Consumer

Challenge

Panel

CCP24 Advice to Australian Energy Regulator on

Evoenergy Gas Network 21 Plan

for Evoenergy (ActewAGL) ACT, Queanbeyan and Palerang Access Arrangement July 2021-June 2026

Consumer Challenge Panel (CCP) Sub-Panel CCP24

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10 August 2020

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Acknowledgements

CCP24 wishes to acknowledge the cooperation and support of Evoenergy and AER staff, and the Evoenergy Energy Consumer Reference Council who have generously provided information and insights to assist the sub-panel in its review of the business's GN21 Plan.

We also advise that to the best of our knowledge this report neither presents any confidential information nor relies on confidential information for any comments.

1. Introduction and Context

This Statement of Advice is provided to the Australian Energy Regulator (AER) from Consumer Challenge Panel, sub-panel 24 (CCP24) in response to the Evoenergy 2021-26 Access Arrangement Proposal (AAP) for the ACT and Queanbeyan-Palerang gas network, which was submitted to the AER in June 2020.

Evoenergy is the energy networks business of ActewAGL Distribution which owns and operates the regulated electricity distribution network in the ACT, and the regulated gas distribution network in the ACT and Queanbeyan-Palerang in New South Wales. Every five years, Evoenergy is required to submit an Access Arrangement Proposal to the AER for its gas network, setting out the proposed services, as well as the network investments, revenue and the prices required to deliver gas distribution services for the next period. For the 2021-26 revenue period, Evoenergy refers to its plan as the Gas Networks 21 (GN21) Plan.

Context

CCP24 note that the GN21 Plan has been prepared in a time of heightened uncertainty and significant challenge. Evoenergy, along with other gas distribution network businesses, faces fundamental questions about the future of the gas network, driven by jurisdictional governments moving towards net zero emissions policies in a timeframe considerably less than the asset lives of a large part of the business's asset base. Specifically, in the case of Evoenergy where the gas network spans two jurisdictions, the ACT Government has legislated for net zero emissions for the ACT by 2045. In NSW however, the Government has set a net zero emissions by 2050 policy objective that is yet to be established in legislation. Future scenarios for Evoenergy's gas distribution network will be discussed further in Section 5.

In addition, the effects of the COVID-19 pandemic began to impact on Australian businesses from March 2020. While Evoenergy had made substantial progress towards preparation of its GN21 Plan by that time, some activities including important consumer and stakeholder events were affected. COVID-19 is expected to have a longer-term impact on the Australian economy with negative consequences for business viability and unemployment levels in many sectors. It is anticipated that difficulties in paying utility bills will continue for both residential and small business consumers. In this environment, a strong focus on affordability for small customers is more important than ever.

The full effects of the COVID-19 pandemic are not able to be predicted at this stage. CCP24 will be highlighting the need for agility to be displayed by both businesses and regulators in dealing with the changing environment. Clearly the forecasts which underpin the GN21, including demand, labour cost, and connections forecasts will require regular review. It is highly likely that consumer and stakeholder perspectives will also change as a result of ongoing events, and continuing engagement with consumers and stakeholders, potentially in the absence of face-to-face engagement, is essential to ensure that business responses continue to match evolving consumer needs. Section 13 of this Advice deals with responding to the pandemic and approaches that we think are appropriate to deal with the uncertainty.

Note: As in GN21, all financial information in this report is presented in real 2020-21 dollars.

2. Summary of CCP24 advice

Evoenergy has submitted an Access Arrangement Proposal for 2021-26 (GN21 Plan) which provides a direct response to the ACT Government's policy of net zero emissions by 2045, as well as taking steps to address affordability concerns raised by their customers. The GN21 Plan is by no means a 'business-as-usual' plan for Evoenergy, as the business has decided not to extend the gas network into new developments in the ACT during the 2021-26 period, while investigating options for meeting the ACT's net zero emissions target. Driven largely by previous AER decisions on rate of return and tax allowances, the proposed plan delivers a welcome reduction in network prices by about 4% in 2021/22, followed by stable prices for the remaining 4 years.

