

ActewAGL Distribution

Access arrangement proposal 2016-21

Presentation to the AER Board 21 August 2015

Today's presentation

- **Overview (Michael Costello)**
 - ActewAGL Distribution's role in the ACT energy market
 - Our gas priorities
 - Our 2016-21 gas proposal
- **Background and context (Stephen Devlin)**
 - Role of gas in the ACT and region energy market
 - Our performance in the current period
 - Our engagement with consumers and stakeholders
- **Key elements and drivers of our proposal (Stephen Devlin)**
 - Key revisions to the access arrangement
 - Revenue requirement and price path, opex, capex, WACC, demand, tariffs

Overview

Michael Costello, CEO

Background and context

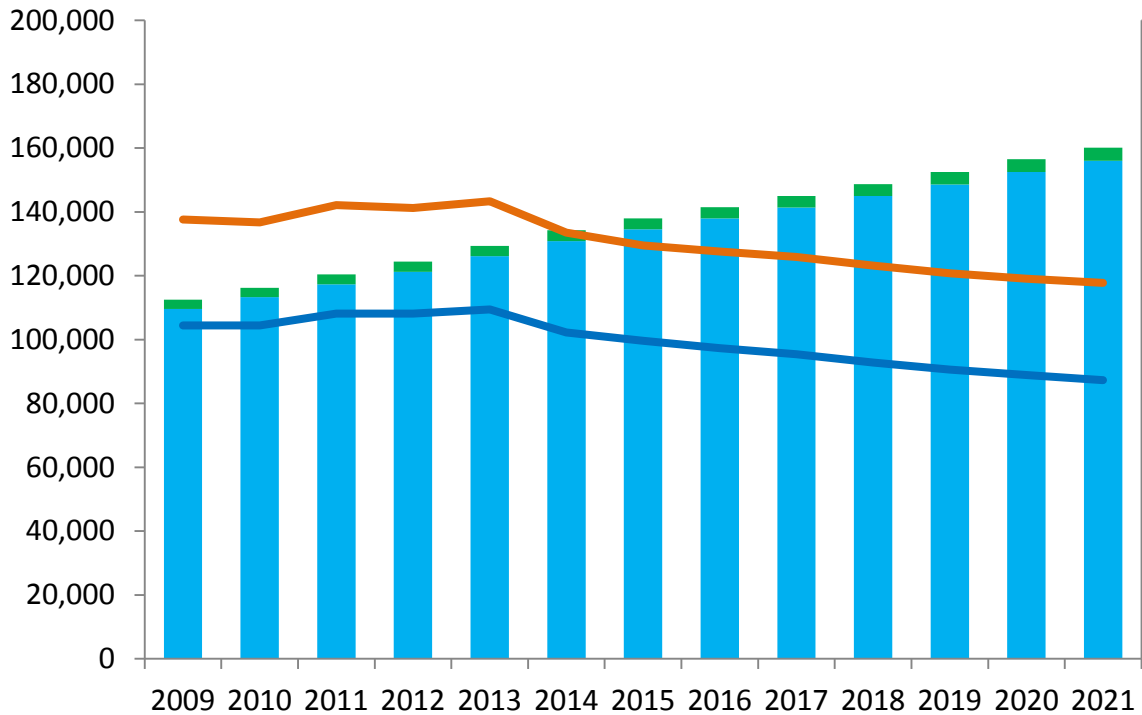
Stephen Devlin, General Manager, Energy Networks

Role of gas in the ACT

- Our network charges account for around 35% of the average residential gas bill in the ACT.
 - Less than the AER's national estimate of 40 – 60%
- Our 138,000 residential and small to medium business customers account for 88% of our load
 - Our 40 large customers (>10 TJ per year) account for the remainder.
- Gas is well suited to the ACT climate
 - A vital part of sustainable energy supply for the ACT.
- Gas is a fuel of choice – we need to remain competitive.

