

AER Stakeholder Forum

Tuesday
20 September 2022



AusNet



Engagement Program | Three businesses, one approach

Our Objectives

- ✓ Deliver for current and future customers
- ✓ Underpinned by effective stakeholder engagement
- ✓ Capable of being accepted by our customers and stakeholders

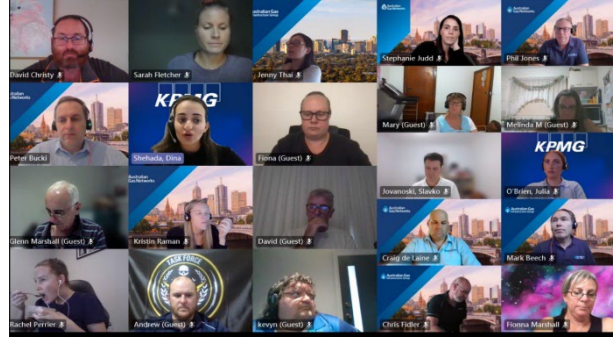
Winner of the Energy Networks Australia Consumer Engagement Award 2022 for outstanding leadership in consumer engagement



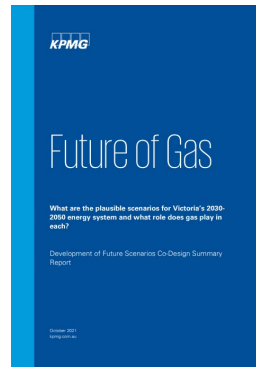
Draft Engagement Plan for consultation

Joint Victorian Gas Networks Stakeholder Roundtable (VGNSR) and Retailer Reference Group
11 meetings over 18 months

3 'collab' workshops with the **Priority Services Panel** with social and community service leaders



Over 45 **iterative customer workshops** over 3 phases with around 360 customers across all networks.
Partnership with **ECCV** for CALD workshops



Four **co-design workshops** to develop future scenarios for gas (2030 - 2050) - with industry leaders



Three Major Users Forum

Draft Plans for consultation
Summary of customer overviews

Deep dive workshops with stakeholders on future gas, capex, opex

Independent Stakeholder Engagement Review by KPMG

Engagement with the AER's **CCP28**

Engagement with **development industry** to understand impacts of Victorian **GSR**

Our GSR Response will maintain stable prices for our customers over the next AA period

- **AGN -6% (after inflation) from 1 July 2023**
- **MGN +1% (after inflation) from 1 July 2023**

Stable prices

The Victorian Government's release of the Gas Substitution Roadmap has resulted in revisions to the Final Plan submitted 1 July 2022

In response to the Roadmap we have:

- **Lowered forecast gas demand**
- **Lowered growth capex**
- **Reduced augmentation capex**
- **Increased depreciation**



Price Change

Customers told us affordability is important. We are pleased that we can still propose stable prices from 1 July 2023



Safety focus

Maintain strong leak performance and replace old low pressure and earliest generation polyethylene mains (Multinet)



Future focus

Investing in no regrets actions and renewable gas communications to prepare the network for a decarbonised future



Keeping options open

Supports long term interests of customers, price stability and cost competitiveness of the network to provide energy choice for customers



Customer focus

- New digital customer services
- Priority Service Program



Efficient incentives

Opex and Capex Efficiency Schemes

Reflecting the GSR in our plans

Our revised demand forecast is between AEMO's Progressive and Step Change scenarios

GSR Measures

Expanded rebates for electric appliances

7 Star Homes

Changes to Victorian Planning Provisions

Impact

Greater uptake and use of reverse cycle air-conditioning and electric heat-pump hot water systems

More new homes and subdivisions going "all-electric"

Our response

Drivers of demand

- Reductions in existing residential and commercial usage
- Reduction in new residential connections

Expenditure

- Lower growth capex
- Lower augmentation capex

Future of gas

- Increased risk and uncertainty about the role of gas in the longer term
- Moderate increase to accelerated depreciation

Summary of changes from our Final Plan | AGN

Price reduction of 6% (after inflation) on 1 July 2023, followed by 2% plus inflation thereafter.

