

# ActewAGL Distribution consultation paper

The Gas Network - Our 5 Year Plan Further Information

**ActewAGL**

*for you*



# The Gas Network -

## Our 5 Year Plan Further Information

Earlier this year, ActewAGL Distribution released a consultation paper titled 'The Gas Network – Our 5 Year Plan'. This document was considered by the ActewAGL Distribution Energy Consumer Reference Council and was discussed at several community and business forums during March 2015.

Participants at these forums provided important feedback that we have taken into consideration as we prepare our submission to the Australian Energy Regulator (the Regulator) as part of the process of determining gas distribution charges for the years July 2016 to June 2021.

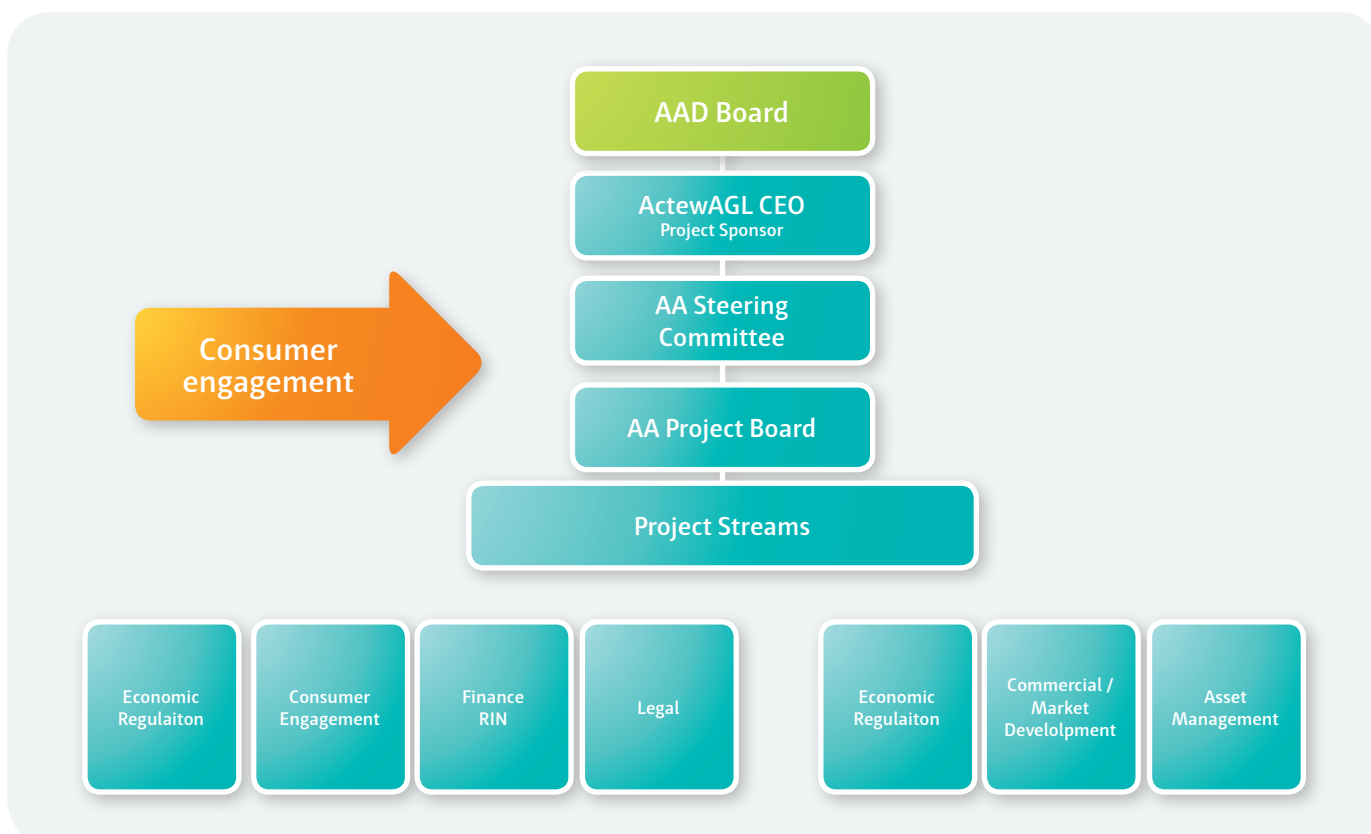
The feedback from the community and business sector was varied, but several key themes emerged.

