of scale that come with greater demand

21 Evoenergy, *Evoenergy gas network 2021 draft plan*, Evoenergy gas network 2021-26 access arrangement review, Evoenergy, Canberra, February 2020, p.44, viewed at, <https://www.evoenergy.com.au/gas-network-draft-plan>.

22 Evoenergy GN21 Overview, p. 21.

- It is in the interests of all customers to improve the utilisation of the network as it spreading our fixed costs wider puts downward pressure on all customers' prices
- We consider that this is an appropriate price signal for customers where the marginal costs of supplying additional unit is materially lower than the average costs, encouraging increased network utilisation
- Consistent with other gas distribution businesses in Australia, Evoenergy is proposing to maintain a declining block usage charges.[23]

Evoenergy's response does not adequately address the consumer feedback. Consumer feedback did not request the removal of declining block tariffs, it sought an assessment of their alignment with consumer expectations around equity and sustainability outcomes. These consumer expectations are captured in the key themes of Evoenergy's consumer engagement as outlined in the GN21 plan:

- Environmental sustainability
- Responsible transition
- Safe and reliable service
- Affordability and fairness.

ACTCOSS recommends that Evoenergy respond to consumer feedback by undertaking analysis of equity and sustainability impacts of declining block tariffs to ensure there is alignment with the key themes of Evoenergy's consumer engagement.

Other impacts on Evoenergy's GN21 plan

We note that there are a few things that will have the potential to impact on Evoenergy's GN21 plan significantly before Evoenergy submits its revised access arrangement proposal in January 2021 and when the AER publishes its final decision in April 2021. These include:

- The impact of COVID-19
- The forthcoming *ACT Sustainable Energy Policy 2020-25*
- The 2020 ACT Election.

[23] Evoenergy, *Attachment 10: Reference services and tariffs*, Access arrangement information, ACT and Queanbeyan-Palerang gas network 2021-26, Submission to the Australian Energy Regulator, Evoenergy, Canberra, 2020, viewed at, < https://www.aer.gov.au/networks-pipelines/determinations-access-arrangements/evoenergy-access-arrangement-2021-26/proposal>.

COVID-19

Evoenergy notes that forecasts have not been able to be adjusted to assess the impacts caused by COVID-19 and that therefore they will incorporate any COVID-19 related adjustments into their revised proposals that they will submit in response to the AER's draft decision.

TRAC Partners have identified two options for the AER should consider to ensure procedural fairness is afforded to consumers:

- Option 1 – the AER could require any COVID related adjustments to be submitted by the businesses prior to the Draft Decision and open up a round of mini consultation on these adjustments before the draft decision is issued. Then the AER's draft decision can take into account both the COVID related adjustments and any submissions consumers make in response.
- Option 2 – the AER could maintain the status quo until after submissions have been received in response to the revised proposal submitted in response to the Draft Decision. The AER could then issue a preliminary position paper on the COVID related adjustments and request submissions from consumers on its position. Following consideration of these submissions, the AER would then make its final decision (see Attachment 3, p. 30).

The impact of COVID-19 on vulnerable gas consumers is also of significant concern. COVID-19 has increased the number of gas consumers who are in vulnerable circumstances due to lower income and/or higher energy use. The impact of COVID-19 on gas consumer vulnerability may have some influence on consumer views on some elements of the GN21 plan that will push prices upwards. For example, this weigh against Evoenergy's proposal to accelerate depreciation on new, long-lived assets if it would result in higher gas bills.

ACT Sustainable Energy Policy 2020-25

The ACT Government is expected to release the *ACT Sustainable Energy Policy 2020-25* soon. Based on the *ACT Sustainable Energy Policy 2020-25 Discussion Paper* released last year,[24] we anticipate that this policy document will include details that will need to be considered in Evoenergy's GN21 plan.

2020 ACT Election

The 2020 ACT Election will be held on 17 October 2020. The outcome of the 2020 ACT Election may result in changes to ACT Government commitments over the next four-year term of the Legislative Assembly that could impact on

[24] ACT Government, *ACT Sustainable Energy Policy 2020-25 Discussion Paper*, Environment, Planning and Sustainable Development Directorate, Canberra, 2019, viewed at, < https://www.environment.act.gov.au/energy/act-sustainable-energy-policy-2020-25>.

Evoenergy's GN21 plan. While there is currently tri-partisan support from ACT Labor, ACT Greens, and Canberra Liberals for achieving net zero greenhouse gas emissions in the ACT by 2045, it is uncertain how the next ACT Government will approach the future of gas.

Conclusion

ACTCOSS commends Evoenergy for their efforts to engage consumers in the development of the GN21 plan. Evoenergy's consumer engagement found strong community support for Evoenergy's GN21 plan to supports vulnerable gas consumers as part of a just transition to net zero greenhouse gas emissions in the ACT by 2045.

We especially appreciate Evoenergy's efforts to engage with and support vulnerable gas consumers, including through their engagement with ACTCOSS. We welcome Evoenergy's commitment to work with stakeholders to understand and consider the needs of vulnerable customers and what it can do to help as they develop their transition roadmap.

We see a need for a better understanding and consideration of the needs of vulnerable customers to be developed now so that it can better inform Evoenergy's GN21 plan. This understanding is particularly necessary to informing Evoenergy's response to stranded asset risk, ensuring that this response results in a fair and equitable distribution of costs.

This submission has also identified a need for the AER to undertake a fit-for-purpose review of the National Gas Law and Rules to see how these might need to be changed to meet the National Gas Objective in the context of governments' net zero greenhouse emissions policies.

Overall, ACTCOSS believes that Evoenergy's GN21 plan is tracking well towards being capable of acceptance by the AER, but further development and/or consumer engagement is needed in relation to:

- responding to stranded asset risk
- forecast gas demand
- the Capital Expenditure Sharing Scheme (CESS)
- tariffs.

Our submission has also identified three additional factors that are likely to have an impact between now and when the AER is expected to publish its final decision in April 2021, namely:

- the impact of COVID-19
- the forthcoming ACT Sustainable Energy Policy 2020-25
- the 2020 ACT Election.

ACTCOSS looks forward to further engagement in the Evoenergy's gas network 2021-26 access arrangement review. Our engagement will continue to focus on ensuring the final GN21 plan is in the long-term interests of vulnerable gas consumers and contributes to a just transition to net zero greenhouse gas emissions in the ACT.

ACTCOSS Contact

We thank the AER for considering this submission. If you would like to discuss any of the issues we have raised, please do not hesitate to contact Mr Geoff Buchanan, Senior Policy Officer (Research & Data), ACTCOSS at geoff.buchanan@actcoss.org.au or call (02) 6202 7200.

ATTACHMENT 1

Submission:

Evoenergy Gas Network 2021 Draft Plan

April 2020

About ACTCOSS

ACTCOSS acknowledges Canberra has been built on the land of the Ngunnawal people. We pay respects to their Elders and recognise the strength and resilience of Aboriginal and/or Torres Strait Islander peoples. We celebrate Aboriginal and/or Torres Strait Islander cultures and ongoing contributions to the ACT community.

The ACT Council of Social Service Inc. (ACTCOSS) advocates for social justice in the ACT and represents not-for-profit community organisations.

ACTCOSS is a member of the nationwide COSS Network, made up of each of the state and territory Councils and the national body, the Australian Council of Social Service (ACOSS).

ACTCOSS's vision is for Canberra to be a just, safe and sustainable community in which everyone has the opportunity for self-determination and a fair share of resources and services.

The membership of the Council includes the majority of community-based service providers in the social welfare area, a range of community associations and networks, self-help and consumer groups and interested individuals.

ACTCOSS advises that this document may be publicly distributed, including by placing a copy on our website.

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April 2020

ISBN 978-1-876632-85-4 (electronic version)

Disclosure statement: This submission has been developed with funding from Evoenergy to support their engagement with vulnerable energy consumers in the gas network 2021-26 access arrangement review. ACTCOSS also receives funding from Energy Consumers Australia and the ACT Government to lead the *Energised Consumers Project* to support residential, not-for-profit, and small business energy consumers in the ACT to participate in consultations and decision making on energy issues.

Table of contents

Acronyms

ACTCOSS	ACT Council of Social Service Inc.
AEMC	Australian Energy Market Commission
AER	Australian Energy Regulator
ATA	Alternative Technology Association (now Renew)
CESS	Capital Expenditure Sharing Scheme
ECA	Energy Consumers Australia
ECRC	(Evoenergy's) Energy Consumer Reference Council
GN21	Evoenergy gas network 2021-26 access arrangement review

Introduction

The ACT Council of Social Service (ACTCOSS) welcomes the opportunity to provide feedback on Evoenergy's Gas Network 2021 Draft Plan. We acknowledge the efforts that Evoenergy has undertaken to engage with consumers and consumer advocates in preparing this draft plan ahead of its initial proposal to the Australian Energy Regulator (AER).

ACTCOSS has received funding from Evoenergy to support its engagement with vulnerable energy consumers in the gas network 2021-26 access arrangement review process for the ACT and Queanbeyan-Palerang Region (GN21).

This submission builds on and complements the following interactions with Evoenergy on GN21 to date:

- ACTCOSS's GN21 Energy Consumer Advocacy Workshop on 27 August 2019 and documenting workshop outcomes[1]
- Presenting and observing at Evoenergy's 2019 Citizens' Jury (19-20 October, 2-3 November 2020)
- Participating in Evoenergy's GN21 Draft Plan Deep Dive discussions with local consumers and consumer representatives (Part A), and with consumer advocates (Part B – 18 March 2020)
- Meetings of Evoenergy's Energy Consumer Reference Council (ECRC)
- Meetings with Evoenergy staff.

ACTCOSS has an established role as an energy consumer advocate in the ACT. Since 2016, we have led the Energised Consumers Project which is funded by Energy Consumers Australia (ECA) and the ACT Government. This submission is informed by our work on this project, including engagement with ACT energy consumers and community organisations. This project has facilitated valuable opportunities to connect and collaborate with advocates locally and nationally, including through the:

- ACT Energy Consumer Policy Consortium (ACTCOSS, Better Renting, Care Financial Counselling Service, Conservation Council ACT Region, and Small Business Taskforce of the Canberra Business Chamber)
- National Consumer Roundtable on Energy.

The primary focus of our engagement with GN21 is to represent the interests of low-income and other at-risk energy consumers in the ACT. In line with the National Gas Objective, we are concerned about the long-term interests of consumers – in particular, vulnerable consumers – of natural gas with respect to price, quality, safety, reliability and security of supply of natural gas.

1 ACTCOSS, *GN21 energy consumer advocacy workshop outcomes report: building capacity for people on low incomes, experiencing disadvantage, or at risk or hardship to actively engage in the Evoenergy Gas Network 2021-26 Access Arrangement Review*, ACTCOSS, Canberra, October 2019.

Summary of ACTCOSS information requests

Issue	Questions/Request
No expansion of gas network into new suburbs in the ACT	Will developers want to install gas connections to new suburbs in the ACT now that it is not mandated?
Depreciation	A deep dive to test the assumption that Evoenergy will need to accelerate depreciation – is this in the long-term interest of gas consumers?
Bill impacts	Why is there only a minimal impact on residential customers' bills under Evoenergy's proposed approach?
Capital Expenditure Sharing Scheme (CESS)	Do consumers see value in adopting a CESS under GN21 given the relatively low level of capital expenditure?
Tariffs	Further analysis of equity and sustainability impacts of declining usage rates.
Capital expenditure	Further details of expenditure on market expansion and meter renewal.
Operating costs	How does Evoenergy's gas rewards marketing program support the long-term interests of gas consumers, especially low-income households?
Customer number and volume forecasts	How does the GN21 Draft Plan fit within the legislated target of a 50-60% reduction in greenhouse gas emissions (from 1990 levels) by 2025?

The future of gas: the next 5-10 years

We are seeking your feedback on the assumptions we have made on how ACT Government policy will impact the use of gas in the ACT and surrounds. What are your expectations of how the use of gas will change in the next 5 – 10 years?