CCP24 has observed that the GN21 Plan has been underpinned by a broad consumer and stakeholder engagement strategy. The engagement activities that we observed were well-managed and well-facilitated, and genuinely sought to elicit perspectives from a diverse range of customers and stakeholders. CCP24 have observed a significant 'step-up' in Evoenergy's engagement compared with previous regulatory reviews

The centrepiece of Evoenergy's Consumer and Stakeholder Engagement Program was the innovative Citizens' Jury. We consider that the Citizens' Jury was highly effective in assisting Evoenergy to prepare an Access Arrangement Proposal that reflected the perspectives of its customers and stakeholders with respect to the challenge posed by the ACT Government's net zero emissions policy. We believe this is the first time that a Citizens' Jury model has been applied to a regulatory reset process in the energy industry in Australia, and we consider that it was entirely appropriate for the circumstances.

This Advice examines the issue of stranded asset risk arising from the ACT Government's policy in some detail. In our view, it is the most significant issue for this revenue reset, and has implications for all other gas network businesses in Australia. Flowing from our analysis, we have recommended a broader review of the National Gas Law and Rules to determine whether they remain fit for purpose in a net zero emissions environment.

CCP24 supports Evoenergy's decision to cease network expansion in new developments in the ACT in the next AA period. Indeed, we argue that the same decision could also apply to market expansion in the NSW component of Evoenergy's network, as well as expansion of the network in 'brownfield' sites. To address the potential stranded asset risk, we also support the introduction of shortened asset lives for new long-lived assets, and the associated application of accelerated depreciation in the 2021-26 period. Clearly however, these are complex issues with both price and equity impacts in a declining gas market. CCP24 recommends that Evoenergy undertake further engagement on these issues with stakeholders prior to submitting their revised AA proposal.

As the ACT Government is providing incentives for customers to move from gas to electric appliances, we question the appropriateness of Evoenergy's continued expenditure on gas marketing at this time.

CCP24 supports Evoenergy's decision to continue application of the Efficiency Carryover Mechanism incentive scheme, and the adoption of the new Contingent Capital Efficiency Sharing Scheme.

Finally, CCP24 provides a view of the impact of COVID-19 on these revenue resets, and suggests a series of responses that may be necessary to accommodate the expected degree of uncertainty over the coming few years. We suggest that there will be a need for ongoing consumer engagement; revision of forecasts (including demand, connections, inflation, labour costs etc); and the potential need to re-consider Access Arrangement provisions post the final AER Decision.

3. Comparison between Evoenergy's GN21 Draft Plan and final GN21 Access Arrangement Proposal

The following table summarises the main features of GN21 and the changes since the Draft Plan.

	Current Period[a]		2021-26	
	Final Decision	Forecast	Draft Plan	Final Plan
Allowed Total revenue (nominal)	$314.9m	Not provided	$299.9m	$315m
Net Capex $2020/21	$88.1m	$77.0m	$66.2m	$63.3m
RAB at end of period vs end of current period		~$383m	~$371m	$369m (4% real decrease)
Opex	$170m	$160m	$173.5m	$175m
Number of residential and commercial tariff VI connections (end of period)	141,528 (2015-16)	153,175 (20-21)	164,000	158,553
Average annual consumption tariff VI connections GJ/yr	45	39.9 (2020-21)	35 average (2021-26)	36.2 (2025-26)
Total gas usage (PJ)	7.5PJ (2016-17)	6.4 (2020-21)	Not provided	6.1PJ (2025-26)
Real network component price pathway for residential customers	6.7% fall in year 1 then av of 1.2% each year (nominal)		0.4% fall in year 1 then constant (real)	4% fall in year 1 then constant (real)

a. Total revenue and real price pathway are what was approved by the AER in 2016; all other data is forecast actual over the period or at the end of the period for consumption

The main changes since the Draft Plan have been the reduction in capex, slower growth in customer numbers and a faster decline in average consumption. Average residential demand has fallen ~35% over the last 15 years[1]. Price falls are driven by reductions in WACC and tax allowance.