Gas consumption is falling

Connections



Business connections (LH axis)

Residential connections (LH axis)

Total demand (RH axis)

Residential demand (RH axis)

Demand (TJ)

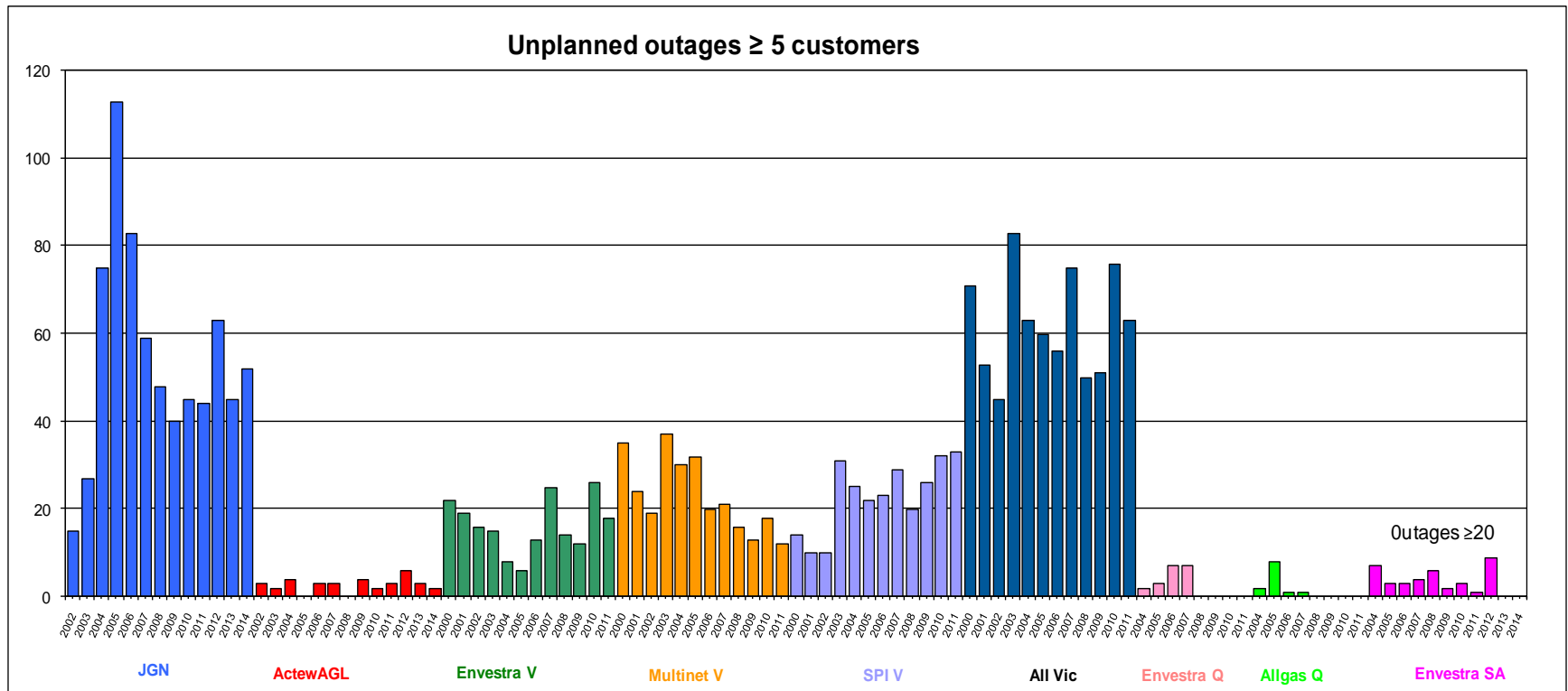
Gas connections continue to increase (at a slower rate than in the past)....

.... But consumption per connection is falling.

So overall throughput is falling.



