

# Revised Final Plan Attachment 13.6

## Response to Draft Decision: Demand Forecast

August 2017

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# 1. Response to Draft Decision on Demand Forecasts

## 1.1 Introduction

This attachment sets out Australian Gas Networks Limited's (AGN's) response to the Australian Energy Regulator's (AER's) Draft Decision on our demand forecasts over the next (2018 to 2022) Access Arrangement (AA) period.

The AER effectively approved our demand forecasts for our Victorian and Albury networks over the next AA period, but have asked that in our Revised Final Plan we update our customer number forecast to account for more recent Housing Industry Association (HIA) dwelling projections.<sup>1</sup>

## 1.2 Stakeholder Engagement

The Consumer Challenge Panel (CCP11) noted in its submission to our Final Plan that:

*"Of the three distribution businesses, only AGN stated that its methodology for demand forecasts was influenced by or based on consumer engagement. CCP11 is satisfied that the approach to forecasting that has been adopted by AGN is consistent with the feedback that AGN received in its stakeholder engagement."*<sup>2</sup>

Our Revised Final Plan was presented to our reference groups in July, noting that we had made minor amendments to our demand forecasts based on the required updates set out in the AER's Draft Decision. There were two stakeholder submissions that referred to our demand forecasts proposed in our Final Plan (see Table 1.1).

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<sup>1</sup> AER, *Attachment 1 – Services covered by the access arrangement / Draft decision - AGN Victoria and Albury gas access arrangement 2018–22*, July 2017, page 13-11.

<sup>2</sup> CCP11, *Response to proposals from AGN, AusNet and Multinet for a revenue reset/access arrangement for the period 2018 to 2022*, page 38, 3 March 2017.

Table 1.1: Consideration of Stakeholder Feedback on our Demand Forecasts

Stakeholder Feedback on the Final Plan	Our Response to Feedback on the Final Plan
<p>As noted, the CCP11 noted that it was satisfied that our demand forecasts had reflected stakeholder feedback.</p> <p>Uniting Communities in its submission on our Final Plan commented that our demand forecast passes the reasonableness test.<sup>3</sup></p>	<p>Our demand forecasts appropriately factor in stakeholder feedback. We also note we applied the same methodology used by the AER for our South Australian network.</p>
<p>In relation to our forecasts of new customer connections, the CCP11 questioned whether the distribution businesses' methodologies adequately allow for decreases in penetration rates, observing that our forecast appears to assume that the proportion of new dwellings that will connect to the gas network will follow historic trends."<sup>4</sup></p> <p>The CCP11 also pointed out that AGN had not separately forecast energy usage or the number of customers expected to be connected as part of the Victorian Government's Energy for the Regions Program.<sup>5</sup></p>	<p>AGN's demand forecasts were developed by independent expert Core Energy Group (Core Energy). Core Energy's forecast of customer numbers was based on the historic relationship of dwelling completions to customer growth, which would reflect changes to penetration rates over time as well as growth from previous government gas extensions to regional areas.</p> <p>We therefore consider the customer number forecast prepared by Core Energy incorporates those issues raised by CCP11.</p>

Note: In this 'traffic light' table, green shading represents no change from the Final Plan, orange represents a modification of the position outlined in the Final Plan and red shading represents a change from the Final Plan.

### 1.3 AER Draft Decision

The AER accepted our demand forecasts in the Draft Decision. The AER concluded that AGN's forecasts of Tariff R and Tariff C consumption per connection and net connection numbers were arrived at on a reasonable basis and represented the best forecasts possible in the circumstances. Consistent with the AER's Draft Decision, our Revised Final Plan will incorporate the latest HIA forecasts of dwelling construction.

<sup>3</sup> Uniting Communities, *Australian Gas Networks Access Arrangement Proposal for Victoria / Albury*, page 4, 19 April 2017.

<sup>4</sup> CCP11, *Response to proposals from AGN, AusNet and Multinet for a revenue reset/access arrangement for the period 2018 to 2022*, page 39-40, 3 March 2017.

<sup>5</sup> *Ibid*, page 42.

Table 1.2: Summary of AER’s Draft Decision on our Demand Forecast

AER Draft Decision		AER Comment
<b>Connection Numbers</b>		
Residential	Accept	Consistent with NGR 74(2) but expect an update to the demand forecast in our Revised Final Plan to account for the latest HIA dwelling projections.
Commercial	Accept	
Tariff D (Large User)	Accept	
<b>Consumption per Connection</b>		
Residential	Accept	Consistent with NGR 74(2).
Commercial	Accept	
Tariff D MDQ	Accept	

Note: In this ‘traffic light’ table, green shading represents the AER’s acceptance of AGN’s Final Plan, orange represents the AER’s modification of AGN’s Final Plan and red shading represents the AER’s rejection of AGN’s Final Plan.

## 1.4 AGN Response to the Draft Decision

We have accepted the AER’s Draft Decision and have updated the residential customer number forecast to account for the update to the HIA dwelling forecast and the rejection by the AER of the proposed expanded marketing program (see Table 1.3).

Table 1.3: Summary of AGN’s Response to the AER’s Draft Decision on our Demand Forecast

AER Draft Decision	AGN Response	AGN Comment
<b>Connection Numbers</b>		
Residential	Accept	We have updated residential connection forecasts for the latest HIA dwelling projections. We have also removed the additional connections and volume related to the expanded marketing program, which expanded program was rejected by the AER in the Draft Decision.
Commercial	Accept	
Tariff D (Large User)	Accept	
<b>Consumption per Connection</b>		
Residential	Accept	We have accepted the AER Draft Decision on consumption per connection.
Commercial	Accept	
Tariff D MDQ	Accept	

Note: In this ‘traffic light’ table, green shading represents the acceptance, orange represents a modification and red shading represents a rejection.

## 1.5 Summary

The Revised Final Plan demand forecasts over the next AA period are set out in Table 1.4. Please note these numbers reflect the update for June 2017 HIA data as required in the Draft Decision.

Table 1.4: Victorian and Albury Residential Demand Forecast

	2018	2019	2020	2021	2022
Net Customer Numbers	649,491	662,704	675,850	689,290	702,951
Consumption per Connection (GJ)	44.3	43.3	42.4	41.5	40.6
<b>Demand (TJ)</b>	<b>28.8</b>	<b>28.7</b>	<b>28.7</b>	<b>28.6</b>	<b>28.6</b>

Table 1.5: Victorian and Albury Commercial Demand Forecast

	2018	2019	2020	2021	2022
Net Customer Numbers	22,511	22,658	22,806	22,954	23,103
Consumption per Connection (GJ)	343	341	340	339	337
<b>Demand (TJ)</b>	<b>7.7</b>	<b>7.7</b>	<b>7.8</b>	<b>7.8</b>	<b>7.8</b>

Table 1.6: Victorian and Albury Industrial Demand Forecast

	2018	2019	2020	2021	2022
GJ MHQ	6,260	6,261	6,291	6,293	6,295