4. Consumer and Stakeholder Engagement

CCP24 involvement

Consumer Challenge Panel sub-panel 24 (CCP24) was established by the AER in July 2019 to provide advice on the 2021-26 Evoenergy (ACT, Queanbeyan and Palerang) and Australian Gas Networks (SA) Access Arrangement Reviews.

[1] See Evoenergy GN21 Plan, Appendix 7.1 p.3

The dual role of the CCP is to:

- advise the AER on whether the network business's proposal is in the long-term interests of consumers; and
- advise the AER on the effectiveness of network business's engagement activities with their customers and how this is reflected in the development of their proposals.

CCP24 members have been engaging with Evoenergy over the past 12 months to develop an understanding of the business, and the issues driving the development of the GN21 Plan. We have also been able to observe elements of Evoenergy's Consumer Engagement Program, and meet with a range of stakeholders.

During 2019 and 2020, CCP24:

- met with the Evoenergy regulatory team to discuss development of the AA proposal and understand the issues impacting on the business,
- observed 6 meetings of the Evoenergy Energy Consumer Reference Council (ECRC),
- observed both weekend sittings of the Citizens' Jury,
- attended Evoenergy's Deep Dive (Parts A and B) on the Draft Plan and proposed Capital Efficiency Sharing Scheme,
- attended an ACTCOCC/Evoenergy energy consumer advocacy workshop,
- attended briefings by Evoenergy on the Draft Plan and final GN21 Plan,
- held regular discussions with AER coordination and stream teams,
- held discussions with consumer representatives and other stakeholders.

In April 2020, CCP24 provided Advice to the AER on Evoenergy's Draft Plan[2]. In addition, CCP24 delivered a presentation to and participated in the Evoenergy 2021-26 Gas Access Arrangement (AA) Review Online Public Forum conducted by the AER in August 2020[3].

Consumer and Stakeholder Engagement Program

Evoenergy has developed a comprehensive Consumer and Stakeholder Engagement Strategy, as highlighted in Figure 4.1 below, reproduced from Evoenergy's GN21 Plan. The Strategy was developed approximately 12 months prior to the date for submission of Evoenergy's next AA Proposal. Implementation of the Plan commenced in August 2019, and is ongoing.

[2] https://www.aer.gov.au/system/files/CCP24%20Evoenergy%20Draft%20Plan%20Advice%20-%20April%202020.pdf
[3] https://www.aer.gov.au/system/files/CCP24%20-%20Presentation%20to%20public%20forum%20-%20August%202020.pdf