You told us you

- value safety and reliability
- want price stability and certainty
- want to support vulnerable customers
- are interested in what the long-term energy infrastructure looks like for the ACT; and
- are keen to be involved in future energy discussions

We have released a summary of the feedback from the consultation activities which can be found on our website at [actewagl.com.au/consumerengagement](http://actewagl.com.au/consumerengagement)

This feedback was considered by our management team as it finalised our 5 year proposal to the Regulator as shown by the image below.



Based on our discussions with the community, we have further developed our 5 year plan for the gas distribution network. The purpose of this paper is to provide further information to our community and encourage final questions prior to presenting

our proposed gas access arrangements to the Regulator as part of the price determination process.

**Our five year plan** has seven key priorities which have not changed as a result of community feedback:

## 5 YEAR PLAN SUMMARY



Commits to listening, providing more information, and increasing the options for our community to comment on what we do.



Ensures that natural gas remains a viable energy source for our region by attracting more customers.



Investigates ways to provide more support to vulnerable customers, who struggle to pay their gas bills.



Delivers a level of safety, reliability and service we are proud of and customers expect.



Ensures enough revenue to allow us to maintain our service standards for existing and future customers.



Meets the infrastructure needs of our growing region.



Responds to potential changes to the Australian gas market, impact of new technology and the possible impacts on our customers.



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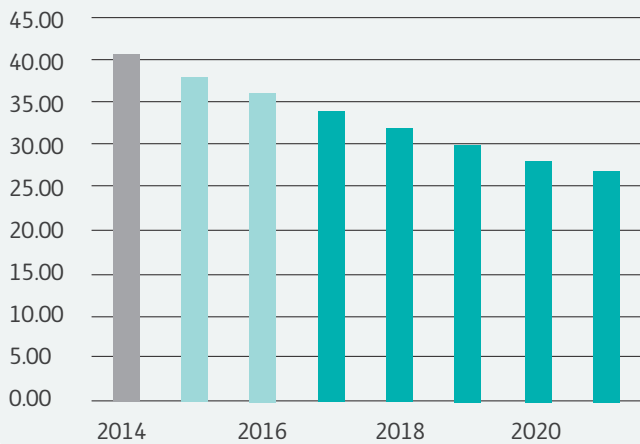
Our Consultation Paper described the changes to national and international gas markets and the potential impact that may have on the gas distribution business.

As was described in the Consultation Paper, demand per business and residential customer is expected to decline, although the number of connections continues to grow. This has certainly been the experience of recent years in Canberra, where growth of customers continues at an average of 3 per cent per year, while total annual consumption of gas has declined since 2011/12.

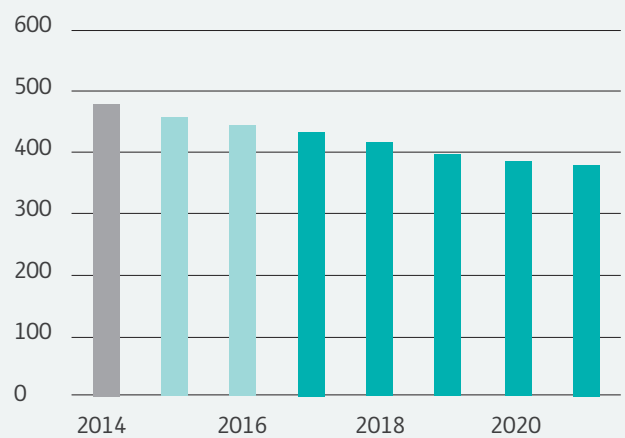
Declining gas use per customer, while the demand to expand the number of connections and size of the gas network continues to grow, presents interesting challenges for our gas distribution business.

During community consultation we heard that you are interested in exploring alternate energy models, rather than investing in ever-expanding gas networks that may become inefficient in the long term. As a multiple-energy provider with a commitment to environmental sustainability we are keen to continue that conversation and explore alternate energy sources. In the short term, however, it is important that we do not disadvantage any existing or future customers by limiting access to the gas network.