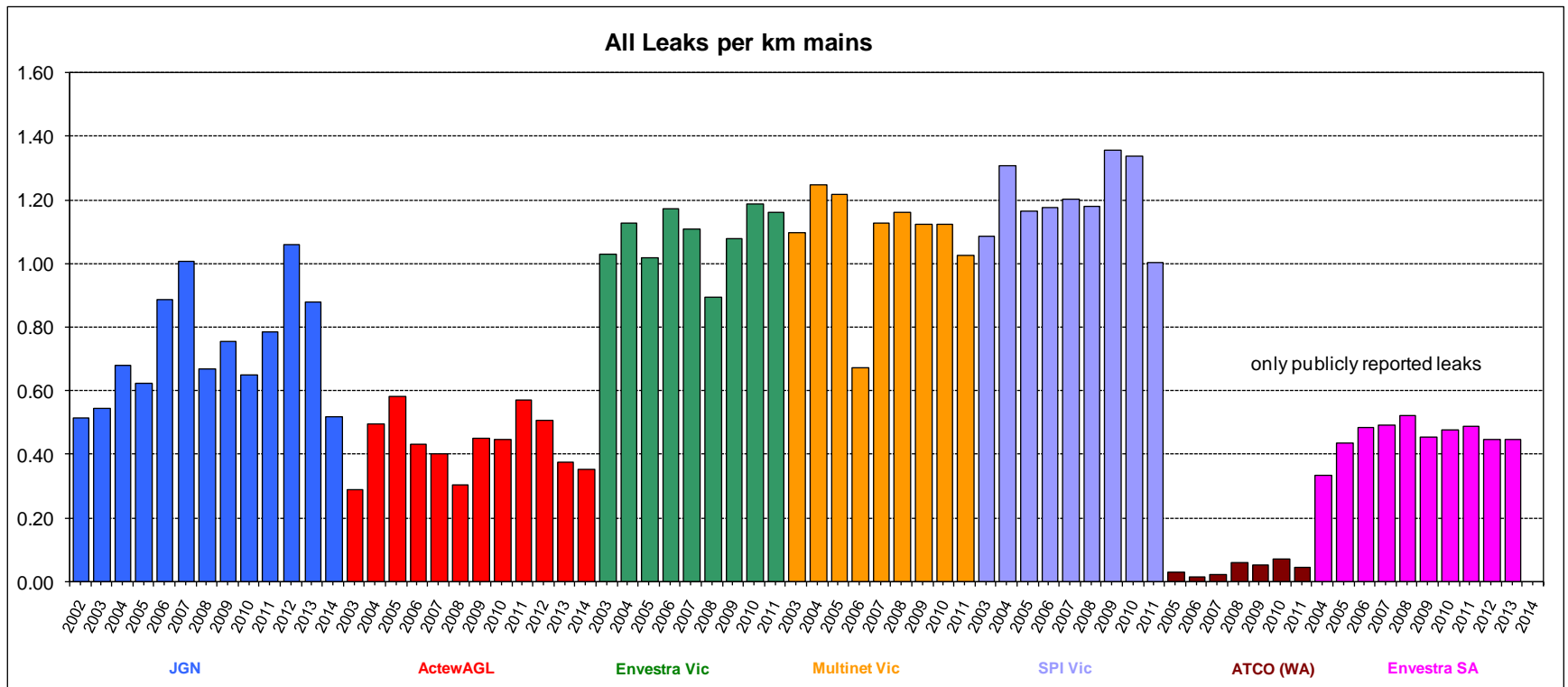
Current period performance - reliability