Key assumptions in the GN21 Draft Plan

The GN21 is based on three key assumptions as outlined below,[2] with responses from ACTCOSS.

Assumption# 1: No expansion of gas network into new ACT suburbs

> Reflecting the ACT Government's strategy to remove the mandating of reticulated gas in new suburbs, the gas network will not be expanded into new suburbs in the ACT

We broadly agree with this assumption, though it would be useful if Evoenergy could provide further information to support it in its proposal to the AER.

Research by the Alternative Technology Association (ATA, now Renew) concluded that due to improvements in common household electrical appliances 'it is not cost effective to connect a new home to mains gas' and that doing so would 'lock new home buyers into significantly higher energy costs for the medium to longer term'. [3,4]

Renew argue that continued expansion of reticulated gas to most greenfield developments fails the National Gas Objective on at least two important counts:

- The infrastructure delivered could not, by any credible measure, be considered 'efficient investment'; and, therefore
- Such programs are clearly no longer in the 'long term interests of consumers', with particular reference to price.

The ACT Government's amendment of planning regulations to remove the mandating of reticulated gas in new suburbs is explicitly intended to 'encourage

2 Evoenergy, *Evoenergy gas network 2021 draft plan*, Evoenergy gas network 2021-26 access arrangement review, Evoenergy, Canberra, February 2020, p. 20, viewed at, <https://www.evoenergy.com.au/gas-network-draft-plan>.

3 Alternative Technology Association, *Are we still cooking with gas?* Report for the Consumer Advocacy Panel, ATA, Melbourne, 2014, p. 5, viewed at, <https://renew.org.au/wp-content/projects/CAP_Gas_Research_Final_Report_251114_v2.0.pdf>.

4 ATA, *Household fuel choice in the National Energy Market*, Final Report, ATA, Melbourne, 2018, p. 6, viewed at, <https://renew.org.au/wp-content/uploads/2018/08/Household_fuel_choice_in_the_NEM_Revised_June_2018.pdf>.

a shift from gas to electricity'.[5] As noted in our submission to the ACT Government's *ACT Sustainable Energy Policy 2020-25 Discussion Paper*:

> Given the technical and financial uncertainty regarding using fuels other than natural gas in gas infrastructure, ACTCOSS supports ceasing expansion of gas into new suburbs during 2020-25. This is the least risk, least cost approach.[6]

Similarly, the Citizens' Jury recommended 'that Evoenergy suspend expanding the gas network into new developments until low emissions sources of gas become available'.[7]

Our understanding is that while the mandate has been removed, there is not an effective ban on developers connecting gas to new suburbs. The ACT Government has flagged that:

> As a stepping stone to an eventual complete phase out of natural gas, the Government could also regulate to prevent gas connections to residences in new developments, or to all buildings (commercial and residential) in the development. This would require buildings to be all electric. However, a risk of this approach is that it would mean there is no pipeline infrastructure for the delivery of possible gas alternatives in the future, such as hydrogen.[8]

The ACT Government has also indicated that the removal of the mandate will mean that:

> developers [will be] required to fund the installation of gas infrastructure up-front [meaning that] gas infrastructure would only be installed if customers saw value in the service, and at a price customers are willing to pay.

We assume that this cost would present a significant disincentive for developers and their customers.

In response to the supplementary recommendations of the 2019 Citizens' Jury, Evoenergy noted that:

> … over the course of the regulatory period, if there is a preference or requirement from the market (for example, a request from developers, builders, home buyers) for gas connections, we would examine any risks associated with investment and make a decision in the best interests of the consumer.[9]

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5 ACT Government, *ACT Climate Change Strategy 2019-25*, Environment, Planning and Sustainable Development Directorate, Canberra, ACT 2019, p. 37, viewed at, <https://www.environment.act.gov.au/cc/act-climate-change-strategy>.

6 ACTCOSS, *Submission: Response to the ACT Sustainable Energy Policy 2020-25 Discussion Paper*, ACTCOSS, Canberra, November 2019, p. 25, viewed at, <https://www.actcoss.org.au/publications/advocacy-publications/submission-response-act-sustainable-energy-policy-2020-25>.

7 Evoenergy, *Report from the Evoenergy Citizens' Jury*, Evoenergy, Canberra, 3 November 2019, Supplementary recommendation 2, viewed at, <https://www.evoenergy.com.au/about-us/about-our-network/gas-five-year-plan/gas-network-consultation-program>.

8 ACT Government, *ACT Sustainable Energy Policy 2020-25 Discussion Paper*, Environment, Planning and Sustainable Development Directorate, Canberra, 2019, p.

9 Evoenergy, *Evoenergy 2019 Citizens' jury: Evoenergy gas network 2021–26 review response to recommendations*, Evoenergy, Canberra, 2020, p. 15, viewed at,

To test the validity of this assumption it would be useful for Evoenergy to address the following question: How likely is it that developers would continue to want to install gas connections to new suburbs in the ACT now that it is not mandated?

Assumption #2: Reduced gas usage per customer and increased gas disconnection rate

> That following campaigning by the ACT Government for a transition away from gas, we will see a significant reduction in average gas usage per customer and an increase in gas disconnection rates beyond historical trends

We agree with this assumption based on the significant commitments the ACT Government has made through the *ACT Climate Change Strategy 2019-25*. The GN21 Draft Plan identifies three ACT Government actions to reduce emissions from gas.[10] As shown in Table 1 below, there are 10 measures in the *ACT Climate Change Strategy 2019-25* aimed at transitioning from gas to electricity. We recommend that Evoenergy use this more extensive list to demonstrate the ACT Government's measures to transition away from gas within the GN21 period.[11]

We are concerned that Evoenergy's customer growth and volume forecasts may be at odds with the achievement of the legislated interim target of a 50-60% reduction in greenhouse gas emissions (from 1990 levels) by 2025. Our concerns are outlined under 'Customer Number and Volume Forecasts' below.

Assumption #3: Evoenergy will need to accelerate depreciation

> That we will need to accelerate depreciation for new capital expenditure by adjusting the asset lives of new investment.

Further information is needed to assist us to determine the validity of this assumption. ACTCOSS recommends that Evoenergy provides an opportunity for stakeholders to explore this issue in more detail.

A detailed response is provided in the section on 'Depreciation' below.

<https://www.evoenergy.com.au/about-us/about-our-network/gas-five-year-plan/gas-network-consultation-program>.

10 Evoenergy, *Evoenergy gas network 2021 draft plan*, op. cit., Table 3.1, p. 17.

11 ibid, p. 17.

Table 1 Actions to transition from gas to electric, ACT Climate Change Strategy 2019-25

No.	Goal	Action	Timing
4.03	Reduce emissions from gas	Amend planning regulations to remove the mandating of reticulated gas in new suburbs.	By 2020
4.04	Reduce emissions from gas	Conduct a campaign to support the transition from gas by highlighting electric options and savings opportunities to the ACT community.	From 2020
4.05	Reduce emissions from gas	Develop a plan for achieving zero emissions from gas use by 2045, including setting timeframes with appropriate transition periods for phasing out new and existing gas connections.	By 2024
4.09	Climate-wise, zero emissions public housing	Continue to upgrade to efficient-electric appliances in existing public housing properties where technically feasible and assess the cost and benefits of shifting to all-electric public housing.	From 2019
4.10	Climate-wise, zero emissions public housing	Ensure all newly constructed public housing properties are all-electric (fitted with electric appliances) from 2019.	From 2019
4.12	Climate-wise, zero emissions low income homes	Trial facilitating access to interest free loans or other innovative finance for gas to electric upgrades and deep retrofits of low income homes.	By 2022
4.18	Climate-wise, zero emissions buildings	Trial incentives and other measures to encourage all-electric, high efficiency apartment and commercial buildings.	By 2024
4.19	Climate-wise, zero emissions buildings	Expand the Energy Efficiency Improvement Scheme to increase support for low income priority households and further encourage a shift from gas to high efficiency electric appliances.	From 2020
5.13	Zero Emissions Government	Ensure all newly built or newly leased Government buildings and facilities are climate-wise and all-electric (where fit for purpose).	From 2020
5.14	Zero Emissions Government	Replace all space and water heating systems in Government facilities with electric systems at the end of their economic lives (where fit for purpose).	From 2020

GN21 Draft Plan Views and Priorities

Do the themes – of environmental sustainability, research into options and costs, transition impacts, affordability and tariffs, support for vulnerable customers, and communication and ongoing involvement – reflect your views and priorities as we plan for the 2021–26 access arrangement period and beyond?

> 'It will be important to ensure there is a just transition to the 2045 net zero emissions target to ensure that gas consumers on low incomes or at risk of hardship do not bear a higher proportion of costs in terms of either staying on or moving off gas. Ideally, these households will be 'winners', and in a better position than at present as a result of the decisions that are made'. Response to Evoenergy online survey.[12]

We commend Evoenergy on incorporating the views and priorities of consumers into the GN21 Draft Plan. The issues raised by consumers in relation to GN21 reflect much of what ACTCOSS has heard from the community in the development of the *ACT Climate Change Strategy 2019-25* and the *ACT Sustainable Energy Policy 2020-25*. The GN21 Draft Plan outlines what consumers want and how Evoenergy is responding under the following themes (see also Table 2 below):

- Environmental sustainability
- Research into options and costs
- Transition impacts
- Affordability and tariffs
- Support for vulnerable customers
- Communication and ongoing involvement of consumers.

Evoenergy's consumer engagement identified strong community support for a just transition to zero net greenhouse gas emissions in the ACT by 2045 implemented in a way that supports vulnerable consumers. We welcome Evoenergy's responses to supporting vulnerable consumers as part of its commitment to 'work with stakeholders to understand and consider the needs of vulnerable customers and what we can do to help as we develop our transition roadmap'.[13]

12 Evoenergy, *Evoenergy gas network 2021 draft plan*, op. cit., p. 32.

13 ibid, p. 23.

Table 2 How Evoenergy are responding to what they heard from consumers[14]

What we heard	How we are responding to what we heard
Environmental sustainability Supporting environmental sustainability is a key driver for many consumers. This includes some support for halting the expansion of the gas network in new ACT suburbs.	In the short-term, we are responding to consumer feedback on environmental sustainability by assuming that the gas network will not be extended into new ACT suburbs while we develop our transition roadmap for achieving net zero emissions by 2045. We have also assumed that average gas usage per customer will gradually decline, reflecting consumer sentiment and the expected response to ACT Government policy. Over the longer-term, our roadmap will set out a pathway for achieving net zero greenhouse gas emissions consistent with the ACT Government's legislated target.
Research into options and costs Consumers want to gain a better understanding of the costs associated with various future energy options and how to transition to them. Consumers want us to undertake research and invest in understanding what the future energy options are.	We will continue to investigate the options and their costs as we develop our roadmap to 2045, and share what we find with stakeholders. In the meantime, we have focussed in this draft plan on minimising our costs, and we will continue initiatives, such as our Hydrogen Test Facility in Fyshwick.
Transition impacts Consumers are concerned about impacts that a transition away from natural gas would have on their appliances and costs that would be incurred in replacing or upgrading these appliances. They want continuing reliable services during the transition.	In the short-term, our draft plan reflects our commitment to investing only what we need to maintain the safety and reliability of gas supply as we develop a transition roadmap. Based on consumer feedback, an important part of our roadmap will involve working with stakeholders to understand and fully consider transition impacts.
Affordability and tariffs Consumers are concerned about affordability and are seeking reduced network charges. These views were often coupled with feedback that consumers seek price stability and certainty related to their gas supply.	In the short-term, we have focussed on minimising costs so that our draft plan delivers stable prices across 2021-26 access arrangement period. Over the longer-term, as we develop our roadmap, the costs of achieving the net zero emissions target will be a key consideration in determining the future pathway.