Annual average bill increase of \$14 pa for residential, \$46 pa for commercial and \$829 pa for industrial customers

REVISED DOWN

- ▼ Demand (↓7% to ↓20% below current levels)
- ▼ Growth and augmentation capex (↓\$73m or 24%)
- ▼ Meter and service replacements (↓\$3m or 2%)
- ▼ Opex trend growth (↓\$8m to \$11m)

REVISED UP

- ▲ Opex productivity (zero, up from 0.4% pa)
- ▲ Accelerated depreciation (↑\$31m to \$175m)

NO CHANGE

- Rate of return
- Priority Services Program
- Renewable gas communications and education
- Safety and integrity driven capex
- Small hydrogen readiness capex

Summary of changes from our Final Plan | MGN

Price increase of 1% (after inflation) on 1 July 2023, followed by 1% plus inflation thereafter.

Annual average bill increase of \$40 pa for residential, \$102 pa for commercial and \$3,200 pa for industrial customers

REVISED DOWN

- ▼ Demand (↓11% to ↓23% below current levels)
- ▼ Growth and augmentation capex (↓\$27m or 22%)
- ▼ Meter and service replacements (↓\$3m or 2%)
- ▼ Opex trend growth (↓\$8m to \$6m)

REVISED UP

- ▲ Opex productivity (zero, up from 0.4% pa)
- ▲ Accelerated depreciation (↑\$10m to \$86m)

NO CHANGE

- Rate of return
- Priority Services Program
- Renewable gas communications and education
- Safety and integrity driven capex
- Small hydrogen readiness capex



Summary

- Stakeholders and retailers found it challenging to form a view on whether our Final Plans were capable of acceptance given uncertainty.
- This resulted in a 'holding point rather than a landing point'.
- The Roadmap has provided certainty on the intent of the Victorian Government for some electrification of the gas load, particularly for residential customers, over the next five years.
- But the role of the gas networks in the energy transition over the longer term is less certain.
- Our revisions respond to these aspects and stakeholder feedback.

We consider our revisions in response to the Roadmap are aligned with stakeholder feedback

Summary of Our Addendum

Since lodging our initial proposals in June, we have focussed on:

- **Understanding how the Roadmap initiatives are being interpreted** by the people they are designed to influence
- **Building this evidence into our modelling**
- **Updating key parts of our proposal** that are materially affected by the Roadmap.

We have responded by making the following updates to the proposal we submitted in June:

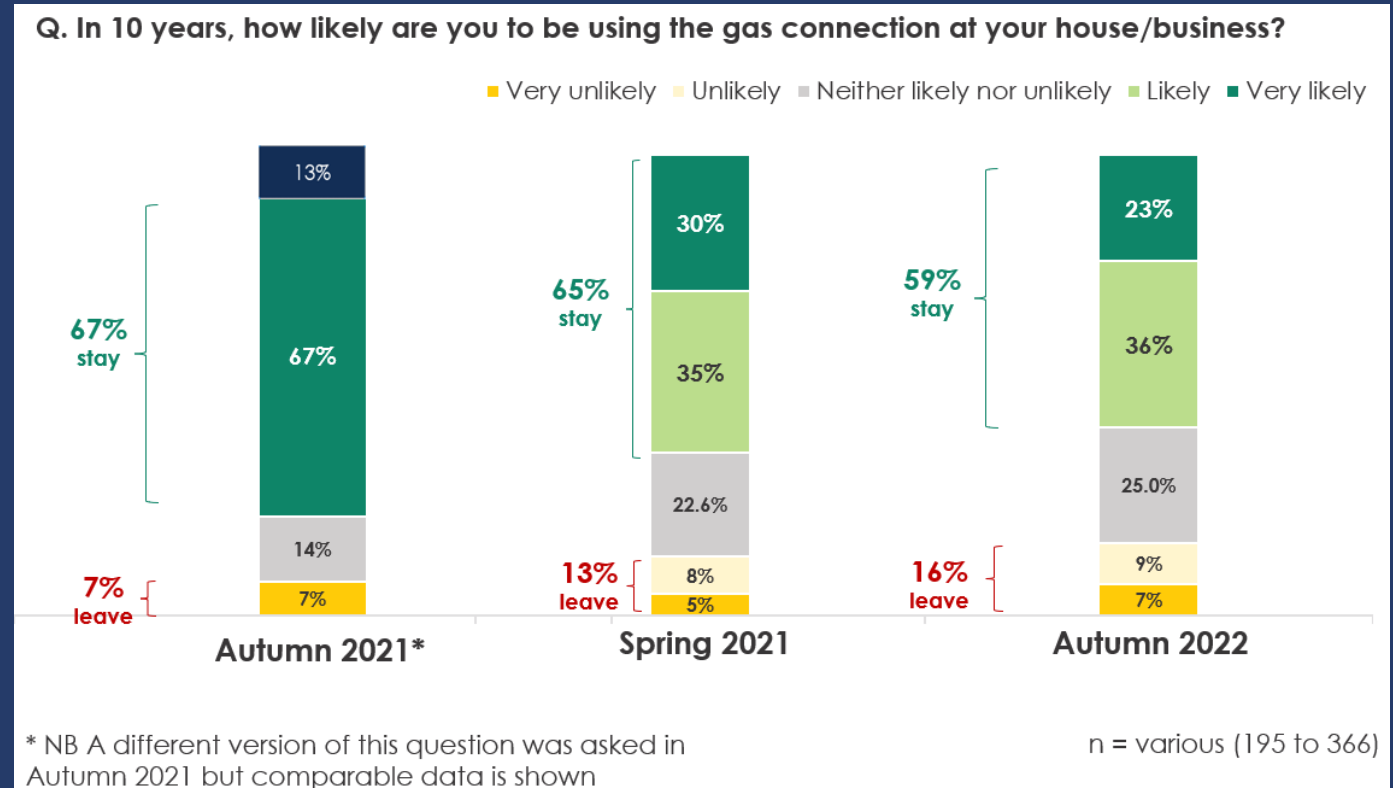
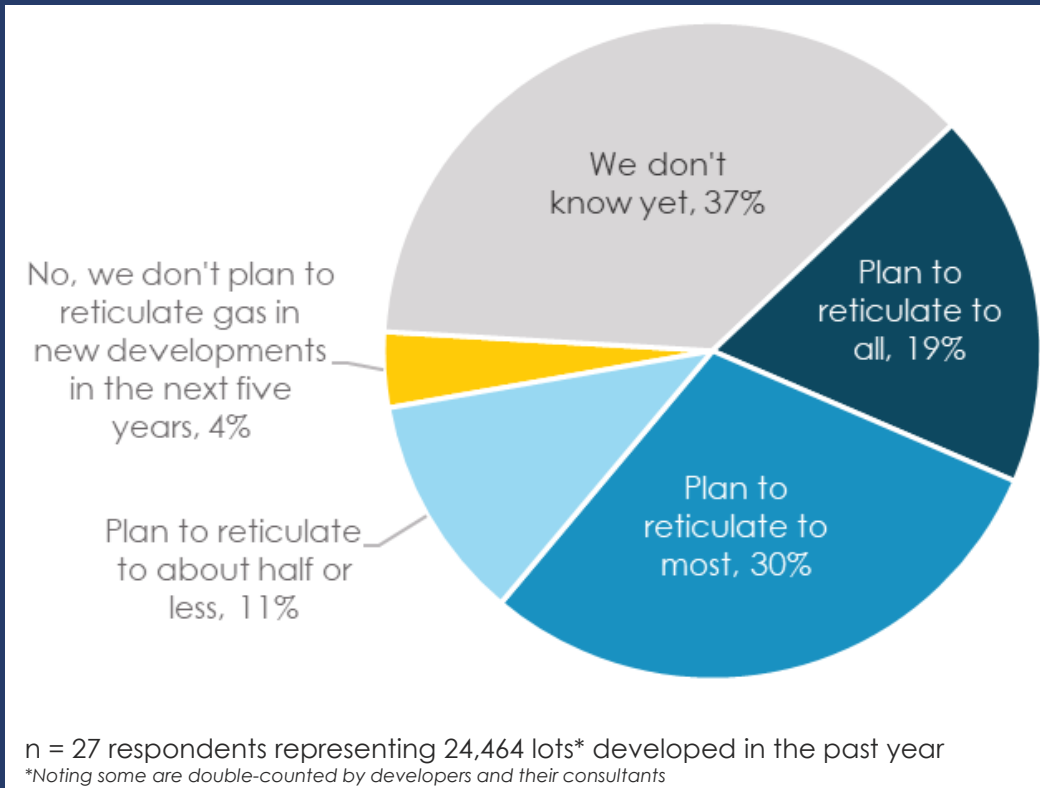
- **Lowering our demand forecasts** by ~7% reduction in consumption by the end of the period
- **Reducing growth capex**, with connections capex down ~30% and capital contributions up ~116%
- **Reducing network augmentation** by ~14%
- **Lowering the trend parameter of our opex forecast** to account for reduced customer growth, and lowered the productivity adjustment (as we expect gains will be harder to achieve with declining economies of scale)
- **Increasing our accelerated depreciation proposal** from \$150m to \$200m.