Source: Publicly available information



Current period performance – amenity



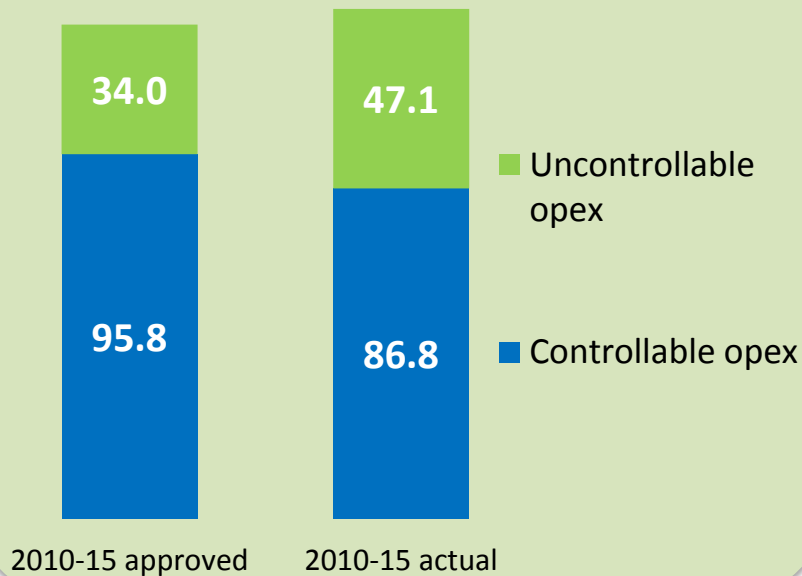
Source: Publicly available information



Current period expenditure

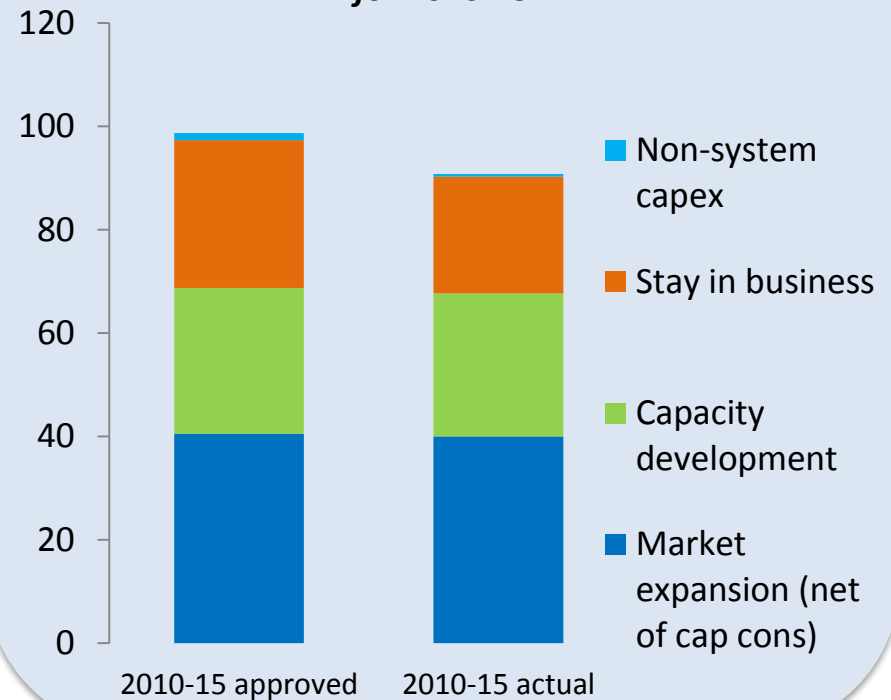
Opex

Controllable opex has been below the AER approved amount for 2010-15



Capex

Capex has been below the AER approved amount for 2010-15



Our engagement on the proposal

- Public consultation paper *'The Gas Network – Our 5 year Plan'*
- Energy Consumer Reference Council (ECRC)
- Consultation with large customers
- Consultation with retailers
- 'Consumer voice' at Project Board table
- New consumer engagement web pages
- Reports and updates back to stakeholders

6 ECRC meetings

8 large customer meetings

**26 people attended
business and community
workshops**

**197 ActewAGL Power Panel
survey responses**

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Key elements and drivers of our proposal

Components of our proposal

Consumer overview

Revised access arrangement (AA)

New Reference Service Agreement

Simplified services structure

New tariff structure

New tariff variation mechanism

Access arrangement information (AAI)

Revenue proposal and price path

Explanation of AA revisions

Supporting material

RIN response

Key revisions to the AA

- Reference service agreement (RSA)
 - Based on RSA approved for NSW
 - Consistent with approach in other approved AAs
 - Updated for NECF and ACT regulatory requirements
- New tariff structure
 - Cost reflective, recognises different uses of gas, encourages efficient use and growth of the network
- New arrangements for tariff variation
 - Aligned with other approved AAs

Proposed revenue requirement

Total proposed revenue requirement for the period is only **1%** higher than 2010-15 approved amount in real terms



(\$millions, 2015/16)

This is the revenue required for AAD to:

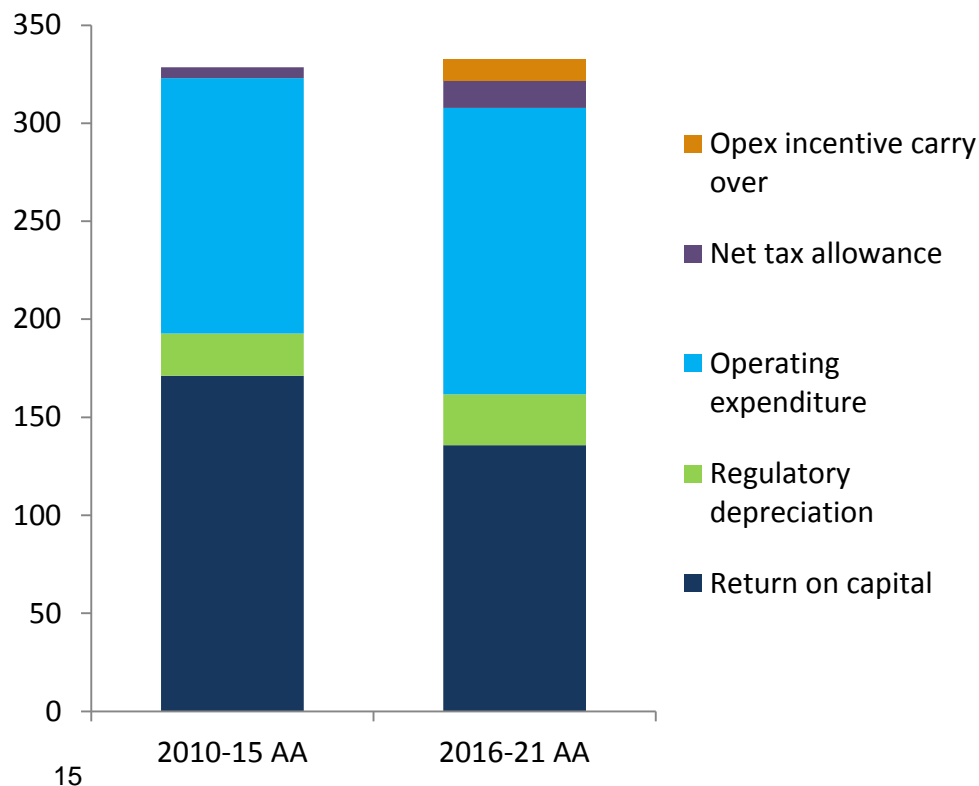
- **Continue to deliver the safe and reliable services that consumers want;**
- **Meet expected growth in connections;**
- **Manage the network in a sustainable way; and**
- **Meet all regulatory requirements and obligations.**