14 Evoenergy, *Evoenergy gas network 2021 draft plan*, op. cit., Table 4.1, p. 23.

What we heard	How we are responding to what we heard
Support for vulnerable customers Consumers advocate support for vulnerable consumers, including through all elements of a transition.	We will work with stakeholders to understand and consider the needs of vulnerable customers and what we can do to help as we develop our transition roadmap.
Communication and ongoing involvement Consumers want to be kept informed and involved at all stages of the research, planning and transition towards a net zero emissions future.	Our consumer engagement program to date and this draft plan are part of our mission to communicate with and involve our consumers. We will continue to keep consumers informed and involved throughout the 2021-26 period and as we develop our roadmap to 2045.

Gas and energy affordability for low-income households

A key concern for ACTCOSS is to ensure that GN21 is in the long-term interest of low-income and other at-risk households with respect to price, quality, safety, reliability and security of supply of gas (and energy more broadly).

ACT households have relatively high levels of electricity and gas usage.[15] Alongside Victoria, ACT households have the highest gas bills due to having relatively high rates of gas connections and a colder climate.[16] While low-income households in the ACT spend less on gas than average-income households, gas bills account for a greater proportion of their disposable household income. In 2019, low-income ACT households on standing and market gas offers spent 4.9% and 4.2% of their income on gas, compared to 2.6% and 2.3% for average-income households.[17] It has been estimated that dual-fuel households tend to spend 25-30% more on energy than all-electric households.[18] The combined cost of electricity and gas in low-income, dual-fuel households increases the risk of energy stress, hardship, debt, and disconnection.

ACTCOSS has recently recommended to the ACT Government that, during 2020-25, it fund:

15 AER, *Affordability in retail energy markets 2019*, AER, Melbourne, September 2019, viewed at, <https://www.aer.gov.au/retail-markets/performance-reporting/affordability-in-retail-energy-markets-september-2019>.

16 ibid, p. 16.

17 ibid, pp. 17-18.

18 A Nance, *Relative energy poverty in Australia*, A research report for consumer advocates and policy makers funded by the Consumer Advocacy Panel (Project No. 565), st.kitts.associates, Adelaide, 2013, p. 20, viewed at, <https://www.sacoss.org.au/sites/default/files/public/documents/Reports/131120_Relative_Energy_Poverty_in_Australia%20Report.pdf>.

- A comprehensive analysis of the feasibility, timeframe and lowest cost pathway to adoption of hydrogen in existing housing and new construction
- Independent research on the cost relativities of growing the electricity grid versus maintaining and growing gas infrastructure.[19]

While we await this evidence, ACTCOSS welcomes measures to support low-income households – including public housing tenants – to transition from gas to electric where feasible and in consumers' long-term interests. Based on our current understanding, transitioning low-income households from gas to all-electric appears to be in their long-term interests based on:

- Rising gas prices
- Additional supply charge cost for dual-fuel households
- Improved efficiency and effectiveness of electric household appliances and long-term impact on energy affordability
- 100% renewable electricity in the ACT
- Risk of low-income households being stranded on the gas network and being faced with significantly higher gas prices in the future
- Need to replace appliances and some distribution assets (e.g. valves and meters) if transitioning to hydrogen
- Risk of increased consumer bills with hydrogen.[20,21,22,23,24]

Low-income, dual-fuel households in existing homes, including private renters, face bigger barriers to transitioning from gas to all-electric. These households face what have been referred to as a 'poverty premium', where their inability to afford the upfront costs of switching appliances prevents them from accessing long-term reductions in the cost of energy. In managing the transition, it will be particularly important to support these consumers, who remain connected to gas because of inability to switch, and who will be the most affected by the consequences of any changes. Private renters are also faced with an additional barrier in the form of a 'split incentive', where energy efficiency improvements represent a cost to the lessor, but a saving to the tenant.

There are also likely to be a number of low-income households that would prefer to continue to use gas and/or their existing gas appliances. This is likely to include older people and people from culturally and linguistically diverse

19 ACTCOSS, *Submission: Response to the ACT Sustainable Energy Policy 2020-25 Discussion Paper,* op. cit, p. 25.

20 ACTCOSS, *ACT cost of living report 2019*, ACTCOSS, May 2019, viewed at, <https://www.actcoss.org.au/publications/advocacy-publications/act-cost-living-report-2019>.

21 ACTCOSS, *GN21 energy consumer advocacy workshop outcomes report*, op. cit.

22 ATA, 2014 & 2018, op. cit.

23 D Daly, M Tibbs, T Harada, G Waitt & P Cooper, *Guide to Implementing Low Carbon Retrofits for Social Housing*, Low Carbon Living CRC, Sydney, 2019, viewed at, <http://www.lowcarbonlivingcrc.com.au/resources/crc-publications/guide-implementing-low-carbon-retrofits-social-housing>.

24 Renew, *Hydrogen: help or hype?* Discussion paper, Renew, Melbourne, 2019, viewed at, <https://renew.org.au/wp-content/uploads/2019/06/HydrogenHelpOrHype02d.pdf>.

backgrounds. It will be important to ensure that there are measures to support low-income households with a strong preference to remain on gas to do so affordably, or otherwise providing appropriate support to transition to electric appliances.

Depreciation

> We would welcome your views on our proposed approach to calculating depreciation.

As noted above, the GN21 Draft Plan is based on the assumption that Evoenergy 'will need to accelerate depreciation for new capital expenditure by adjusting the asset lives of new investment'. Evoenergy's proposed approach to calculating depreciation is outlined as follows:

> In this environment of uncertainty, we consider it prudent to shorten the useful lives of some new, long-lived assets for calculating regulatory depreciation to reflect the likelihood that they may become obsolete before the end of their engineering lives. We have in this way shortened the lives of three asset groups for new investment. Specifically we have:
>
> - reduced the asset lives for new investment in high pressure mains from 80 years to 50 years;
> - reduced the asset lives for new investment in medium pressure mains from 50 to 30 years; and
> - reduced the asset lives for new investment in medium pressure services from 50 to 30 years.
>
> The impact of shortening asset lives on the revenue requirement for the 2021–26 period is minimal ($0.7 million).[25]

ACTCOSS recommends that Evoenergy undertake an additional 'deep dive' with stakeholders on the issue of depreciation to inform its proposal to the AER. We expect that the AER will want to see evidence of consumer support for Evoenergy's proposed approach. Given the technical nature of this issue, it would be useful to provide consumer advocates with the opportunity to obtain independent expert advice on this in order to determine whether to support the proposed approach to calculating depreciation.

In order for us to support Evoenergy's approach, we would need to be confident that this approach ensures the equitable distribution of financial risks so that those exposed to risks to have the ability and incentive to manage them.[26] A critical question is who should pay – consumers (current or future), shareholders, Evoenergy, or the ACT Government. Our view is that it is not

25 Evoenergy, *Evoenergy gas network 2021 draft plan*, op. cit., p. 41.

26 ACTCOSS, *Submission: Response to the ACT Sustainable Energy Policy 2020-25 Discussion Paper*, op. cit.

reasonable to expect consumers to bear the full risk of Evoenergy's gas assets becoming stranded due to the perceived climate change mitigation risks.

Our primary concern is that low-income gas consumers who are unable to afford to transition from gas are at significant risk of being stuck on the gas network. Those customers remaining on the gas network would face even higher gas costs as they are spread over a smaller customer base. One resource that we have found useful in relation to this is a recent report on the risk of stranded gas assets in California (see extract in text box below).

We note that Evoenergy has supported the following Citizens' Jury recommendation in principle:

> Recommendation 5: Evoenergy, in consultation with relevant parties (including Government, retailers and consumers), to develop consumer-centred policy to protect consumers from unexpected transition issues; consumers being stranded if critical mass exodus occurs. The purpose of this recommendation is to give consumers certainty.[27]

It would be useful if Evoenergy could demonstrate how the proposed approach to depreciation would be consumer-centred in relation to the distribution of risk.

In response to questions raised as part of the Deep Dive Part A workshop, Evoenergy stated that its 'ambition as a business is that in time the network will distribute renewable gas'.[28] While we agree with Evoenergy that GN21 is taking place amidst considerable uncertainty, there is potentially a tension between its stated ambition and the proposed approach to depreciation if this approach includes the accelerated depreciation of assets that would remain useful to distribute renewable gas.

We are aware that the issue of accelerated depreciation has been a contentious one in the Jemena Gas Networks (NSW) - Access arrangement 2020-25. This issue seems to fall within the application of the national energy objectives in relation to climate change mitigation risks as outlined by the Australian Energy Market Commission (AEMC):

> [The national energy objectives] do not specifically require the Commission to have regard to the long-term interests of consumers with respect to climate change or the environment... However, in order to make decisions that meet the national energy objectives, the Commission considers whether its decisions are robust to any impacts on price, quality, safety, reliability and security of supply of energy or energy services, if these matters are impacted by mitigation or adaptation risk that manifests due to the issue of climate change.[29]

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27 Evoenergy, *Evoenergy 2019 Citizens' jury: Evoenergy gas network 2021–26 review response to recommendations*, Evoenergy, Canberra, 2020, p. 11, viewed at, <https://www.evoenergy.com.au/about-us/about-our-network/gas-five-year-plan/gas-network-consultation-program>.

28 Evoenergy, *Part A Deep Dive Q and A*, Evoenergy, Canberra, 2020, p. 1.

29 AEMC, *Applying the energy market objectives*, AEMC, Sydney, 8 July 2019, pp. 10-11, viewed at, <https://www.aemc.gov.au/sites/default/files/2019-07/Applying%20the%20energy%20market%20objectives_4.pdf>.

We would encourage the AEMC and the AER to consider addressing this issue at a policy-level for gas networks in general.

Extract from 'Managing the transition: proactive solutions for stranded gas asset risk in California'[30]

Equitable Distribution of Financial Risks

As discussed in more detail below, there are critical tensions between different customer classifications that need to be considered in working to manage the risk and impact of stranded value during this transition. Importantly, key questions will need to be addressed regarding the balance between future and current customers, electric and gas customers, high income and low income customers, just to name a few. In the near term, it is highly possible that wealthier customers are more likely to be able to afford to disconnect from the gas system and to electrify its buildings, leaving the remaining customers with a lower ability to pay to pick up the remaining costs. As customers leave the system, the state may want to consider how the cost of the "exit" should be addressed and accommodated for, and on what time horizon.

Equity

With gas system operation and maintenance costs spread out across a smaller customer base, there is a significant risk that certain customer groups, particularly those low income customer groups, will be left footing the bill for an oversized gas system that other parties have now departed. Such groups may be stuck with rising gas rates (departing customers and recovery costs) and an inability to electrify (high capital costs, etc.). Further, there are also concerns over intergenerational equity as future ratepayers could be saddled with the costs of investments in the gas system that are no longer used and useful and they receive no benefit from.

High Income vs. Low-Income Customers

With high up front capital costs associated with some electrification strategies, some investments will likely be implemented by higher income communities and customers. As a result, with a dwindling customer base in the gas system, large scale electrification may leave some lower income customers vulnerable to rising gas rates and no avenue to escape. As a result, a tension based on income and personal resources available to perform fuel substitution may increase over time, necessitating changes and expansions to public purpose programs to help vulnerable customers.

30 Environmental Defense Fund, *Managing the transition: proactive solutions for stranded gas asset risk in California*, EDF, New York, 2019, pp. 20, 21 & 23, viewed at, <https://www.edf.org/sites/default/files/documents/Managing%20the%20Transition_1.pdf>.

Bill Impacts

Evoenergy's GN21 Draft Plan indicates a relatively flat price path for the distribution network with minimal bill impacts for residential customers. The only real annual change to residential consumers bills is expected to be a 0.4% decrease in 2021-22, with no change in following years to 2025-26.

We understand that a decrease in the first year is typical (and potentially preferred by consumers), but the level of decrease in the draft plan appears smaller than was expected.

We would welcome further explanation of why the forecast of a minimal impact on residential customers' bills under Evoenergy's proposed approach.

Capital Expenditure Sharing Scheme

> What are your views on our proposal to adopt a CESS? What factors should we take into account in applying the scheme to the ACT?