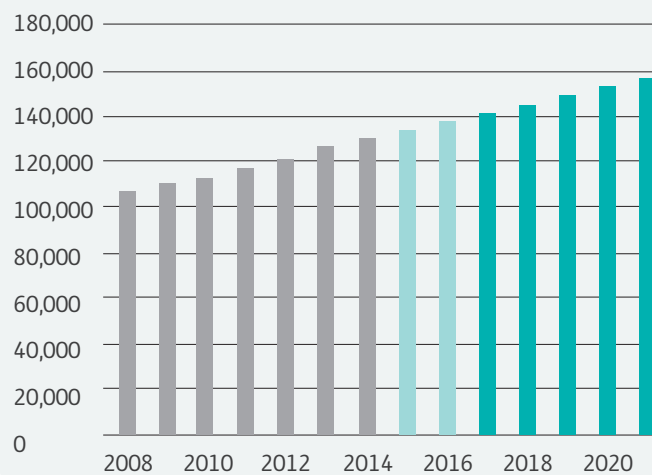
Demand per connection (GJ) - All Residential



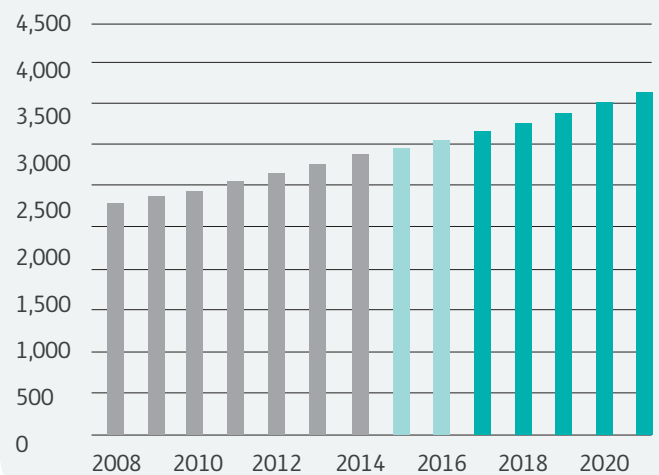
Demand per connection - All Business



Total Connections - Residential



Total Connections - Business





Delivers a level of safety, reliability and service we are proud of and customers expect.



Meets the infrastructure needs of our growing region.

Over many years ActewAGL Distribution has received feedback from the community about the importance of safety and reliability of our service. This was repeated again during our recent consultation on the 5 year gas plan. ActewAGL Distribution has developed a program of investment and expenditure that we believe balances the importance of safety and reliability with affordability of our service.

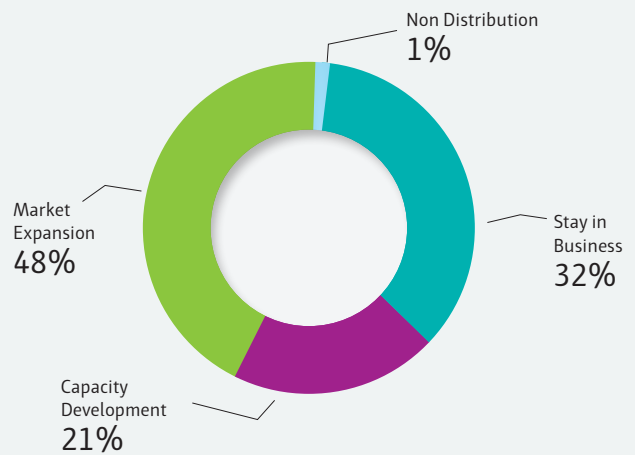
Maintaining and growing the gas network to meet current and future gas demand, relies on two types of investment.

**Operational expenses** which meet the day to day requirements of operating the business, such as operations and maintenance of the network and business support costs.

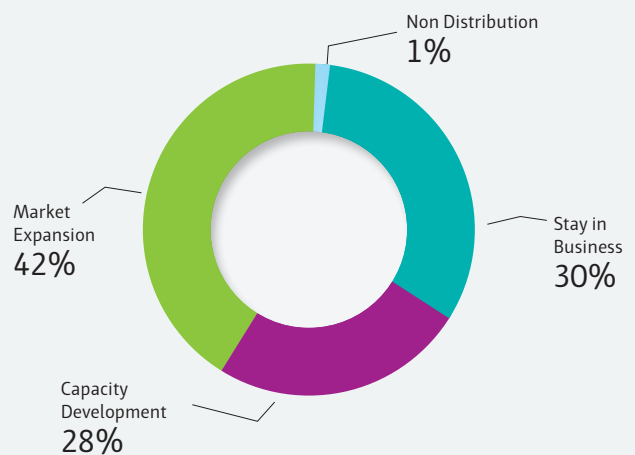
**Capital investment** which is the provision of longer term infrastructure to connect new customers, grow capacity to support the customer base and replace aging infrastructure.