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Revenue building blocks and price path

Revenue building blocks 2010-15 and 2016-21

(\$m 2015/16)



Key drivers:



WACC (7.15% down from 10.08%)



Opex incentive mechanism efficiency carry over of \$11.7m



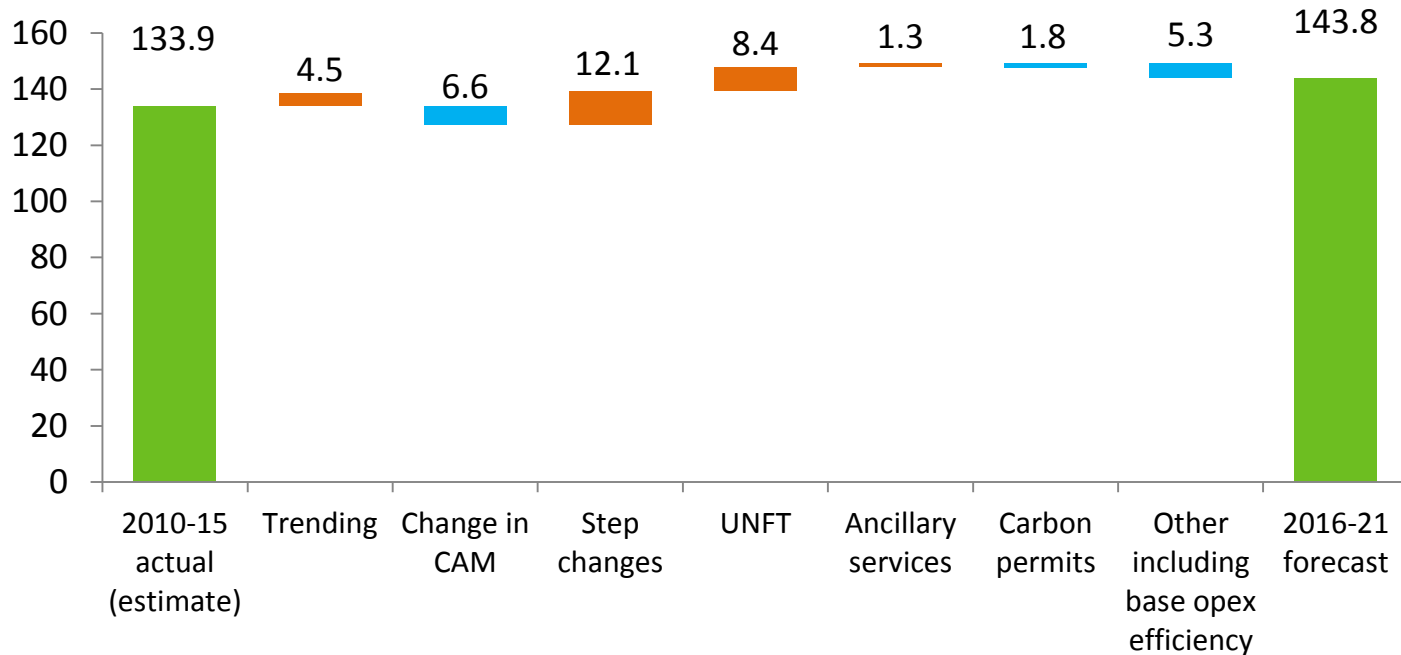
Opex driven by non-controllable costs, (mainly UNFT) prudent step changes and growth