We are uncertain about the value of Evoenergy adopting a Capital Expenditure Sharing Scheme (CESS) under GN21. Under the proposed CESS any underspends or overspends on capital expenditure would be shared between customers (70 per cent) and the network business (30 per cent). It is unclear whether customers want or would benefit from the proposed CESS. Evoenergy's Deep Dive Part A workshop sought feedback from stakeholders on the most appropriate performance measures and weightings for the CESS. This skipped the key step of seeking feedback from stakeholders on whether a CESS should be adopted.

We recommend Evoenergy seek consumer feedback on whether a CESS should be adopted. Our key concern is whether adopting a CESS would be in the long-term interests of consumers. The value of adopting a CESS seems to be questionable within the GN21 Draft Plan context of limited market expansion and a relatively low level of capital expenditure. The CESS seems even further restricted given Evoenergy's proposal that 'any capital expenditure associated with new connections should be excluded from the operation of the [CESS] scheme'.[31]

We do see value in there being a strong incentive for Evoenergy to maintain high performance standards, and therefore minimise impacts of outages for affected customers. We would be interested in assessing the value of adopting a CESS alongside the existing Efficiency Carryover Mechanism (ECM) for operational costs.

31 Evoenergy, *Evoenergy gas network 2021 draft plan*, op. cit., p. 42.

If a CESS is to be adopted it is essential that:

- The metrics represent decisions the Evoenergy has under its control
- The metrics/weightings reflect the importance to or impact on customers (customer-centred)
- The targets are set at levels that truly represent achievements beyond business as usual such that the scheme does not simply represent a 'easy wins' or 'low-hanging fruit' for Evoenergy
- The scheme is designed such that it is generally symmetric – i.e. the quantum of incentive payment and the probability of meeting the target is such that Evoenergy has a close to equal likelihood of earning a positive payment as a negative one.

As discussed at Evoenergy's Deep Dive Part B teleconference, it would be useful to provide stakeholders with further information about performance measures, baselines, and benchmarks.

Tariffs

We are seeking your views on our proposed approach to simplifying tariffs.

We support Evoenergy simplifying tariffs by abolishing unused tariffs under GN21.

The GN21 Draft Plan notes that:

> Evoenergy has declining usage rates, meaning the price per unit falls the more gas is used. This helps encourage utilisation of the gas network, and minimise the bill impacts of higher usage during peak times of the year.[32]

We would be interested in analysis of declining usage rates impacts in relation to:

- Equity outcomes – Evoenergy presented data to the Energy Consumer Reference Council (ECRC) meeting on 31 October 2019 that indicated that while low-income gas consumers have lower gas usage per quarter, the impact of the declining usage rate is not likely to be inequitable. There remains a concern that the declining usage rate is not progressive and may not equally benefit low-income households who have lower gas usage per quarter. We would value more detailed analysis of the declining usage rate in relation to equitable outcomes for low-income households.
- Sustainability outcomes – the declining usage rate appears to work against ACT Government policy objectives in relation to reducing

32 Evoenergy, *Evoenergy gas network 2021 draft plan*, op. cit., p. 44.

greenhouse gas emissions from natural gas consumption. A tariff structure where the unit price of gas is reduced as consumption increases beyond appears to incentivise higher consumption levels and hence emissions.

Capital Expenditure

Do you have any feedback about our proposed capex program? Does our approach seem reasonable? Are there any specific elements you would like to know more about?

We support Evoenergy's approach to capital expenditure based on the assumption of no expansion of the gas network into new suburbs in the ACT. We agree that given the current degree of uncertainty regarding the future of the gas network, it is in the best interest of customers to limit the amount of capital investment added to the asset base.

We would welcome more detailed information on the two largest components of Evoenergy's capital expenditure:

- Market expansion ($34.8m)
- Meter renewal ($21.7m)

In relation to market expansion we understand that,

> Of this [$35m], 31% is for expansion in NSW. The remainder is for expansion in ACT and does not include expansion into greenfield sites, only brownfields and infill areas.[33]

We have concerns about the impact on the long-term interests of gas consumers – especially low-income dual-fuel households – in the Queanbeyan-Palerang Region if there is significant expansion of the network there while the customer base and/or gas usage declines significantly in the ACT. We thank Evoenergy for outlining the NSW-specific drivers of demand for gas in that region in response to these concerns.[34]

We are also concerned that market expansion in existing suburbs in the ACT and Queanbeyan-Palerang Region might lock multi-unit developments into the gas network, or otherwise make retrofit to all-electric more challenging for residents.

33 Evoenergy, *Part A Deep Dive Q and A*, Evoenergy, op. cit., p. 1.

34 ibid.

Operating Costs

We are interested in your views on our proposed operating costs. Does our approach seem reasonable? Are there any specific elements you would like to know more about?

We believe Evoenergy's approach to proposed operating costs is reasonable given the circumstances under which this plan is being developed. We welcome the offsetting of operating cost increases with estimated productivity gains of 0.74% per year totalling over $2.5m.

We do have some concern in relation to marketing costs in relation to subsidising gas appliances as outlined below.

Marketing costs: Evoenergy's gas rewards program

In response to questions from Deep Dive Part A, Evoenergy advised that,

> Marketing expenditure in 2019/20 (the year used as a base for the forecast) is expected to be $1.1 million. Existing gas consumers who choose to continue to use gas benefit from replacing an existing gas appliance with a new 5-star or 6-star energy efficient system. Doing so lowers the cost of their energy bill and reduces their energy use, which has a positive environmental impact. Evoenergy's gas rewards marketing program is designed to target existing and continuing gas customers to ensure they're aware of the benefits of upgrading (and incentivise them to upgrade) to a more energy efficient gas appliance.[35]

We welcome initiatives supporting low-income dual-fuel households to purchase more energy efficient gas appliances – and long-term gas bill savings – where they are not able or willing to transition to electric appliances. Our concern is that this does not address the underlying issue of whether switching to an electric appliance would be preferable and more beneficial to the consumer.

ACTCOSS encourages Evoenergy to address the following questions:

- How is Evoenergy testing to ensure the appliances purchased via the gas rewards marketing program are energy efficient?
- How is Evoenergy testing to ensure the appliance(s) chosen is economically efficient for the purchaser based on their housing situation, especially noting the potential for an electric alternative?
- How is the cost being recovered for these incentive payments?

35 ibid.

- Which consumers are receiving these gas rewards payments – are low-income/vulnerable households with low-efficiency appliances making use of these where it is economically efficient for them to do so?

Customer Number and Volume Forecasts

> We are interested in your views on our proposed customer number and volume forecasts. Does our approach seem reasonable in light of the ACT Government's Climate Change Strategy and commitment to explore alternatives to natural gas?

Evoenergy's proposed customer number and volume forecasts seem reasonable from a business perspective, but do not align with ACT Government's indicative forecasts in the *ACT Climate Change Strategy 2019-25* and the legislated greenhouse gas emissions reduction targets.

The ACT Government has legislated to reduce emissions (from 1990 levels) by:

- 40% by 2020
- 50–60% by 2025
- 65–75% by 2030
- 90–95% by 2040
- 100% (net zero emissions) by 2045.

These staged targets provide useful context for GN21, indicating that a further 10-20% reduction in greenhouse gas emissions is to be achieved by 2025. This will require a focus on gas and transport given the achievement of 100% renewable electricity in late 2019.

While only indicative, the ACT Government has undertaken modelling that suggests that to achieve these targets there would need to be 'around 60,000 existing households not connected to gas by 2025, increasing to 90,000 in 2030 and all houses by 2045'.[36]

The GN21 Draft Plan forecasts an increase of around 14,000 volume (residential and small business) customers – growing from around 150,000 at present to 164,000 by 2025-26.

We would welcome Evoenergy's views on how GN21 fits within the context of the legislated target for a 50-60% reduction in greenhouse gas emissions (from 1990 levels) by 2025.

36 ACT Government, *ACT Climate Change Strategy 2019-25*, op. cit., p. 39.

2020 ACT Election

While there is currently bi-partisan support for achieving zero net greenhouse gas emissions in the ACT by 2045, a change of government at the October 2020 ACT Election could see a change in the shape of the Climate Change Strategy and Sustainable Energy Policy. This might include a change in the way the issue of gas is approached by the next ACT Government.

COVID-19 impacts

We appreciate that there may be economic impacts resulting from COVID-19 that could impact on Evoenergy's planning for the gas network during GN21.

ACT Council of Social Service Inc

ATTACHMENT 2

GN21 Energy Consumer Advocacy Workshop Outcomes Report

Building capacity for people on low incomes, experiencing disadvantage, or at risk of hardship to actively engage in the Evoenergy Gas Network 2021-26 Access Arrangement Review

October 2019

About ACTCOSS

ACTCOSS acknowledges Canberra has been built on the land of the Ngunnawal people. We pay respects to their Elders and recognise the strength and resilience of Aboriginal and Torres Strait Islander peoples. We celebrate Aboriginal and Torres Strait Islander cultures and ongoing contribution to the ACT community.

The ACT Council of Social Service Inc. (ACTCOSS) advocates for social justice and represents not-for-profit community organisations in the ACT.

ACTCOSS is a member of the nationwide COSS Network, made up of each of the state and territory Councils and the national body, the Australian Council of Social Service (ACOSS).

ACTCOSS' vision is for Canberra to be a just, safe and sustainable community in which everyone has the opportunity for self-determination and a fair share of resources and services.

The membership of the Council includes the majority of community-based service providers in the social welfare area, a range of community associations and networks, self-help and consumer groups and interested individuals.

ACTCOSS advises that this document may be publicly distributed, including by placing a copy on our website.

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October 2019

ISBN 978-1-876632-80-9

This report was commissioned by Evoenergy.

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Acronyms

ACAT	ACT Civil and Administrative Tribunal
ACTCOSS	ACT Council of Social Service Inc.
AEMC	Australian Energy Market Commission
AER	Australian Energy Regulator
CALD	culturally and linguistically diverse
CAPaD	Canberra Alliance for Participatory Democracy
CCP	Consumer Challenge Panel
ECRC	(Evoenergy) Energy Consumer Reference Council
EWON	Energy and Water Ombudsman NSW
GN21	Evoenergy Gas Network 2021-26 Access Arrangement Review
RAB	regulatory asset base
PIAC	Public Interest Advocacy Centre
VRI	Volume Residential Individual (tariff)
WACC	weighted average cost of capital

Introduction

This report provides a summary of the outcomes of an Energy Consumer Advocacy Workshop on the Evoenergy Gas Network 2021-26 Access Arrangement Review (GN21) held on 27 August 2019. The ACT Council of Social Service (ACTCOSS) was commissioned by Evoenergy to run this workshop as part of ensuring that energy consumers in the ACT and Queanbeyan-Palerang region who are on low incomes, experiencing disadvantage, or at risk of hardship are able to actively contribute to the GN21 process.

Evoenergy is the gas distribution network service provider for the ACT and Queanbeyan-Palerang region – it owns and operates the network delivering gas to homes and businesses in the region. Evoenergy's network charges for transporting gas through the network are levied on gas retailers and form part of the costs in a retail gas bill. The National Gas Law and National Gas Rules provide the regulatory framework governing gas networks. The Australian Energy Regulator (AER) determines the revenue Evoenergy can raise through tariffs from network users (i.e. gas retailers) to operate and maintain the network and to fund network growth, refurbishment and replacement under an approved access arrangement. Evoenergy is required to submit its gas access arrangement proposal for the 2021-26 period to the AER for approval by 1 July 2020. The AER plans to publish its final decision in April 2021.

The objectives of the workshop were to:

- Identify key issues that consumers and their representatives need to understand in order to actively contribute to the GN21 process
- Clarify what further information and/or opportunities will be needed for consumers and their representatives to actively contribute to the GN21 process
- Develop local consumer advocacy capacity to engage in the GN21 process.

As a first step in building the capacity of consumers to actively engage in the GN21 process, the workshop brought together Evoenergy representatives, energy consumer experts and representatives from a range of community organisations that work with and/or represent people within the region who are living on low incomes, experiencing disadvantage, or at risk of hardship (see Attachments for the workshop agenda, list of attendees and their organisations). This provided an initial opportunity to learn about the GN21 process and gain insights from experts with extensive experience as energy consumer advocates, including experience in engaging in other energy network planning processes. Workshop participants from the local community were able to engage in dialogue with Evoenergy and the expert panel through a question and answer session and a World Café session.