Evidence Gathering

We gathered substantial qualitative and quantitative evidence directly from the decision-makers across the supply chain for new homes to understand the interpretation and likely impact of the Roadmap.

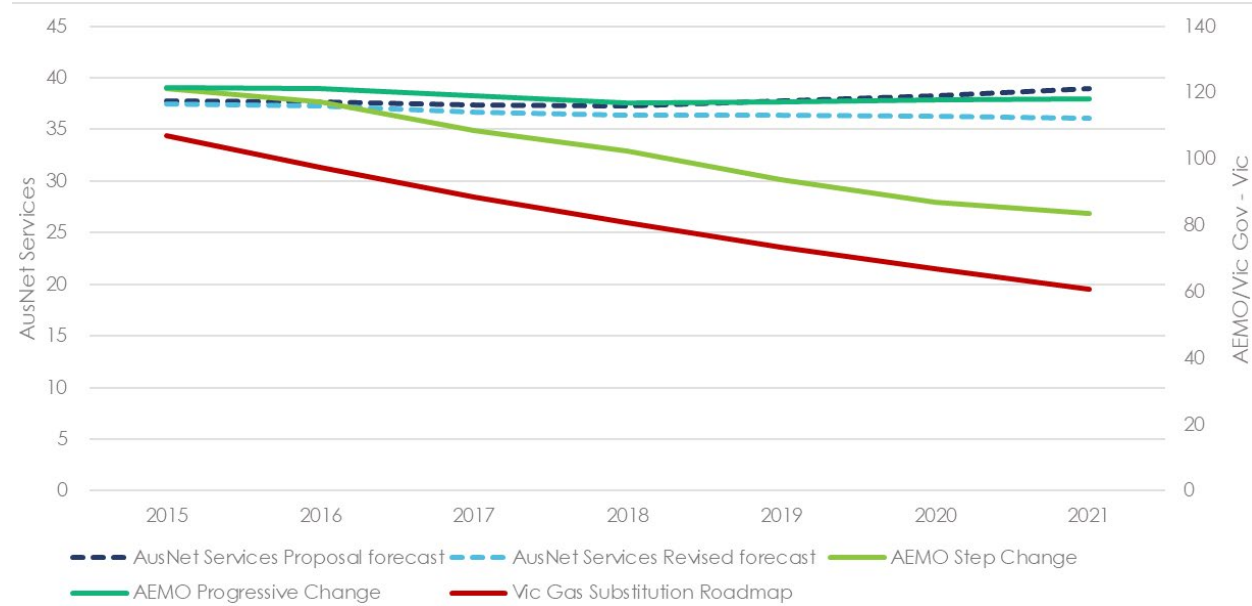
Some of this quantitative evidence (from developers of new estates and end consumers) is below.