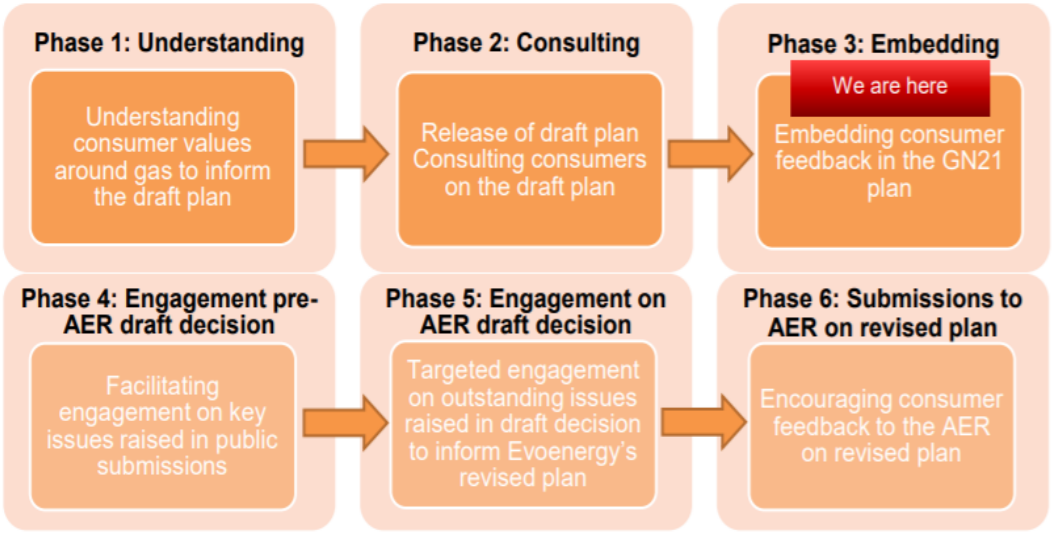


Figure 4.1: Evoenergy Consumer engagement phases

CCP24 considers that Evoenergy's Engagement Strategy is consistent with the requirements set out in the AER's Consumer Engagement Guideline for Network Service Providers[4]. It is notable that Evoenergy's Consumer and Stakeholder Engagement Program recognises and plans for ongoing engagement activity following lodgement of the GN21 Plan with the AER in June 2020. Evoenergy has indicated that they welcome stakeholder feedback throughout all phases of the engagement program.

During the first 3 phases of the plan, a variety of engagement tools was utilised, as shown in Figure 4.2. CCP24 participated in the first 5 of the activities listed in Figure 4.2.

Engagement activity	Date	Phase 1	Phase 2	Energy retailers	Household consumers	Small - medium business consumers	Vulnerable consumers	Culturally and linguistically diverse (CALD) community	Major customers (including infrastructure sector)	Government (ACT Government and NSW local government)
Citizens' Jury	Oct/Nov 2019	●	●		●	●	●	●		●
Energy Consumer Reference Council meetings	Six meetings over 2019 -2020	●	●		●	●	●		●	●
ACTCOSS partnership – Energy consumer advocacy workshop	Aug 2019 - ongoing	●	●		●	●	●	●		
Community regional roadshow – community council presentations and drop-in sessions	Feb/Mar 2020		●		●	●		●		●
Deep dive sessions	Mar 2020		●		●	●	●	●	●	●
Energy Matters Gas 2019	Sept 2019	●							●	●
ACTSmart Business Expo	Sept 2019	●			●	●		●		
Online survey	Sept - Nov 2019	●			●	●	●		●	
Hydrogen facility site visits	Aug 2019 - ongoing	●	●		●	●			●	●
Briefings and 1:1 consultations	Aug 2019 - ongoing	●	●	●				●	●	●
Email inbox and written submissions	Aug 2019 - ongoing	●	●		●		●			

Figure 4.2: Evoenergy engagement tools utilised in Phases 1-3

[4] AER Consumer Engagement Guideline for Network Service Providers – November 2013

Major Themes Arising from Consumer and Stakeholder Engagement

From the suite of engagement activities conducted, the following major themes were evident:

- ***Environmental sustainability and net zero emissions, including renewable gas futures –*** This was a dominant theme in the engagement activities we observed. ACT gas consumers were generally very supportive of the ACT Government's environmental sustainability commitments as evidenced in the Report from the Evoenergy Citizens' Jury ie.

  Our expectations as consumers is that Evoenergy will:

  • meet or exceed the emissions reductions targets legislated by the territory government.

  • actively campaign for an energy distribution system whose entire production and supply chain produces net zero or negative greenhouse gas emissions.

  • innovate in ways to frequently engage the community, the territory and federal governments, and the business community, for instance through processes like a Citizen's jury.[5]

- ***Affordability –*** Feedback reported in the Draft Plan included:
  - *'costs are too high making gas unaffordable for low usage households'*
  - *'Over 50 per cent of survey respondents felt the current price of gas was not reasonable'*
  - *'20 per cent felt reducing network charges should be a prime focus'.*

- ***Concerns for vulnerable customers, and a fair and just transition –*** These concerns were also highlighted in the recommendations made by the Citizens' Jury ie

  - *Evoenergy, in consultation with relevant parties (including Government, retailers and consumers), to develop consumer-centred policy to protect consumers from unexpected transition issues; consumers being stranded if critical mass exodus occurs*[6]

- ***Market expansion for ACT new developments, ACT infill and NSW expansion; Stranded assets and accelerated depreciation; Tariff structures – and conflict between declining block tariffs and ACT Government objectives; Capital Efficiency Sharing Scheme –*** These topics were key elements of the Draft Plan and emerged as the focus of Stakeholder responses to the Draft Plan.