ActewAGL Distribution proposes a **total capital investment** for the five year period 2016/17 – 2020/21 of approximately \$110m which is an increase from the \$90m spent over the past five year regulatory period.

Capital Comparison AA 10-15 \$90m



Capital Comparison AA 16-21 \$110m



The following projects are included in the proposed capital investment program for the next five years.

- \$45m in market expansion projects to connect new customers in the following areas:

**Gungahlin;**

Gungahlin town centre, Ngunnawal, Casey, Moncrieff, Bonner, Amaroo and Crace with planning underway for Throsby

**Belconnen;**

Belconnen town centre, Lawson and Bruce with planning underway for West Belconnen.

**Inner North;**

Major redevelopments in City, Braddon and Dickson along proposed light rail route, section 5 Campbell, Canberra Airport commercial developments and planned redevelopment of Constitution Avenue and City to Lake project

**Molonglo Valley;**

Wright, Coombs, North Weston and planning underway for Denman Prospect.

**Tuggeranong;**

Greenway

**Woden Valley;**

Woden town centre commercial and high rise developments.

**Inner South;**

Yarralumbra Brickworks redevelopment, Kingston Foreshore, Barton.

**Queanbeyan;**

Googong and Tralee

- \$30m of capacity development projects that include extension and expansion of network infrastructure in a range of areas including Molonglo, Moncrieff, West Belconnen,
- \$34m in replacing ageing infrastructure which is essential to the efficient operation of the gas network. These projects include upgrading meters, valves and electronic equipment; relocating infrastructure in response to potential damage as a result of future developments and replacement of paddock markers to ensure visibility and support protection of the gas network.

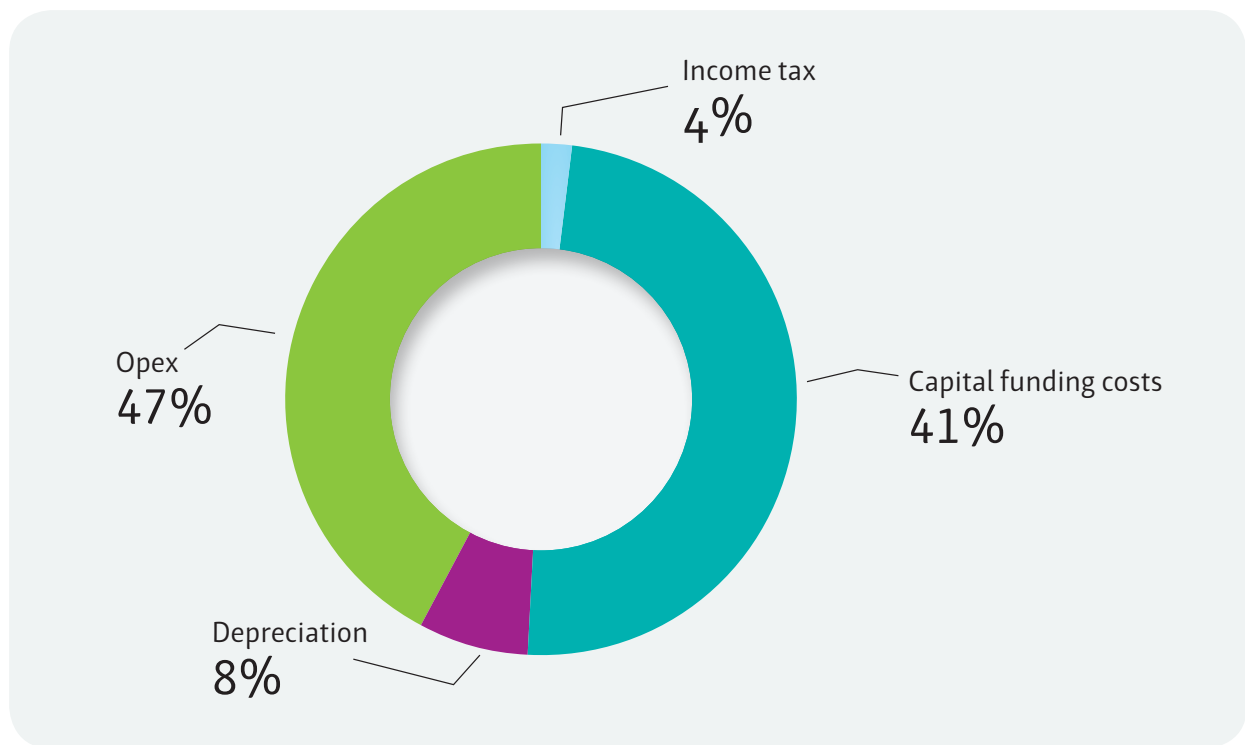
Over the five years from 2016/17 to 2020/21 we propose to increase total **operational expenditure** to \$144m compared to \$134m during the five years to 30 June 2015.