Price path:

Year 1: CPI – 2.23%
Years 2 – 5: CPI only

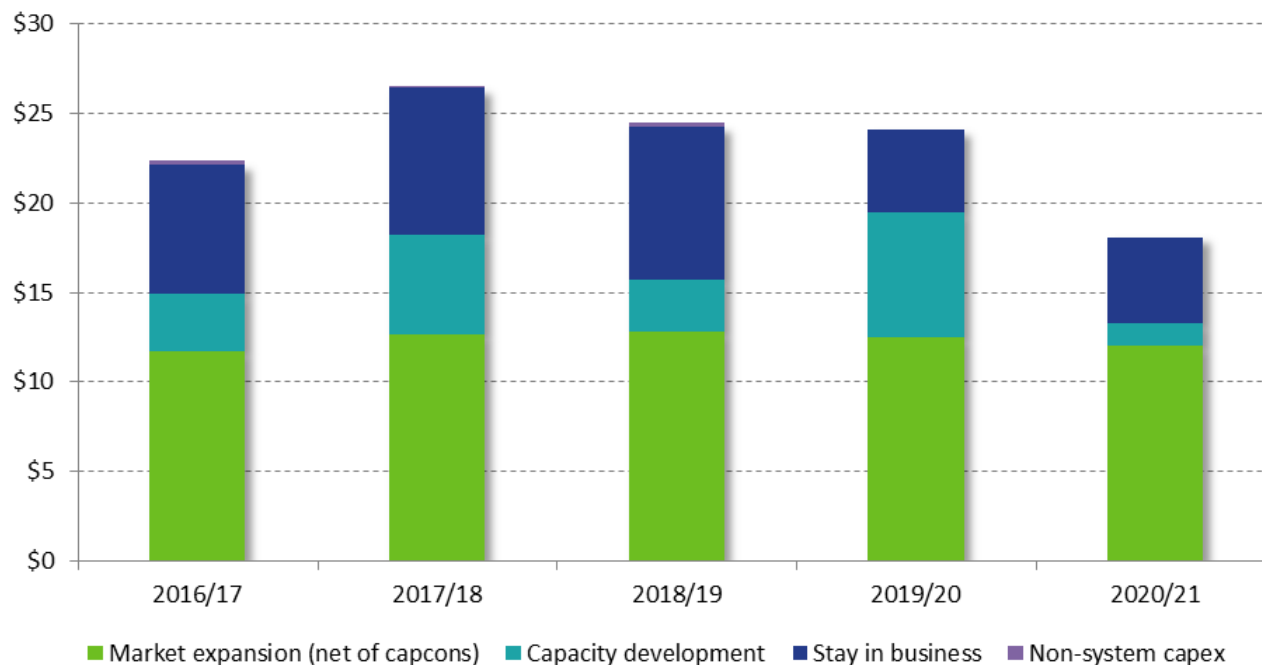
Opex

Bridge between 2010-15 actual opex and 2016-21 forecast opex (\$m 2015/16)



Opex per customer down from \$208 to \$188

Forecast capex



Average annual capex for the 2016-21 period is within 1% of capex over the 2010-16 period – once real price escalation and changes in the Cost Allocation Methodology are taken into account.

WACC

- We have adopted a rate of return of 7.15% for the 2016-21 access arrangement period.
- Based on best available expert evidence and models.
- We depart from the AER's *Rate of return guideline* where necessary to achieve the *rate of return objective* in the Rules.
- We have discussed our proposal with the ECRC.

Forecast connections and demand

- Increasing connections, but at a slower rate than in 2010-15
 - Independent projections of slowing growth in new housing and the ACT economy.
- Declining demand per connection, driven by:
 - increased availability and affordability of energy efficient appliances;
 - more energy efficient housing;
 - stronger competition from alternative energy sources;
 - the changing housing density mix;
 - changes in ACT regulatory requirements; and
 - changing customer preferences and incentives to adopt renewable energy.
- As a result, total demand forecast to decline.

Summary

- Terms and conditions in a new Reference Services Agreement (RSA), based on approved RSA for NSW
- Simplified services structure and new tariff structure, recognising different uses of gas and changing demand
- Revenue requirement only 1% higher than the 2010-15 allowance.
- Growing connections, but at a slower rate than in 2010-15
- Real average price reduction in 2016/17, then stable price path.
- Compliance with all economic and technical regulatory requirements.