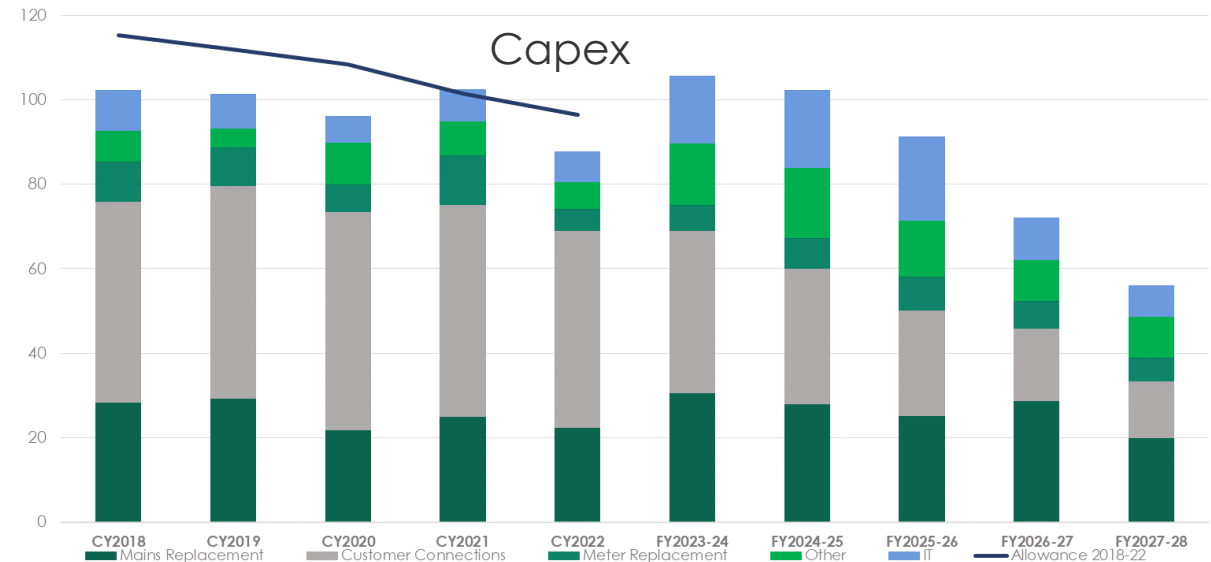
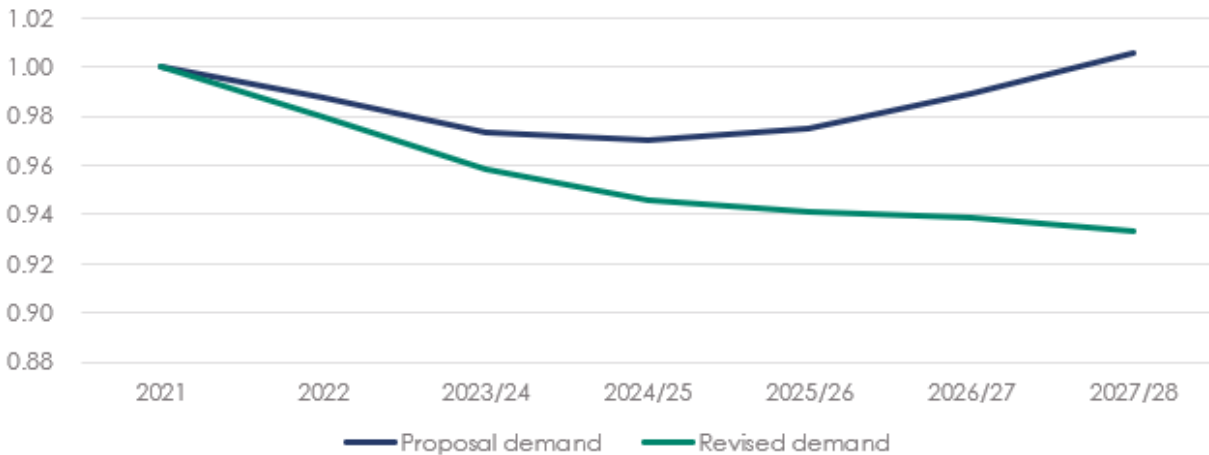
AusNet's demand and capex

Our revised demand forecast is 7.5% lower by the end of the period compared to the demand forecast in our proposal.

Our Capex program falls strongly over the period as the connections volumes decrease. Once the LP mains replacement program is complete, our capex program will be significantly lower next regulatory period.