In order to inform Evoenergy's GN21 consumer engagement, this report presents the outcomes of the workshop in terms of the information and

processes needed to build vulnerable consumers' capacity to actively engage and contribute.

Key issues and information needs

This section outlines key issues that were raised during the workshop related to identified information needs by workshop participants.

Impacts on gas prices and affordability

A key issue that participants wanted to get clarity about was how the GN21 outcome would impact on low-income households' gas bills.

Evoenergy's consumer guide to engaging in the GN21 process provides the following breakdown of ACT retail gas bills, highlighting that their distribution network makes up 25% of the typical annual household gas bill.[1]

ACT retail gas bill breakdown	
Production	42%
Transmission	9%
Distribution - Evoenergy	**25%**
Retailer	22%
Other*	2%
Typical annual household gas bill** * Other costs include costs associated with storage and the costs of participating in AEMO-operated Wholesale markets ** based on ActewAGL Retail and Evoenergy pricing for 2019/20 and gas usage of 44.3 gigajoules per year	

It is this distribution component of household gas bills that will be impacted by what is included in the final Evoenergy Gas Network 2021-26 Access Arrangement.

With production making up the largest component of household gas bills, participants were interested to know what is expected to happen to wholesale gas prices in the future. Evoenergy noted that costs in the supply chain outside of distribution are outside of their control.

1 Evoenergy, *A consumer guide to engaging on our 2021 gas plan – Evoenergy gas network 2021-26 access arrangement review*, Evoenergy, Canberra, August 2019, p. 7, viewed 31 October 2019, <https://www.evoenergy.com.au/-/media/evoenergy/documents/gas/consumer-guide-to-engaging-on-our-2021-gas-plan.pdf?la=en&hash=F250FC5AB3EE7654EC8153F7E7FE5D7A546D8373>.

Gas vs electricity: cost and customer preferences

Participants were interested to find out whether low-income households that are currently connected to gas would generally be better off switching to 100% electricity. While there are believed to be savings (e.g. not having two supply charges), it was also understood that there would be costs in terms of purchasing new appliances. Participants noted that these costs could be eased through subsidies or other programs, e.g. no-interest loans.

There was concern that there may be a high proportion of household connections in new development areas without consideration of whether having two energy sources would result in higher overall energy costs. There was also concern that some low-income households may be 'stuck' with gas due to being unable to switch appliances easily and/or affordably.

The Evoenergy attendees noted that answers to questions of cost versus benefit for a household in moving from gas to electric are unlikely to be straightforward. They noted the influence of factors such as relative costs of the energy sources and appliances; size and composition of the household; and individual preferences.

Participants also noted that some households may have a preference to stay connected to gas due to cultural or other factors.

Participant questions: costs and customer preferences for gas and electricity

- Is there data on the costs and benefits for dual fuel households switching to 100% electricity?
- Does the community understand the options and the related costs and benefits?
- What is the cost-benefit in terms of appliances when switching from gas to electricity?
- Has electricity changed to become more useable and comparable to gas? e.g. induction stove tops.
- Is there a risk/cost of low-income households being unable to transition from the gas network due to the inability to switch appliances easily and/or affordably?
- Why do some households prefer gas? e.g. aesthetic, heating/comfort, and cooking (including for people from culturally and linguistically diverse (CALD) backgrounds where some foods need a flame for cooking properly).
- Are CALD or other groups within the community more likely to use and/or prefer gas?
- Note: the Canberra Multicultural Community Forum Inc. undertook consultation around the move to zero emissions which found a preference among some CALD communities for gas cooking, including generational differences in preferences.

Connection fees for low-income households

Participants raised the question of whether gas connection fees could be waived for low-income households.

Evoenergy advised that they levy a charge on retailers for meter reads requested when customers change address. Retailers determine how to pass this charge through to consumers. The National Gas Rules encourage distributors to be cost reflective in their charging, that is, where feasible, to ensure that customers bear costs which they cause in order to avoid cross-subsidies between individuals and groups of customers.

Evoenergy noted that it is unclear whether vulnerable customers as a group are subject to these fees more often than other customers. One method to reduce their effect on vulnerable customers is through targeted assistance such as the ACT Government's Utilities Concession covering electricity, natural gas, water and sewerage to eligible concession card holders.

Energy hardship data

Workshop participants were interested in finding out whether Evoenergy has data on gas customers experiencing hardship in the region, including data from the ACT Civil and Administrative Tribunal (ACAT) and the Energy and Water Ombudsman NSW (EWON).

The access arrangement review

Workshop participants were interested in better understanding elements of the AER's review of Evoenergy's access arrangement proposal.

How network charges are calculated: AER building block model

Network charges are calculated based on what the regulatory framework refers to as *building blocks*. The building blocks represent costs that businesses need to recover through sales to remain economically sustainable.

The Evoenergy consultation paper identified these building blocks and their relative sizes in the current Evoenergy decision as per the table below.[2]

2 ibid, pp. 14-15.

Building block component	Relative size
Operating costs (including Revenue adjustments (incentive schemes))	56%
Return on capital	31%
Depreciation	12%
Tax allowance	1%
Total	100%

Operating and capital expenditure

The key elements of the GN21 proposal will be Evoenergy's planned operating expenditure (opex) and capital expenditure (capex).

Opex is incurred in operating and maintaining the network assets and is reflected in the operating costs building block.

Capex is incurred on refurbishing and replacing assets, and building new assets. In contrast to opex, which is recovered from gas customers in the year it is spent, capex is recovered over the life of assets. It is reflected in the building blocks via the capex being added to a regulatory asset base (RAB) with the value of asset depreciation being subtracted. The return on capital building block is equal to the RAB multiplied by the cost of capital.

Under the National Gas Rules, Evoenergy must justify all proposed spending in its plan to AER. The AER assesses proposed spending on the basis that it meets the National Gas Objective as stated in the National Gas Law which is 'to promote efficient investment in, and efficient operation and use of, natural gas services for the long term interests of consumers of natural gas with respect to price, quality, safety, reliability and security of supply of natural gas'.[3]

Return on capital

Workshop participants raised some specific questions around return on capital.

Evoenergy's consultation paper discusses the return on capital building block and how it is calculated. It is equal to the RAB (discussed above, in relation to capital expenditure) times the rate of return.

All elements of the rate of return are now set such that both Evoenergy and the AER are bound by predetermined parameter values (or methods of calculation from publicly available data). As such, the rate of return will not be determined by the AER as part of the Evoenergy's 2021-26 Access Arrangement Review.

3 AEMC website, visited 31 October 2019, <https://www.aemc.gov.au/regulation/regulation#ngo>.

Incentive schemes

The workshop discussion of operating and capital expenditure also identified the need for consumers to understand how incentive schemes work for gas distributors, including what penalties or rewards are available. It will be important for consumers and their representatives to understand how incentives operate in relation to service levels.

For consumers and their representatives engaging in access arrangement processes, it is important to understand what incentive there may be for the distributor to over- or under-estimate expenditure, demand, and other items in the proposal. As this is likely to be beyond the capacity of individual gas consumers, it is important to ensure that there is also engagement with consumer representatives who are able to undertake a 'deep dive' utilising energy policy advocacy expertise.

Distribution of costs among consumers: tariffs

A key question for Evoenergy to address in relation to operating and capital expenditure is how the costs and benefits will be distributed, and in particular how much of the costs and benefits will flow to residential consumers.

The amount a customer is charged under the contract with their retailer includes the network tariff levied for the carriage of gas through Evoenergy's gas distribution network and associated services.

Key to this will be explaining to consumers and their representatives how network charges will be distributed among tariff categories. For residential gas consumers, a key concern will be the impact on the Volume Residential Individual (VRI) tariff.

Distribution of costs over time: glide path and seasonality

As well as understanding how costs will be distributed across tariff or customer categories, it will also be important for consumers and their representatives to know how costs will be distributed over the 5-year plan, and perhaps even longer – some participants suggested a 15-year glide path being needed. During the discussions the term 'glide path' was used to describe a way of balancing price changes over the life of the plan. A longer-term glide path would also require longer-term forecasting based on different scenarios, e.g. continue current arrangement; or continue using gas in specific limited places; or transition to another gas fuel that is carbon neutral.

As well as this longer-term distribution, the option of seasonal pricing was also raised during discussions.

Current and future demand for gas

Workshop participants were interested in finding out about the current demand for gas in the region and forecasts of future demand. There was interest in knowing how the level of demand might impact on gas prices and affordability.

There was also interest in knowing more about the current and expected expansion (or otherwise) of the gas network to new suburbs and residential developments. There was particular interest in understanding what the status of the gas network will be in relation to the development of Ginninderry where, in agreement with the developers, the mandatory requirement for gas reticulation in new subdivisions has been suspended.

Participant questions: current and future demand for gas

- What is the benefit to existing gas consumers of having more households added to the gas network?
- What is Evoenergy proposing to build the network to in terms of future demand, geographic areas, and number of households?
- What are the demand forecasts? Are they accurate? What are the assumptions? What are the alternative scenarios?
- What is the forecast for the next 15 years for gas and electricity?
- How has fuel switching been addressed in the demand forecasts?
- How has the rate of disconnections been determined?
- How many new gas connections are forecast and where?
- What is happening in Ginninderry in relation to gas supply to residential and business customers? And, what is and will be happening in new developments generally?
- Does climate change play into demand forecasting?

The future of gas in a zero net greenhouse gas emissions ACT

One of the most significant issues raised at the workshop was how the gas network would be impacted by the ACT Government's target of zero net greenhouse gas emissions by 2045.

Participant questions: zero net emissions by 2045

- How firm is the ACT Government's target of zero net greenhouse gas emissions by 2045?
- What is Evoenergy doing to improve energy efficiency?

Alternative energy sources

During the workshop two key alternative paths were discussed in relation to moving towards zero net greenhouse gas emissions by 2045: transitioning to hydrogen and/or other renewable gas; and transitioning to 100% electricity.

Hydrogen and other renewable gas

Evoenergy noted that hydrogen and bio-methane are being explored as renewable forms of gas that would also reduce greenhouse gas emissions. The potential of hydrogen in particular was identified as a key issue in relation to GN21, including what would be the impact of such a transition be on low-income households.

Participant questions: hydrogen and other renewable gas

- What does the roadmap to hydrogen look like?
- How realistic is it to move to hydrogen technology?
- What do we know about the cost, risk, and potential of having a hydrogen gas network?
- Who will carry the cost of exploring hydrogen as an alternative – what risk/cost flows to consumers? What will be spent on research?
- How would gas leakage/losses be managed with hydrogen?
- What is happening elsewhere with renewable gas?
- What would this mean in terms of household appliances?

100% electricity

The prospect of a future without gas was identified during the workshop. This raised questions in relation to the cost of retrofitting households for electric appliances. There are also implications in relation to those households that have a preference for gas for cultural or other reasons. The impact on businesses was also a concern.

This also raised questions about what costs would be associated with increasing the capacity of the electricity network. It was noted that there would also be implications in terms of loss of income to the ACT Government and potentially paying out Jemena (as 50% owner of Evoenergy with ACT Government).

Participant questions: cost to transition to 100% electricity

- What would be the costs of shutting down the gas network in favour of 100% electricity?
- What would be the cost of retrofitting households to electric appliances?
- What would be the cost of upgrading the electricity network?

Safety and reliability

While the majority of the workshop discussion focused on affordability and the future of gas in a zero emissions environment, participants also raised questions about safety and reliability. This included the question of whether a move away from gas – to hydrogen or to 100% electricity – or increasing frequency of climate events could potentially have a negative impact on safety and reliability. Evoenergy noted that the effect of climate change on asset management planning is being considered across all networks.

Key consumer engagement needs

This section outlines key issues and needs identified in terms of Evoenergy's consumer engagement for GN21.