This expenditure is to address the following operational priorities:

- Maintaining 4,900 km network, particularly trunk and primary mains and associated pressure reduction facilities
- Attending to over 500 p.a. third party activities working near our assets
- Responding to 200 incidents p.a. that require make safe. Sometimes multiple on same day, Typically 15% of these require significant resources for > 1 day
- Routine overhauls and operational checks of 8 high pressure facilities and 93 district regulator sets and 798 major meter sets.

The small increase in expenditure is so we can meet additional regulatory requirements, such as compliance with the new National Energy Consumer Framework and changes to technical metering requirements. The increase is also a result of increases in costs beyond our control, such as government taxes and levies.

The breakdown of capital investment and operational expenditure as a proportion of the cost components of running the gas network is demonstrated by the graph below.



The cost of capital investment incorporated into our annual costs and passed on to customers is determined by the funding costs associated with purchasing these new assets. The level of funding costs allowed to be incorporated into customer bills is determined by the Regulator and is based on complex economic and financing formulas

which result in a figure called the 'Weighted Average Cost of Capital'. ActewAGL Distribution has prepared a cost of capital fact sheet which explains the Weighted Average Cost of Capital in more detail. This fact sheet can be found on the ActewAGL website at [www.actewagl.com.au/consumerengagement](http://www.actewagl.com.au/consumerengagement).





Ensures enough revenue to allow us to maintain our service standards for existing and future customers.



Investigates ways to provide more support to vulnerable customers, who struggle to pay their gas bills.



Ensures that natural gas remains a viable energy source for our region by attracting more customers.

It is important that we raise enough revenue each year to continue to deliver safe and reliable services to our customers, whilst also responding to the challenges of declining per customer gas use, yet increasing numbers of new connections.

Feedback during community consultation and from the Energy Consumer Reference Council highlighted the importance of planning our forward prices to provide as much certainty as possible for our customers.

Based on this feedback we are proposing a modest increase in our distribution prices in 2016/17 followed by CPI increases for the remaining four years to 2020/21.

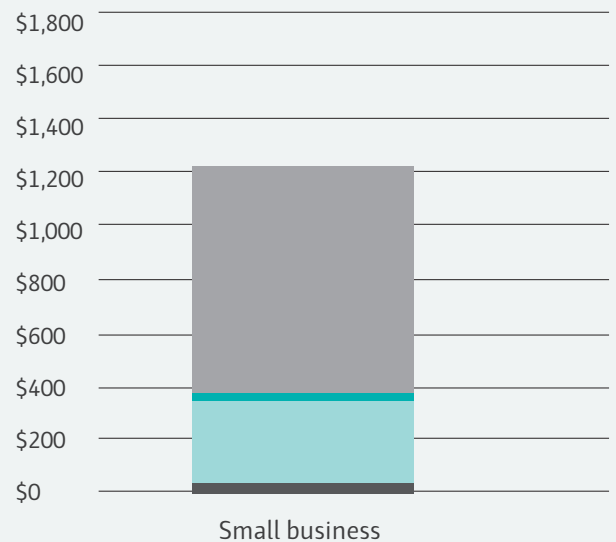
We also propose to change the way we charge our customer for gas distribution services to allow increased flexibility to respond to the changing market.

Gas bills are made up of a combination of charges, of which the network costs are only one component. For the typical ACT household or business customer, gas network distribution costs are approximately 30 – 35% of the total energy bill. The network bill is made up of both fixed and variable charges.