Forecast residential demand index
1 = CY21 weather-normalised actual



Price and Bill impacts

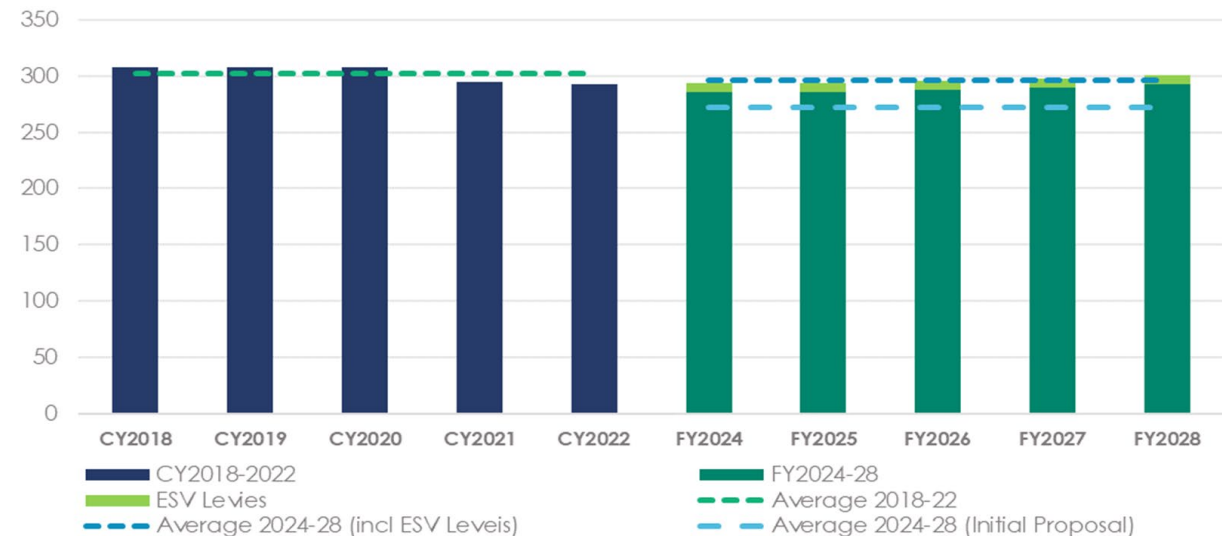
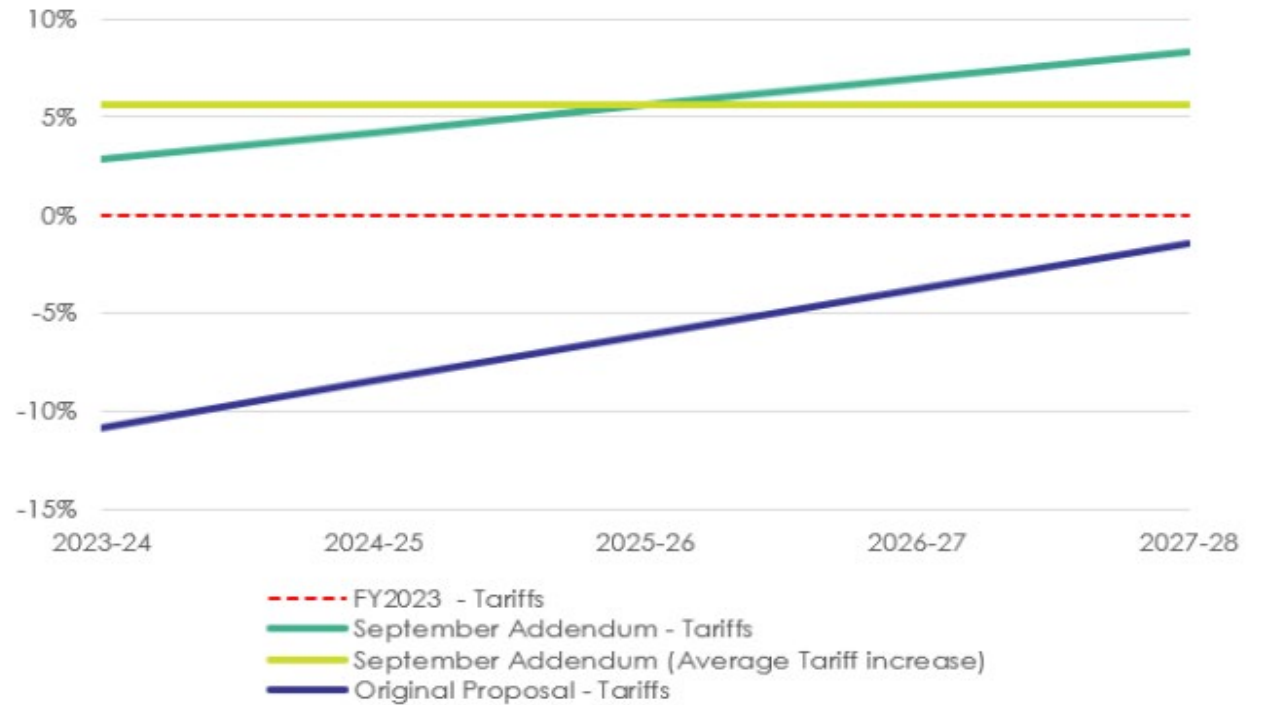
The Gas Substitution Roadmap put upwards pressure on our prices compared to the June submission.