The expectations for consumer engagement by gas and electricity distribution network service providers has increased. The expectation is that engagement will involve meaningful and influential conversations rather than one-way information flows. Engagement is expected to occur directly with consumers as well as with consumer representatives.

Energy Consumer Expert Panel members noted that many networks were doing a very good consumer engagement. Evoenergy's Energy Consumer Reference Council (ECRC) was mentioned as an example of good practice in terms of its structure and working relationship.

The AER has produced a consumer engagement guideline for network service providers which includes the following best practice principles:

- Clear, accurate and timely communication
- Accessible and inclusive
- Transparent
- Measurable.[4]

The Public Interest Advocacy Centre (PIAC) has developed a consumer engagement evaluation framework that adopts the AER principles outlined above while adding:

- Culture of engagement
- Approach to engagement.[5]

4 AER, *Better regulation: consumer engagement guideline for network service providers*, AER, Melbourne, 2013.

5 PIAC, *Attachment A: PIAC evaluation of consumer engagement by NSW DNSPs2017-18*, PIAC, Sydney, 2018.

PIAC have also outlined what good engagement is and isn't.[6]

Good engagement is…	Good engagement is not…
Ongoing	Quick or one-off
Detailed	Survey or research
Deliberative	One-way
Strategy driven	Tick-the-box
Tailored	Cookie cutter

The consumer engagement by Jemena Gas Network for their 2020-25 access arrangement in NSW was discussed as a good example of engagement both with consumer representatives and directly with consumers.

Engaging with consumer representatives

In terms of engagement with consumer representatives, this included 'deep dives' with consumer advocates on the draft plan and on a specific component of the proposal (i.e. incentive scheme design).[7] As noted above, it is not realistic to expect individual consumers to engage in the significant amount of detail included in the GN21 proposal. It is important to ensure that there is engagement with consumer representatives who can undertake a 'deep dive' utilising energy policy advocacy expertise.

Given the amount of detail, the level of complexity, and the need to engage with a lot of new and unfamiliar material, it is also important that engagement occurs early and regularly over the GN21 process.

Engaging directly with consumers

Direct engagement with consumers involved multiple rounds of deliberative engagement with a broad, representative group of households. Multiple sessions with increasing levels of detail helped to build understanding and elicit informed consumer input and also allowed Jemena to confirm it had correctly understood and applied consumer feedback. The process also included external perspectives and observers.

Of particular relevance for Evoenergy in wanting to engage effectively with people living in low-income households, experiencing disadvantage, or at risk of hardship, Jemena's work in NSW and Victoria is seen to provide some useful guidance. This includes having targeted sessions with CALD, over-55, and low-

6 M Ediriweera, *Giving the people what they want*, PIAC presentation to GN21 Energy Consumer Advocacy Workshop, ACTCOSS, Canberra, 27 August 2019.

7 ibid.

income households. In Victoria, Jemena Electricity ensured that its engagement was accessible by:

- Providing an interpreter for a member of its People's Panel so that they could participate in the workshops
- Providing transport solutions
- Providing child-minding solutions
- Meeting consumers in their neighbourhood.[8]

The examples provided also highlighted the role of consumer representatives in facilitating, informing, observing, and evaluating such direct consumer engagement. During the GN21 workshop, this was highlighted particularly in relation to engaging with CALD consumers. As one workshop participant noted:

> It is absolutely necessary to engage with the multicultural communities, to make them aware of their options and to understand what they want. The Canberra Multicultural Community Forum (CMCF) is the peak body for these organisations. CMCF is the peak body and runs consultation forums and events and have social media and ways of connecting with people. It's not all about online, and links, and links, it's about the human touch.

Community service providers might also be able to facilitate direct consumer engagement, as another workshop participant noted:

> …we can target the groups we work with. We have the community centre, the food hub, and we work with families, young people, over 55s. We provided services where you could do that targeted engagement.

It was also noted that there are people who don't use mobile phones or the internet, and also people who may need support to engage in consultations. As was noted by another workshop participant:

> A lot of the people I work with have mental health, or language, or substance abuse issues. Some of these people cannot actively contribute, how will Evoenergy engage with them? What might be required is for Evoenergy to come and sit alongside me and my clients.

Citizens' jury

Workshop participants raised a number of questions in relation to Evoenergy's plans to conduct a citizens' jury as part of their GN21 consumer engagement. Issues raised included:

- Recruitment of jurors and incentives to participate
- Identification of participants' housing tenure
- Involvement of observers to build external confidence in the process.

8 S Ashe (Energy Consumers Australia), email, 27 August 2019.

In 2017, ACTCOSS and the Canberra Alliance for Participatory Democracy (CAPaD) developed a set of principles to ensure that the ACT Government's trial of citizens' juries was robust, respectful and informed.

ACTCOSS and CAPaD principles for the trial of citizens' juries in the ACT

1. **The drivers, process, output/recommendations and response processes must be transparent and enable accountability.**
   Indicator: Sponsors provide a public description of the purpose and process (including how the public will be kept informed and how recommendations will be considered and responded to), before the jury is convened so everyone knows what is proposed.
2. **Commitment is made to build broad community confidence in the process.**
   Indicator: The public is regularly updated on progress and receives prompt responses to questions about the process.
3. **Sponsors/decision makers have not already made up their minds – they are open to advice and consider it seriously.**
   Indicator: There are no fixed positions on the outcome on the public record from sponsors and decision makers. The public is kept informed, the jury is given access to available points of contesting advice and government includes the advice in their considerations and responds publicly.
4. **Sponsors and decision makers back the process and commit to responding.**
   Indicator: Sponsors provide a public description of the purpose and process (including how the public will be kept informed and how recommendations will be considered and responded to), before the jury is convened so everyone knows what is proposed.
5. **Recruitment and facilitation are conducted by neutral actors with a transparent process.**
   Indicator: Community feedback trusts the process.
6. **A fair spread of evidence/information is provided and drawn upon, and sufficient time is allowed for deliberation.**
   Indicator: Juror and community feedback confirms that a fair spread of information was provided, and sufficient time was allowed.
7. **It is clear how the deep deliberative process relates to broader engagement.**
   Indicator: Sponsors provide a public description of the purpose and process (including how the public will be kept informed and how recommendations will be considered and responded to), before the jury is convened so everyone knows what is proposed.
8. **Evaluation, learning and feedback is demonstrated to the community to be used to continuously improve the process.**
   Indicator: A public and transparent evaluation process is used to gather and share information about the success and failures of the trial.

During the World Café discussion, participants raised a number of questions about the citizens' jury with the Evoenergy representatives.

World Café discussion: citizens' jury

Q. In terms of the Citizens' Jury - how are we recruiting or incentivizing people to participate?

A. 10,000 invitations have been sent to randomly selected consumers from lists taken from NSW (approx 10%) and ACT (gas) and ACT electricity (no gas). They have been invited to express interest in participating in the Citizens' Jury (EOI closes September 25th) and those who express interest will go into another pool where we will stratify the sample and reflect our diverse population.

Q. Will the recruitment for the Citizens' Jury ask about the tenure in the ACT/NSW – is Evoenergy seeking this as well as age, sex, income? Who will you get to hear from?

A. We have a few ways of addressing this to make sure the Citizens' Jury hears from a range of perspectives. There will be a witness list from which the jury members can request to hear their input. We will also ask our Evoenergy Energy Consumer Reference Council (ECRC) to submit input to the Citizens' Jury on behalf of their organisation so these perspectives and experiences are captured too.

Q. Will there be observers at the Citizens' Jury? It would add faith to the process if people can see what's going on and know it's fair, giving people a feel for the conversations and building external confidence in the process.

A. Yes we're not sure where we're landing on this but I will take that feedback away and consider. We know people will have the chance to look at some of what's going on via our website. Our governance framework considers technical and engagement elements to check our process.

Conclusion

The GN21 Energy Consumer Advocacy Workshop was well received by participants and it highlighted the importance of early, direct, face-to-face engagement based on dialogue with consumers and their representatives rather than one-way, one-off communication. As one workshop participant said during the World Café discussions:

> I wasn't sure why I was coming today at first and found the Evoenergy consultation paper really hard going. We're people-people which is why we can tell you what they're thinking and what they need. So I'm glad I came along and enjoyed the talking!

The workshop also highlighted the importance of providing consumers and their representatives with access to Evoenergy representatives as well as independent expert energy consumer advocates.

An important message from the Energy Consumer Expert Panel was that there is an opportunity for consumers and their advocates to influence the following elements of Evoenergy's GN21 proposal:

- Network pricing/tariffs
- Operating expenditure
- Capital expenditure
- Incentive arrangements
- Demand forecasts
- Stakeholder engagement.

As documented in this report, the workshop participants have provided valuable initial guidance for Evoenergy on the information and engagement needs of vulnerable energy consumers and their representatives to enable them to actively contribute to the GN21 process.

Attachment A: Workshop agenda

ENERGY CONSUMER ADVOCACY WORKSHOP: EVOENERGY GAS NETWORK 2021-2026 ACCESS ARRANGEMENT REVIEW (GN21)

Tuesday 27th August 2019

12:45pm for 1:00pm-4:00pm

Venue: ACTCOSS Meeting Room, Weston Community Hub

1/6 Gritten St, Weston ACT 2611

ISSUE

How do we ensure that the needs of energy (gas) consumers who are on low incomes, experiencing disadvantage, or at risk of hardship are addressed in the Evoenergy Gas Network 2021-2026 Access Arrangement review (GN21) for the ACT and Queanbeyan-Palerang region?

OBJECTIVES OF THIS WORKSHOP

- Identify key issues that consumers and their representatives need to understand in order to actively contribute to the GN21 process
- Clarify what further information and/or opportunities will be needed for consumers and their representatives to actively contribute to the GN21 process
- Develop local consumer advocacy capacity to engage in the GN21 process.

WORKSHOP OUTLINE

12.45pm Participants to arrive

1.00pm Welcome, Acknowledgement, and Introduction: Susan Helyar, ACT Council of Social Service (15 min)

1.15pm Presentations (60 min), followed by Q&A (15 min)

- Evoenergy Gas Network 2021-2026 Access Arrangement (GN21): purpose, process, and consumer engagement: Chris Bell, Evoenergy (15 min)
- What are the factors that most impact gas customers - Networks and Bills: Gavin Dufty, St Vincent de Paul (15 min)
- The Australian Energy Regulator Consumer Challenge Panel – role and recommendations: Robyn Robinson and Mark Henley, AER Consumer Challenge Panel (15 min)
- Consumer engagement in network planning processes elsewhere – insights and recommendations: Shelley Ashe, Energy Consumers Australia and Miyuru Ediriweera, Public Interest Advocacy Centre (15 min)
- Q&A (15 min)

2.30pm Afternoon Tea (15 min)

2.45pm Workshop discussion (1 hr)

This session will involve dialogue with the Energy Consumer Expert Panel, with the opportunity for workshop participants to ask questions, identify issues and questions, and develop recommendations for Evoenergy's consumer engagement.

Topics for discussion include:

- What have consumer advocates been asking of industry and regulators in other jurisdictions as part of gas network planning processes?
- Are there any points raised in the Evoenergy consultation paper and presentation that need further clarification or raise further issues?
- What information should we seek from Evoenergy to further our understanding of the issues regarding the implications of gas network planning for consumers on low income, experiencing disadvantage, or at risk of hardship?

ACTCOSS will document the discussion to prepare a workshop report to inform Evoenergy's GN21 consumer engagement.

