



Australian
Gas Networks

Attachment 13.6

Demand

Response to AER Draft Decision

January 2023

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1 Demand

The Victorian Government's Gas Substitution Roadmap was released on 2 July 2022 which necessitated adjustments to our Final Plan demand forecast. In its Draft Decision the AER accepted the proposed adjustments to our forecast and asked that we update for any material changes in assumptions or data in our Revised Final Plan.

1.1 Overview

This attachment sets out our response to the AER's Draft Decision on the demand forecast for our Victoria and Albury gas distribution network over the next (2023/24 to 2027/28) Access Arrangement (AA) period.

1.2 Stakeholder and Customer Feedback

Table 1.1: Summary of the AER's Draft Decision on our demand forecasts

What we heard	Our response
2 September Final Plan (GSR Response)	
Stakeholders observed that the 7-star rating standard in the National Construction Code biases customer choice towards electrification, given the difficulty outlined in achieving this with gas appliances.	The GSR provided some further policy certainty that allowed us to break down its likely impacts on the drivers of natural gas demand. Core Energy (Core) allocated the various GSR impacts to both connections and consumption per connection.
There is significant uncertainty among more than a third of developers as to whether they will reticulate gas to new developments or not.	AGIG agrees that the 7-star rating standard in the National Construction Code biases customer choice towards electrification, as do the ending of rebates for gas appliances and proposed increase in the rebates for electric appliances.
Significant work undertaken on all-electric options across home builder sector.	We are aware that some builders have announced all-electric homes will be made available and that some are considering the ongoing viability of reticulating natural gas into their new developments.
Customer sentiment research suggesting a declining level of confidence in gas as a fuel of choice.	We have addressed this uncertainty in our demand forecast. Using data from both internal and external customer surveys, we have assessed the impact on both the likelihood existing connections will remain on our network and the number of new connections that will connect to our network in the future.
	We have assessed the impact of the GSR and NCC on the consumption per connection of our existing customers, and the consumption per connection of the new customers who join the network given the enhanced incentives that will be in place to electrify appliances.

1.3 AER Draft Decision

The AER accepted our proposed approach to the demand forecast for the next AA period, including the adjustments made to incorporate the likely impact of the GSR. The AER has accepted forecast inputs as a placeholder and expects that these will be updated with the latest data in our revised Final Plan. The AER also noted our demand forecasts will need to take account of the AEMO's 2023 GSOO, which is expected to be released in March 2023.

The AER considered that the demand forecast methodology was arrived at on a reasonable basis for the following reasons:

- expected average consumption is based on historic trends and key drivers of demand; and
- the weather normalisation of historic data and forecasting methodology followed established forecasting methods which the AER has accepted previously for both the Victoria and Albury gas networks and gas networks in other jurisdictions.

The AER's Draft Decision in respect of our demand forecast is summarised in Table 1.2 below.

Table 1.2: Summary of the AER's Draft Decision on our demand forecasts

	AER Draft Decision	AER Comment
Connection Numbers		
Residential and Commercial	Accept	Satisfied that our demand forecast for Tariff V is arrived at on a reasonable basis and represents the best forecast possible in the circumstances. Accepted that it was reasonable to revise our forecast in response to the GSR. Accepted our revised forecast as a placeholder and expects we will provide an update to our demand forecasts as part of our revised Final Plan. ¹
Industrial	Accept	Satisfied that our demand forecast for Tariff D is arrived at on a reasonable basis and represents the best forecast possible in the circumstances. Accepted our forecast as a placeholder and expects we will provide an update to our demand forecasts as part of our revised Final Plan. ²

¹ AER, Draft Decision, Attachment 12, pp. 4-6

² AER, Draft Decision, Attachment 12, pp. 4-6

	AER Draft Decision	AER Comment
Consumption per Connection		
Residential and Commercial	Accept	Satisfied that our Residential consumption per connection was derived on a reasonable basis including revisions in response to the GSR. ³
Industrial	Accept	Satisfied that our Industrial capacity forecast was derived on a reasonable basis. ⁴

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

1.4 Our response to the Draft Decision

Table 1.3: Summary of our response to the AER's Draft Decision on our demand forecasts

	AER Draft Decision	Our Response	Our Comment
Connection Numbers			
Residential and Commercial	Accept	Accept	We have accepted the Draft Decision and updated inputs as requested.
Industrial	Accept	Accept	We have accepted the Draft Decision and updated inputs as requested.
Consumption per Connection			
Residential and Commercial	Accept	Accept	We have accepted the Draft Decision and updated inputs as requested.
Industrial	Accept	Accept	We have accepted the Draft Decision and updated inputs as requested.

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

1.5 Update of Forecast Inputs

In its Draft Decision, the AER accepted the approach to forecasting demand over the next AA period, noting that material changes in assumptions or data should be updated in our revised Final Plan. Also, the AER noted that our forecast should be updated to take account of AEMO's 2023 Gas Statement of Opportunities (GSOO).

Core Energy has updated our demand forecast with 2021/22 actual data and the Housing Industry Association's revised November 2022 forecast. The impacts of these updates to inputs are summarised in Core Energy's report (Attachment 13.1.A) and updated forecast (Attachment 13.1B).

³ AER, Draft Decision, Attachment 12, pp. 4-6

⁴ AER, Draft Decision, Attachment 12, pp. 4-6

We have not incorporated the Federal Government's recently announced reforms to the Safeguard Mechanism or its \$1.9 billion dollar Powering the Regions fund into our demand forecasts, due both to the timing of the announcement and the fact they have only been released for consultation at this stage.

Noting these initiatives are still in the consultation phase, the Powering the regions fund may have a direct effect on natural gas demand and hence affect our forecast. Projects within the fund may include energy efficiency upgrades, support for hydrogen and renewable gas and support for electrification. As it is unclear what effect these initiatives will have on natural gas demand, we have not attempted to reflect them in our Revised Final Plan forecast.

AEMO will release its GSOO in March 2023 and we will adjust our forecast, if required, given AEMO's updated GSOO scenarios.

1.6 Summary

Core have updated the demand forecast to reflect the latest available information as per the AER's Draft Decision. As a result, the updated demand forecast when compared to the earlier 2 September GSR response forecast provides for:

- Residential – lower demand of 2,657TJ (or -2.0%) on account of the update of actuals for 2021/22 and the update of the HIA forecast for November 2022 information;
- Commercial – higher demand of 1,594TJ (or + 4.1%) on account of marginally higher actual connections in 2021/22 and higher average consumption per connection; and
- Industrial – the industrial forecast has not changed from the 2 September Final Plan.

The revised Final Plan demand forecasts over the next AA period are set out in Table 1.4.

Table 1.4: Summary of demand forecast

	2023/24	2025/26	2026/27	2027/28	2027/28
Residential Demand					
Connections	705,113	705,810	701,140	689,749	673,325
Consumption per connection	40.2	38.7	37.1	35.4	33.9
Demand (TJ)	28,341	27,292	26,014	24,432	22,796
Commercial Demand					
Connections	22,859	22,475	22,605	22,736	22,868
Consumption per connection (GJ)	356.0	355.5	355.0	353.6	352.2
Demand (TJ)	8,138	7,990	8,025	8,038	8,053
Industrial Demand					
Connections	285	289	292	296	300
MHQ (TJ)	5,008.6	4,957.9	4,896.2	4,888.5	4,849.2
ACQ (TJ)	17,301	16,963	16,632	16,307	15,989