- Retail Variable component
- Retail Fixed component
- Network Variable component
- Network Fixed component

Based on ActewAGL Retail's published schedule of ACT natural gas prices for 14/15 and ActewAGL Distribution's published tariff schedule of 14/15



- Retail Variable component
- Retail Fixed component
- Network Variable component
- Network Fixed component

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When considering how to change our price packages, known as tariffs, we adopted the following principles:

- Promote equity – similar customers to pay similar prices
- Promote efficient use and growth of our network – provide price incentives for new customers and for those customers who utilise our network more efficiently (that is have more gas appliances for a single connection)
- Promote competition - stay competitive with alternative energy sources
- Recover our costs – our revenues should reflect efficient costs for providing our services
- Avoid inequitable cost cross-subsidisation between different customer types

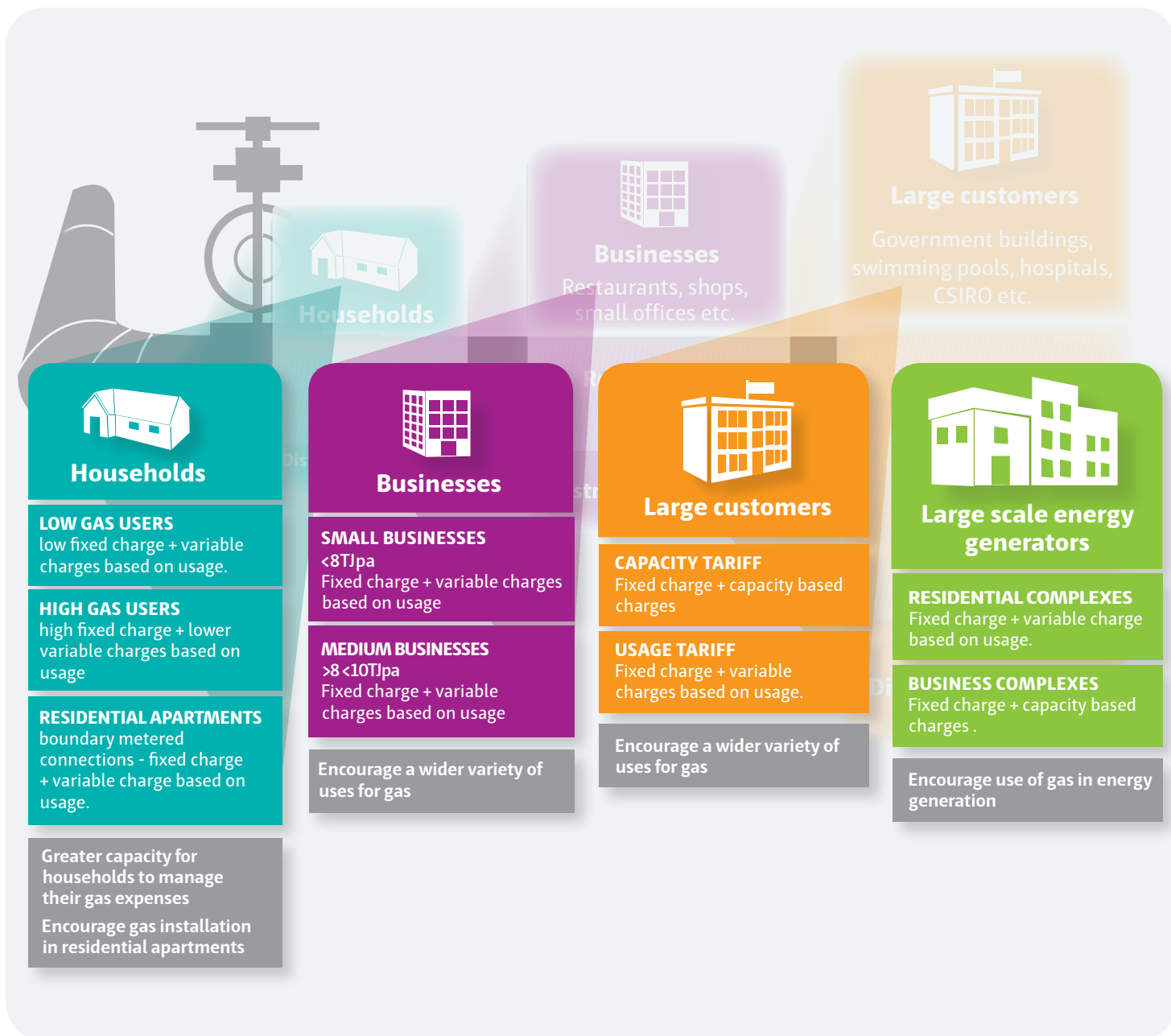
Based on these principles we propose to change the way we structure our tariffs to be tailored more to different customer types as follows:

- Introduce a number of new pricing options to cover different types residential customers:
  - Small residential customer – those using gas for cooking only
  - Medium residential customer – gas cooking and hot water
  - Large residential customer 1 – some gas heating and hot water or cooking
  - Large residential customer 2 – whole of home gas heating, hot water and cooking

Introduce new small and medium business customer price packages to recognise the different requirements of these customers to residential customers

Introduce new tariffs for large scale energy generators which is an emerging market in the ACT.