3.45pm Summary and Next Steps: Susan Helyar and Geoff Buchanan, ACTCOSS (15 min)

4.00pm Close

Attachment B: Workshop attendees

Name	Organisation
Paula McGrady	ACT Aboriginal and Torres Strait Islander Elected Body
Joel Dignam	Better Renting
Madhumita Iyengar	Canberra Multicultural Community Forum Inc.
Tina Dowse	Care Financial Counselling Service
Louise Baker	Community Services #1
Helen Oakey	Conservation Council ACT Region
Jenny Mobbs	Council on the Ageing (ACT)
Cameron Pensini	Queanbeyan-Palerang Regional Council
Megan Andrews	St Vincent de Paul, Canberra-Goulburn
Toby Nicholls	UnitingCare Kippax
Pip Kovacs	Woden Community Service
Catherine Jones	YWCA Canberra
Katherine Higgins	YWCA Canberra
Energy Consumer Expert Panel Members	
Mark Henley	Australian Energy Regulator Consumer Challenge Panel
Robyn Robinson	Australian Energy Regulator Consumer Challenge Panel
Shelley Ashe (Apology – notes provided by email)	Energy Consumers Australia
Miyuru Ediriweera	Public Interest Advocacy Centre Ltd
Gavin Dufty	St Vincent de Paul Society
Evoenergy Representatives	
Chris Bell	Evoenergy
Giuliana Baggoley	Evoenergy
Workshop Facilitators	
Geoff Buchanan	ACTCOSS
Susan Helyar	ACTCOSS

ECA RESPONSE TO EVOENERGY'S 2021-26 ACCESS ARRANGEMENT PROPOSAL

TRAC Partners

EXECUTIVE SUMMARY

OVERARCHING OBJECTIVES THAT SHOULD FRAME EVO'S 2021 PLAN

- We have approached our review of Evoenergy's 2021 Plan by focusing on the following objectives, as they are are all relevant to the long-term interests of consumers with respect to price, reliability, quality and security of supply:
  - Network tariffs must be ***affordable***, a function of ***individualised*** services and provided within an ***optimised*** system.
  - Gas prices must be kept as low as possible for today's household and small business consumers.
  - Current and future consumers should be paying no more than they need to for the quality of service they require - "Not one dollar more is spent than necessary; Not one day earlier than needed".
  - There should be sufficient information made available to substantiate that the proposal promotes the long-term interests of customers.
  - There has been meaningful consumer engagement in developing key aspects of the proposal.
- Achieving these objectives will:
  - help keep network prices as competitive as possible;
  - maximise the incentive for consumers to continue usage of the network for the foreseeable future; and
  - align very closely with the interests of network investors to give them the best chance that they will be able to recover their investment and earn a return on that investment.
- This is in the long term interest of today's and tomorrow's consumers and investors in infrastructure.

KEY FEATURES OF EVO'S PLAN THAT ALIGN WITH OBJECTIVES

There is substantial alignment between Evoenergy's Plan and the interests of household and small business energy consumers.

2021 Plan Feature	Relevant Objective
• Network costs ($294m) 10% per cent lower in total (13% lower per customer) compared to the current (2016–21) period	Long term consumer interest with respect to price
• ~4% real reduction in network tariffs in 2021, with stable prices in real terms over the remainder of the Plan period	Long term consumer interest with respect to price
• Sharing of tariff reductions across all customer classes	Long term consumer interest with respect to price
• Opex and Capex forecasts allow for spending on safety and reliability while Evoenergy considers the future of the network	Long term consumer interest with respect to reliability and security of supply
• Continuation of the current opex efficiency carryover mechanism and inclusion of a proposed capital expenditure sharing scheme (CESS) to promote further efficiencies	Long term consumer interest with respect to price

However, in our view there are outstanding features of the Plan where there are areas for improvement or aspects which we believe requires further investigation by the AER, before the Plan could be considered capable of acceptance by the AER.

The following slides comment on each of the aspects of Evoenergy's 2021 Plan:

- 👍 - consistent with key objectives
- 👈 - further work or analysis required before ECA should accept that it is consistent with key objectives and capable of acceptance by AER

EVOENERGY'S 2021 PLAN FEATURES

Focus Area	Evoenergy's Proposal	Our Position
Forecast Capital expenditure	• No forecast connection of gas customers in new ACT developments	(slides 9, 14 & 20)
	• Lower forecast rate of new gas connections within the existing network	(slides 9 & 24)
	• Level of forecast capex ($63.3m) is significantly below allowed capex for 2016-20 (28%)	(slides 19 & 20)
	• Increase forecast meter replacement capex by $6.2m to $23.6m - attributable to meters coming to end of life	(slide 20)
Begin Now the Transition Roadmap to Net Zero Emissions by 2045	• Commencing Evoenergy's transition roadmap in 2021 (at least in part) notwithstanding the ACT Government's roadmap not being outlined until 2024	(slides 13-17)
	• Accelerated depreciation of new, long-lived assets	(slides 13-17)
Operating expenditure	• Expense pigging costs previously capitalised	
	• The extent to which Jemena's opex savings from its transformation program impacts on Evoenergy's forecast opex and productivity improvements	(slides 21)

EVOENERGY'S 2021 PLAN FEATURES

Focus Area	Evoenergy's Proposal	Our Position
Operating Expenditure	• Propose to use 2019-20 opex levels in the base-step-trend methodology	(slide 21)
	• Insurance costs forecast to increase • Unaccounted for Gas forecast to increase • Derivation of the IT Asset Utilisation Fee	(slides 21 & 22)
Vulnerable Customers	• Will work with stakeholders to understand and consider the needs of vulnerable customers and what it can do to help as it develops its transition roadmap.	(slides 21 & 29)
Inflation	• Use of CPI all groups index for 8 capital cities for the December quarter over the December quarter for the previous year, published by the ABS	(slide 25)
Rate of return	• Accept AER's approach in guidelines	
Tax (and gamma)	• Calculated in line with the AER's final tax decision and rate of return instrument	
Demand	• Customer numbers are forecast to grow by 3 per cent (~ 5,000), with a total of 157,300 customers forecast by 2025-26.	(slide 24)

EVOENERGY'S 2021 PLAN FEATURES

Focus Area	Evoenergy's Proposal	Our Position
Innovation	• Continue sustainability initiatives, such as the Hydrogen Test Facility	👍
Depreciation	• Shorten asset lives for some new investment to ensure fair recovery of costs from customers	👉 (slides 14-17 & 23)
	• Accelerate depreciation of in line inspections	👍
Total Revenue	• Proposing a $32m (or 10%) reduction in the 5 yr total revenue allowance compared to what the AER allowed in 2016-20 ($326m)	👍
Pricing and service levels	• ~4% real reduction in network tariffs in 2021, with stable prices in real terms over the remainder of the Plan period	👍
Tariff Variation	• Proposing an intra-year tariff variation mechanism	👉 (slide 29)
COVID Impacts	• Forecasts haven't been adjusted to address impacts of COVID. This will be done in response to the Draft Decision	👉 (slides 22 & 30)
Incentive Mechanisms	• Introduce a CESS	👍

EVOENERGY'S KEY FACTORS DRIVING ITS 2021 PLAN

CONSUMER ENGAGEMENT SHAPING EVOENERGY'S 2021 PLAN

- Evoenergy states that the findings of engagement with energy consumers on the gas network and how it should operate was one of two key factors that have shaped the development of its 2021 Plan.
- Gas is still a fuel of choice in the Network area as there is only a 75 per cent average penetration rate among end use customers and a connection rate (per km of mains) of only 31 which is below the national average density.
- Engagement with customers was extensive:
  - Citizen's Jury held to consider and make recommendations on the future of Evoenergy's gas network based on information from a variety of viewpoints.
  - Publication of draft plan in February 2020 and call for submissions.
  - community roadshow conducted following release of draft plan where community responses were recorded.
  - Deep dive sessions held in March 2020.
- Having said this:
  - Survey questions were high level in nature and should not, of themselves, be relied upon to substantiate the position Evoenergy has taken on a particular topic in its 2021 Plan.
  - Engagement on some key topics was high level and based more on principles rather than a detailed analysis of the proposal.

KEY FACTORS SHAPING EVOENERGY'S 2021 PLAN

- Two factors have primarily shaped the development of Evoenergy's 2021 Plan:
  - the ACT Government's climate change policy - to achieve net zero greenhouse gas emissions across all sectors (including gas) by 2045, with several interim targets (Factor #1); and
  - the findings of Evoenergy's consumer engagement process on how the network should operate (Factor #2).
- Evoenergy has proposed a number of initiatives in its 2021 Plan that it claims are aimed at addressing these factors, as shown on next slide (**Initiatives**). Our response to each Initiative is shown on the following slide.
- All Initiatives should be focused on ensuring affordability for customers and cost competitiveness - to ensure that "Not one dollar more is spent than necessary; Not one day earlier than needed".

Evoenergy Initiative	Factor #1	Factor #2
Excluding expansion of network in new ACT suburbs in its forecasts, but including necessary replacement and growth of the network in areas where the network already exists	✓	✓
Demand forecasts to show a decline in usage volumes per customer (but increase in customers)	✓	✓
Accelerate the recovery of new investment in long-lived assets so as to manage stranded asset risk	✓	✓
Minimalist capex program but sufficient for safe and reliable network as we develop a transition roadmap	✓	✓
Continue sustainability initiatives, such as the Hydrogen Test Facility	✓	✓
Opex & Capex forecasts to be limited but will still allow Evoenergy to continue to maintain the level of safety and integrity of the network and reliability of service consumers value and expect	✓	✓
Opex forecast includes a reduction in the base year and a reduction in the proposed growth rate, including a 0.5 per cent year on year improvement in productivity		✓
Reduction in network prices of ~4% in 2021/20 with stable network prices for the remainder of the Plan		✓
Marketing program to be included in base opex - assists gas customers who need or choose to use gas to upgrade to more energy efficient gas appliances & retains customers		✓
Retention of the efficiency carryover mechanism		✓
Introduction of a CESS to provide more balanced incentives for efficient expenditure with performance measures and weightings based on consumer feedback		✓
No change to the current declining block tariff structure. No separate tariff for NSW customers		✓

Evoenergy Initiative	Comment
Excluding expansion of network in new ACT suburbs in its forecasts, but including necessary replacement and growth of the network in areas where the network already exists	Slides 13-17
Demand forecasts to show a decline in usage volumes per customer (but increase in customers)	Slide 24
Accelerate the recovery of new investment in long-lived assets so as to manage stranded asset risk	Slides 13-17
Minimalist capex program but sufficient for safe and reliable network as we develop a transition roadmap	Slides 13-17
Continue sustainability initiatives, such as the Hydrogen Test Facility	
Opex & Capex forecasts to be limited but will still allow Evoenergy to continue to maintain the level of safety and integrity of the network and reliability of service consumers value and expect	Slides 20-22
Opex forecast includes a reduction in the base year and a reduction in the proposed growth rate, including a 0.5 per cent year on year improvement in productivity	Slides 21 & 22
Reduction in network prices of ~4% in 2021/20 with stable network prices for the remainder of the Plan	
Marketing program to be included in base opex - assists gas customers who need or choose to use gas to upgrade to more energy efficient gas appliances & retains customers	Slide 21
Retention of the efficiency carryover mechanism	
Introduction of a CESS to provide more balanced incentives for efficient expenditure with performance measures and weightings based on consumer feedback	
No change to the current declining block tariff structure. No separate tariff for NSW customers	

INITIATIVES TO ADDRESS IMPACT OF ACT'S CLIMATE CHANGE STRATEGY

- Evoenergy claims that one of the key impacts of the ACT Government's Climate Change Strategy is stranded asset risk for the network.
- Evoenergy has proposed to manage this risk in its Plan by shortening the asset lives of some new, long-lived assets.
- While Attachments 4 & 4.3 of Evoenergy's 2021 Plan contains more information to support JGN's approach to shorten asset lives, we are still to be convinced that:
  - The likelihood of stranded asset risk has increased over the last 5 years;
  - Stranded asset risk requires different action to be taken in this current Plan;
  - Even if it does require action to be taken, that shortening asset lives is the correct action to be taken; and
  - The proposed shortened asset lives are appropriate.

IS THERE AN INCREASED RISK OF ASSET STRANDING?

