

# Attachment 14.5

Response to Draft Decision:  
Demand Forecasts

2016/17 to 2020/21 Access  
Arrangement Information  
Response to Draft Decision

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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 forecasts of gas consumption and customer numbers (collectively referred to as AGN's demand forecasts) for each customer class over the next (2016/17 to 2020/21) Access Arrangement (AA) period.

AGN engaged the Core Energy Group (Core Energy) to develop the demand forecasts set out in our Initial AA Proposal submitted to the AER on 1 July 2015. Core Energy's forecasting approach was based on the principles applied by the Australian Energy Market Operator (AEMO) and in recent decisions made by the AER. The resultant demand forecasts showed a continuation of the recent trend declines in average consumption per connection and the slowing in connection growth.

The AER accepted all aspects of our proposed demand forecasts aside from the methodology used to forecast consumption per connection for residential and commercial customers. As outlined in Section 1.3, whilst AGN does not necessarily agree with the AER's revised forecasting approach, we have accepted the resultant forecasts as outlined in the Draft Decision.

## 1.2 AER Draft Decision

The AER reviewed AGN's demand forecasts against the criteria set out in clause 74(2) of the National Gas Rules (NGR), which requires that forecasts and estimates are:<sup>1</sup>

- arrived at on a reasonable basis; and
- represent the best forecast or estimate possible in the circumstances.

As outlined in Table 1.1, the AER approved AGN's forecasts for residential, commercial and Tariff D connection numbers and Tariff D Maximum Daily Quantity (MDQ), but did not accept forecast consumption per connection for residential and commercial customers. More specifically, with respect to consumption per connection forecasts, the AER stated that:

*".....AGN applies the average annual growth rate of -3.16 per cent to each of the new residential customer types and -3.46 to existing customers to forecast consumption per connection.*

*We consider that applying these rates has the effect of double counting the reduction in gas consumption at the total residential customer level."<sup>2</sup>*

The AER considered that the "double counting" arose from forecasting average consumption for existing and new customers separately. The AER considered that the relatively lower average consumption for new connections would already be reflected in the existing customer trend as new customers are added to the network each year (and are then classified as existing customers). The AER held similar concerns with respect to average commercial consumption.<sup>3</sup>

<sup>1</sup> National Gas Rules, Rule 74(2).

<sup>2</sup> AER 2015, "Attachment 13 – Demand / Draft decision: Australian Gas Networks Access Arrangement 2016-21", November 2015, pg. 13-13.

<sup>3</sup> Ibid, pg. 13-14.

This led the AER to conclude that:

*"Our review of those forecasts has identified concerns with the forecasting method that Core Energy has used to forecast tariff V residential and commercial consumption per connection. We are not satisfied that these forecasts comply with the NGR. They have not been arrived at on a reasonable basis and are not the best estimates in the circumstances.*

*We have developed alternative demand forecasts that we consider address these concerns and comply with the NGR. We have used these alternative demand forecasts in this draft decision."*<sup>4</sup>

The AER Draft Decision is summarised in Table 1.1.

TABLE 1.1: SUMMARY OF AER'S DRAFT DECISION ON DEMAND FORECASTS		
AER Draft Decision		AER Comment
<b>Connection Numbers</b>		
Residential	Accept AGN Proposal	Consistent with NGR 74(2).
Commercial	Accept AGN Proposal	
Tariff D (Large User)	Accept AGN Proposal	
<b>Consumption per Connection</b>		
Residential	Reject AGN Proposal	Not consistent with NGR 74(2), as the Core Energy approach double counted the impact of reducing gas consumption from new connections.
Commercial	Reject AGN Proposal	Replaced with alternate forecast of a decline in consumption per connection of -3.5% per annum (residential) and -1.4% per annum (commercial) of the next AA period.
Tariff D MDQ	Accept AGN Proposal	Consistent with NGR 74(2).

### 1.3 AGN Response to Draft Decision

AGN acknowledges that the AER has accepted most aspects of our proposed methodology as satisfying the relevant criteria of the NGR. This reflects that the approach applied by Core Energy was largely consistent with that used by AEMO and accepted by the AER in previous decisions.

While AGN understands the AER's concerns with Core Energy's approach to forecasting consumption per connection, we do not agree that the revised approach applied by the AER necessarily leads to better forecasts of demand. This reflects our concern that the revised approach does not address the changing housing stock mix, in particular the growing preference for medium density/high rise dwellings and the increasing proportion of more energy efficient households.

Despite our concerns with the revised approach, AGN has decided to accept the AER Draft Decision. AGN considers that the AER Draft Decision provides the business with a reasonable opportunity to recover its efficient costs over the next AA period. Our response to the AER's Draft Decision is summarised in Table 1.2.

<sup>4</sup> AER 2015, "Overview | Draft decision: Australian Gas Networks Access Arrangement 2016-21", November 2015, pg. 47.

TABLE 1.2: SUMMARY OF AGN'S RESPONSE TO THE AER DRAFT DECISION ON DEMAND FORECASTS

	AER Draft Decision	AGN Response	AGN Comment
<b>Connection Numbers</b>			
Residential	Accept AGN Proposal	Accept Draft Decision	No comment.
Commercial	Accept AGN Proposal	Accept Draft Decision	
Tariff D (Large User)	Accept AGN Proposal	Accept Draft Decision	
<b>Consumption per Connection</b>			
Residential	Reject AGN Proposal	Accept Draft Decision	While AGN does not accept the revised approach will necessarily lead to better demand forecasts, AGN considers the AER Draft Decision provides for a reasonable opportunity to recover efficient costs over the next AA period.
Commercial	Reject AGN Proposal	Accept Draft Decision	
Tariff D MDQ	Accept AGN Proposal	Accept Draft Decision	No comment

## 1.4 Summary

Table 1.3 summarises the final demand forecasts to apply over the next AA period, which are consistent with those outlined in the AER Draft Decision.<sup>5</sup>

TABLE 1.3: FINAL CUSTOMER NUMBER FORECASTS FOR SOUTH AUSTRALIA

	2016/17	2017/18	2018/19	2019/20	2020/21
<b>Residential Tariff V</b>					
Customer Numbers	424,321	429,376	434,603	440,208	446,004
Demand (terajoules)	6,375	6,218	6,072	5,937	5,807
<b>Commercial Tariff V</b>					
Customer Numbers	9,781	9,913	10,086	10,261	10,439
Demand (terajoules)	2,910	2,905	2,885	2,861	2,849
<b>Tariff D</b>					
Customer Numbers <sup>6</sup>	125	118	115	113	110
Demand (terajoules MDQ)	61	57	57	56	56

<sup>5</sup> See: AER 2015, *Table 13.1 and 13.2 "Attachment 13 – Demand | Draft decision: Australian Gas Networks Access Arrangement 2016-21"*, November 2015, pg. 13-7 and 13-8.

<sup>6</sup> Note: There is a discrepancy between the Tariff D customer number forecasts outlined in in Table 13.2 of Attachment 13 of the AER's Draft Decision compared to the AER's Draft Decision Post-tax Revenue Model (PTRM). The PTRM aligns with AGN's proposed customer number forecasts and these numbers have been reflected in this Table 1.3 (consistent with the AER's stated acceptance of AGN's proposal).