Key drivers of the changes are:

- Updated demand forecasts, which has lowered our demand forecasts by 7.5% by the end of the period.
- Increasing our Accelerated Depreciation proposal from \$150m to \$200m.
- Updated Capex and Opex forecasts (downwards impact on price).

As a result of the Roadmap we now see a 2.87% price increase in the first year, followed by 1.37% price increases in each subsequent year. This leaves prices 7.8% higher at the end of the period.

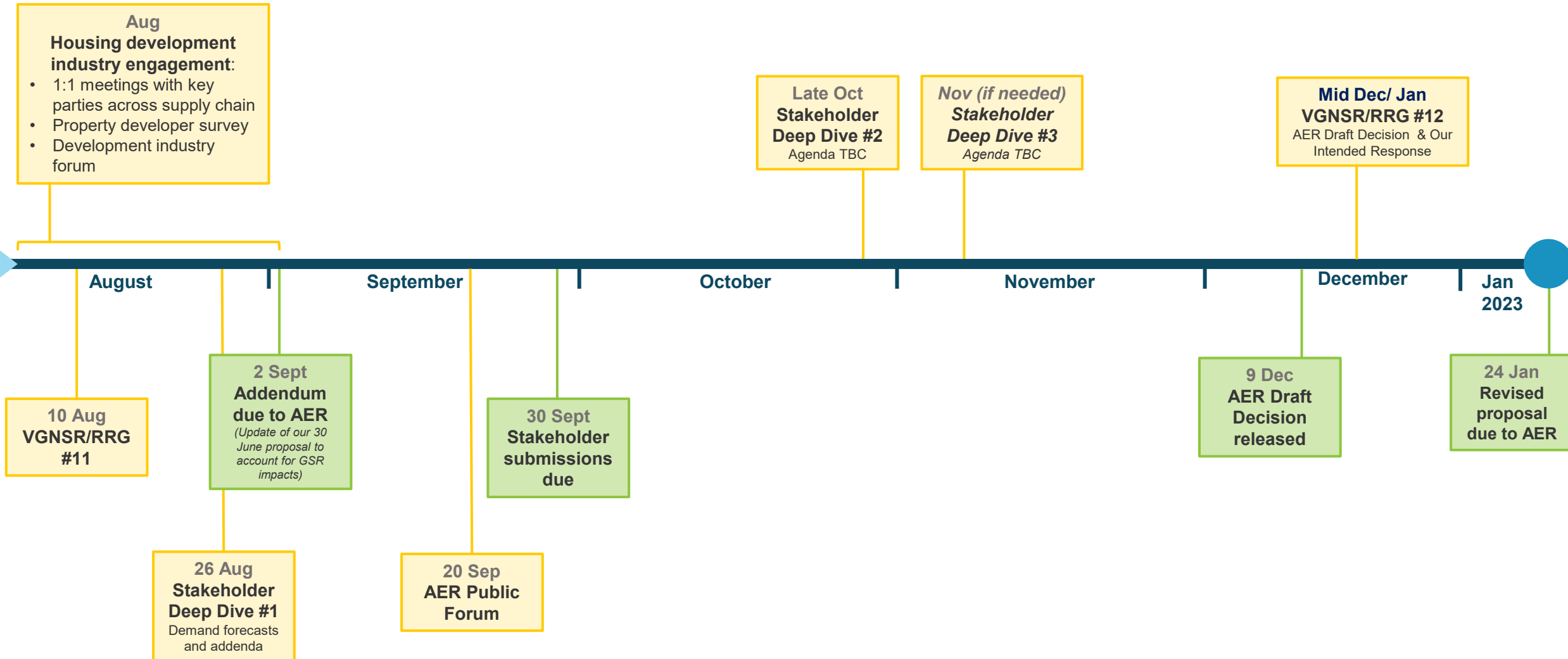
The average price increase for the period is 5.5%. Due to declining average consumption, customers bills are expected to fall slightly.



Next steps



Updated Timeline of Key Engagement Activities





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Thank you