The new price packages reduce the fixed costs of accessing the network for small gas users, while charging larger customers a greater fixed price access fee and decreasing the per megajoule cost of gas.



We are also currently working with members of the Energy Consumer Reference Council and Energy Networks Australia to better understand the challenges facing our more vulnerable customers and considering ways we can better support these customers as a network business.

### Changing our tariffs during the five year period

In addition to proposing a new set of tariffs for the 2016/17 – 2018/19 period, we are also proposing to the Regulator that we adopt a 'weighted average price cap' model. This is a change from the fixed pricing arrangements that we have operated under until this time. A weighted average price cap model allows us more flexibility to change our prices during the five year period, as long as we stay under the price cap.

This is important to allow us to respond quickly to changes in the market. For example, if we find that a large number of new apartment blocks are being built without gas connections, we can drop the price of this connection to encourage the builders to install gas and provide the apartment residents the option to purchase gas. All changes to distribution prices during the five year period still need to be approved by the Regulator. The chart below summarises the changes to the pricing model.

#### Fixed Price Schedule

- Restricts ability to respond to the market
- Inconsistent with other jurisdictions
- Not favoured by the regulator

#### Weighted Average Price Cap

- Allows annual adjustments for:
  - To pass on savings or increased costs
  - Market conditions
- Tariff increases are 'capped'
- We must submit our proposed tariffs to our regulator for approval

### What do our proposed new price packages mean for you?

At this stage these new price packages are just proposals. As part of setting the distribution prices for the next five years, the Regulator will take into consideration how efficient our operations are and whether we have made reasonable assumptions with respect to long term capital infrastructure investment in the gas network. As part of this process, the Regulator will also consider the fairness and appropriateness of our proposed new tariffs.

The final new tariffs will not come into effect until July 2016.

Our proposals to the Regulator are about restructuring our tariffs, rather than increasing prices to one particular customer segment over another. The tables below summarises the anticipated impact on the different customer types as a result of changing our price packages.

Customer segment	FY16/17	FY17/18 – FY20/21
Gas cooking	Decrease	Relatively steady
Gas hot water and/or cooking	Relatively steady	Relatively steady
Gas heating and/or hot water / cooking	Relatively steady or decrease depending on consumption	Relatively steady
Gas whole-of-home heating and/or hot water / cooking	Decrease	Relatively steady
Home business	Relatively steady or decrease depending on consumption	Relatively steady
Small business	Decrease	Relatively steady
Medium business	Decrease	Relatively steady
Major customer	Increase	Increase

The above table is only a guide and is based on our proposal to be submitted to the Regulator. The Regulator will make a determination about the operation of our business and what network distribution prices we will be able to charge for the next five years. New prices will not come into effect until 1 July 2016.



Commits to listening, providing more information, and increasing the options for our community to comment on what we do.



## Our submission – keeping in touch with our customers

As the regulator considers our five year plan and the associated proposed operation expenditure, capital investment and new tariffs, we will continue to keep in touch with our customers.

Our submission to the regulator will be lodged at the end of June, at which time we will also release a consumer summary of the submission for your information.

The ActewAGL Distribution Energy Consumer Reference Council will continue to meet on a regular basis and provide important input on behalf of a range of consumer and industry groups within the ACT.

There are a number of ways you can continue to provide input into this process.

### **Provide comments directly to us by writing to or emailing us at the contact details below**

Peter Cunningham

Branch Manager, Distribution Strategy and Compliance,  
ActewAGL Distribution

PO Box 366  
Canberra ACT 2601

**[Consumerfeedback@actewagl.com.au](mailto:Consumerfeedback@actewagl.com.au)**

### **Write directly to the Regulator**

The regulator will seek submissions from stakeholders on our five year Plan. Submissions can be lodged directly with the Regulator at various stages in the five-year review process. Information on how to contact the Regulator can be found at [aer.gov.au](http://aer.gov.au)

### **Monitor our website**

We will continue to provide information and updates on our community engagement pages of the website [www.actewagl.com.au/consumerengagement](http://www.actewagl.com.au/consumerengagement)