Factors that make the risk more likely	Factors that suggest the risk hasn't increased
• Average usage rate for natural gas consumption is declining	• New connections growth forecast to continue during the Plan period (albeit at a lower rate than in the current period – 5,000 new customers)
• ACT's policy is legislated and requires net zero emissions from gas sector	• Evoenergy's own survey of customers indicates that almost 60% per cent expect to use the same or more gas over the next 5-10 years
• Rate of disconnections is forecast to be three times higher than modelled	• Hydrogen may displace natural gas in networks. • Hydrogen is being successfully trialled in other jurisdictions (eg UK and Japan)
	• Disconnection rates haven't declined • Federal Government's Technology Investment Roadmap promotes the continued use of gas
	• Hydrogen Strategy completed • Other strategies should be considered – eg carbon capture & storage, implementing offsetting programs

IS NOW THE RIGHT TIME TO ADDRESS RISK OF ASSET STRANDING?

- We would have expected a more detailed cost/benefit analysis to assess the impact on today's and tomorrow's customers of the following scenarios:
  - Accelerating depreciation of existing and new long lived assets from 2021 onwards
  - Accelerating depreciation of long lived assets from 2026 onwards
  - Accelerating depreciation of new assets from 2021 onwards and for existing assets from 2026 onwards
- Even if there is an increased risk of asset stranding, now does not appear to be the time to act to address it because:
  - We do not know the ACT Government's timeline for its transition roadmap – this will come in 2024 – and so it may be best to wait until 2026 Plan.
  - Given what we believe should be the overarching objective in the setting of the 2021 Plan, retaining the current asset lives for future investments will result in a reduction in the total revenue of $0.65m during the 5-year Plan period.
  - Because gas is a fuel of choice, ensuring gas is as affordable as possible today maximises the incentives for continued asset utilisation . This maximises the likelihood of continued use of the network and minimises the risk that the asset may become stranded in the future.
- Furthermore, keeping prices as low as possible during the 2021 Plan period and waiting to re-assess the position on asset lives until the next re-set of 2026 will have other benefits:
  - It will give time to provide further clarity around alternatives to natural gas for the use of the network – if hydrogen can be commercialised and has a role to play in the network, any risk of asset stranding diminishes significantly and so there should be no need to make a change to asset lives at that point in time;
  - Any additional cost to "tomorrow's" consumers (ie those in the next 2026 Plan) will not be significant.

EVEN IF THERE IS AN INCREASED RISK OF ASSET STRANDING

- It's not clear whether some of the pathway options being considered by Evoenergy in its Plan (section 2.1.1 of Overview) are appropriate options, including the option of an electricity only network. This is so for a number of reasons:
  - Reliance on one single energy source exposes consumers to significant additional risk, particularly in light of recent issues with respect to the integrity of the NEM during summer months and the fact that ACT consumers have the second highest rate of gas consumption in the NEM.
  - We would expect to have seen a more detailed cost/benefit analysis of each option. Even Evoenergy's own analysis shows that there would not only be significant cost involved but that these costs may be difficult for certain community members to bear.
  - The cost/benefit analysis that has been provided doesn't appear to identify the amount (and cost) of additional infrastructure that would be required to be invested in the electricity network (both generation capacity and poles and wires) given the role that gas currently plays in meeting energy demand in peak times.

ARE THE INITIAL ACTIONS IN THE PLAN TO ADDRESS ASSET STRANDING RISK APPROPRIATE?

- While there is a forecast reduction in average usage, Evoenergy is forecasting increasing number of customers (3%) by 2026. This was a critical issue relied on by the AER in the JGN reset for why shortening of asset lives was not allowed.
- We would have expected a cost benefit analysis to have been undertaken to show the price impacts of deferring a decision on accelerated depreciation on new assets versus taking the action in this AA plan. Also, increasing prices for today's customers has a bigger impact now with the impact of COVID-19 on vulnerable customers.
- There are other options which don't appear to have been considered in the documentation reviewed to date – such as:
  - Subsidies by government to the business to fully or partly address the impact; or
  - Creating a notional account so that the amount that would otherwise be included in the total revenue (by accelerating depreciation) is placed in it and so that it accrues interest over time. Should a viable renewable gas option be developed, the amount in the account gets added to the total revenue in subsequent years until the account is depleted.

COMMENTS ON SPECIFIC BUILDING BLOCKS

ROLL FORWARD OF RAB

- While total actual/estimated capex between 2016-21 is well below the AER approved total (by 12.6%), there are significant divergences in most line items.

Capex Category	Actual 16-21 Expenditure ($m)	Variance from AER approved forecast (%)
Market expansion	45.9	⇩7.6%
Capacity Development	7.2	⇧1.4%
SIB – network renewal	8.2	⇩51.8%
SIB – meter renewal	17.4	⇩4.4%
Non-system	0.0	⇩100%

- Evoenergy has however, provided detailed information in support of its actual expenditure which is of a level we would expect.
- These divergences however, raise an issue the AER should consider in more detail - how reliable are past capex levels as a guide for assessing the prudency and efficiency of Evoenergy's forecast capex in the 2021 Plan?

FORECAST CAPEX ISSUES

Forecast Capex Issue		Our Comments
Assume no expansion of network in the ACT suburbs because of removal of the mandate for gas connections		A mechanism should be considered to be included which adjusts tariffs on an annual basis for any new connections that do occur within the year. Including this will ensure that the benefits of new connections are shared between consumers and the service provider.
Inclusion of allowances for capex associated with researching new technologies (eg Hydrogen)		It is noted that neither the JGN or AGN SA Plans included allowances for this sort of capital expenditure. To the extent that an allowance should be included, it should not be for research work that is already underway by other businesses.
$1.5m reduction in medium/high rise expansion capex is being forecast		Further information should be provided by Evoenergy over and above what is in section 3.4.2 of Attachment 3 to explain this reduction when this type of customer isn't forecast to decline in demand.
Different expansion rates for the ACT part of the network and the NSW part of the network		While table 3.6 of Attachment 3 breaks down the forecast expansion capex between the two jurisdictions, we would expect more information to have been provided to compare actuals and forecasts under each category of capex in each jurisdiction.
$6.2m increase spend on meter replacement capex from $17.4m (actuals) to $23.6m forecast.		It is not clear how the justification for the expenditure – to replace meters coming to end of life - reconciles with the statement that "It is expected that these meters will be approved for a five-year life extension with the additional opportunity to include testing to attain a subsequent life extension

OPERATING EXPENDITURE ISSUES

- Evoenergy doesn't perform as well from a benchmarking perspective than the other gas distribution businesses in some key measures (eg efficiency score) and has proposed a 10% increase compared with actuals for 16-21.
- While the proposed methodology for setting the forecast opex for the Plan is largely consistent with the AER's methodology adopted in current plan, we have some comments:

Step		Our Comments
Establish an efficient base year		The AER should test whether its appropriate to use 2019/20 as the base year because: - there has been a step increase in opex between 2018/19 to 2019/20 (see table 2.1 in Attachment2), even after discounting the increase attributable to increases in the UNFTax ($0.46m); - Some of the increases are in categories which appear to be within Evo's control; - Its not clear the extent to which any of the benefits of Jemena's transformation program have flowed onto Evoenergy under its asset management arrangement.
Marketing costs		While we support programs that deliver measurable outcomes of improved efficiency in use of appliances, it's not clear how this fits into the transformation roadmap that Evoenergy is promoting. Further information is required to justify its inclusion in opex forecast. Also, consideration could be given to assisting by amortising the purchase costs of efficient appliances for more vulnerable consumers.

OPERATING EXPENDITURE ISSUES (CONT'D)

Step		Our Comments
Trending base year forward		Rate of change approach is consistent with regulatory precedent, although in light of COVID-19, wages increase assumption needs to be tested further
Developing specific forecasts		• We would expect more information to substantiate an increase in insurance premiums but note that this is a cost pass through • While UAG allowance methodology is consistent with approved AER methodology, the AER should explore why UAG volumes are higher at a time when consumption has reduced.
Forecast of step change items		No step changes being proposed.
Expensing pigging costs		This is consistent with recent regulatory practice and doesn't result in overall increase in prices for customers
Unaccounted for Gas (UAG)		We would expect the AER to require further information on how UAG is calculated (above the information referred to in section 2.8.3 of Attachment 2). Particularly, the basis for which the unit cost estimate for replacement gas is derived, given that it is supplied by a related party (Jemena).
IT Asset Utilisation Fee		The formula to calculate the fee includes an internal cost of capital. It is not clear why this should be included in an opex forecast or if it should be, why it should be a rate of 2.6%

DEPRECIATION & ASSET LIVES

- Evoenergy proposes to change the standard asset lives for new investments in long lived asset classes as follows. This change will increase Evoenergy's revenue in the 2021 Plan by $0.65m (compared to retaining the current standard lives).
- We have previously commented on the appropriateness of this proposal.
- However, even if the principle of shortening asset lives were supported (which it is not), the proposed changes to asset lives is not supported by regulatory precedent:

Asset class	Evoenergy (proposed)	JGN	AGN SA	MNG	Ausnet	AGN Vic
HP mains	80 down to 50	80	60	50	60	60
MP mains	50 down to 30	50	60	50	60	60
MP Services	50 down to 30	50	60	50	60	60

FORECAST DEMAND

- While Evoenergy is forecasting a reduction in the average usage per average customer, it is forecasting a 3% increase in the number of customers.
- Forecast of demand doesn't seem to address the following relevant matters which may signal an increase in demand:
  - Federal Government's Technology Investment Roadmap promotes the continued use of gas;
  - The potential for additional supplies of gas into NSW and the resultant impact that this could have in reducing the wholesale price of gas; and
  - The success of hydrogen trials throughout other jurisdictions.
- While we support the engagement of an expert to develop an independent and detailed forecast of demand and customer numbers, we question the appropriateness of making a set of post model adjustments to the demand forecast to reflect a conservative expectation of decreasing gas usage and a higher number of disconnections over the 2021–26 period as a result of the ACT Government's campaign.

OTHER BUILDING BLOCK ISSUES

- Forecast inflation – we encourage the AER to complete its current consultation process in relation to inflation in time for its position to be adopted in the Draft Decision

RESPONSE TO INCENTIVE SCHEMES

INCENTIVE MECHANISMS

- It is noted that Evoenergy is proposing to continue the ECM for opex but with some minor modifications. We would support these modifications if they aligned with the modifications required by the AER in the JGN Plan for 2020.
- The proposed introduction of a Capital Expenditure Sharing Scheme should match the features of the scheme approved by the AER for JGN. It is not clear what differences (if any) are being proposed.
- We do not believe that at this stage, the case has been made for the inclusion of other incentive mechanisms (eg similar to that being proposed by AGN SA).

OTHER ISSUES RAISED BY EVOENERGY'S 2021 PLAN

OTHER ISSUES RAISED IN EVOENERGY'S 2021 PLAN

Issue	Our Comments
Assisting Vulnerable customers	 - we believe further work is required, particularly in light of COVID-19
Charges for ancillary services	 - we support these charges being more cost reflective
Service levels – disconnection processes and arrangements	 - we support these charges being made to protect the interests of vulnerable customers
Tariff variation mechanism to be intra-year	 - we would expect the AER to seek further justification for moving to an intra-year variation mechanism.

COVID 19 IMPACTS

- Evoenergy notes that forecasts haven't been able to be adjusted to assess the impacts caused by COVID and that therefore they will incorporate any COVID related adjustments into their revised proposals that they will submit in response to the Draft Decision.
- This raises a potential procedural fairness issue for consumers, particularly if the COVID related adjustments are substantive in nature.
- It means that while consumers will be able to make submissions on the revised proposals that the businesses submit, they will not have an opportunity to make submissions on the AER's thinking on the COVID related adjustments because this will only be outlined in the Final Decision. But the process under the NGR does not prescribe for consultation in response to the AER's final decision.
- AER should give consideration to how procedural fairness is afforded to consumers – options include:
  - Option 1 - the AER could require any COVID related adjustments to be submitted by the businesses prior to the Draft Decision and open up a round of mini consultation on these adjustments before the draft decision is issued. Then the AER's draft decision can take into account both the COVID related adjustments and any submissions consumers make in response.
  - Option 2 – the AER could maintain the status quo until after submissions have been received in response to the revised proposal submitted in response to the Draft Decision. The AER could then issue a preliminary position paper on the COVID related adjustments and request submissions from consumers on its position. Following consideration of these submissions, the AER would then make its final decision.