CCP24 comments on the engagement

In CCP24's Advice to the AER on Evoenergy's GN21 Draft Plan, we reported that the engagement activities that we observed were well-managed and well-facilitated, and that in activating its program, Evoenergy has sought to broaden engagement beyond levels previously undertaken. We welcomed this broader perspective[7]. CCP24 have observed a significant 'step-up' in Evoenergy's

[5] Evoenergy Access Arrangement Information, Appendix 1.2, p3
[6] Ibid, p5
[7] https://www.aer.gov.au/system/files/CCP24%20Evoenergy%20Draft%20Plan%20Advice%20-%20April%202020.pdf, page 17

engagement compared with previous regulatory reviews. We consider that the engagement has been genuine and well-organised, and care has been taken to shape the program to suit the specific geographic and demographic characteristics of Evoenergy's customer base. A variety of engagement tools was utilised ranging from an innovative Citizens' Jury process to community 'pop-up' sessions. We commend Evoenergy for their willingness to experiment with different engagement approaches and to learn lessons from those that have not worked as well as intended, such as some of the community 'pop up' sessions.

To enhance accessibility of information about the GN21 Plan, we note that Evoenergy's final plan documentation submitted to the AER included a plain language explanation of the GN21 Plan for consumers ie the Evoenergy gas network 2021 plan, Summary for consumers.[8] It is pleasing to see that Evoenergy has taken care to provide such an accessible document to encourage involvement in the GN21 review for stakeholders who are less familiar with the process. Although this document has been provided as part of the final GN21 Plan, it continues to invite feedback on the plan for the duration of the review timeframe.

Further to our comments on consumer and stakeholder engagement in CCP24's Advice to the AER on the Evoenergy Draft Plan, we offer the following observations.

Involvement of CEO and executive management

In recognition of the organisation's commitment to the Citizens' Jury, both the ActewAGL CEO and the Evoenergy General Manager attended selected sessions of the event over its four-day duration, and also Deep Dive (Part A) which was also attended by members of the jury. On several occasions, each of these officers has also attended a meeting of the Evoenergy Energy Consumer Reference Council (ECRC).

Citizens' Jury

CCP24 provided extensive comments on the Evoenergy Citizens' Jury in our Advice to the AER on the Draft Plan[9]. In this Advice, CCP24 wish to reiterate our view that the Citizens' Jury was highly effective in assisting Evoenergy to prepare an Access Arrangement Proposal that reflected the perspectives of its customers and stakeholders. We believe that this is the first time that a Citizens' Jury model has been applied to a regulatory reset process in the energy industry in Australia, and we consider that was entirely appropriate for the circumstances.

The Citizens' Jury considered the central question:

'The ACT Government has legislated for net zero greenhouse gas emission by 2045. Evoenergy is committed to transform the gas network to meeting this target. As part of this transition, what are our consumers expectations of the service provided to them?'

As expressed in the CCP24 Advice to the AER on Evoenergy's Draft Plan:

The capacity for a Citizens' Jury model to be focused on a single, complex question and to involve the perspectives of the diversity of customers means that this methodology is particularly pertinent for Evoenergy in obtaining informed perspectives from ACT and NSW citizens.

[8] https://www.aer.gov.au/system/files/Evoenergy%20-%202021-26%20-%20Plan%20summary%20for%20consumers%20-%20June%202020.pdf
[9] https://www.aer.gov.au/system/files/CCP24%20Evoenergy%20Draft%20Plan%20Advice%20-%20April%202020.pdf

We commend Evoenergy for having the courage to try this methodology, and for a successful implementation.

Draft Plan

In accordance with current practice for most regulated networks in the NEM, Evoenergy released a Draft Plan at the end of February 2020, approximately four months in advance of the date for lodgement of the final GN21 Plan. The Draft Plan provides a valuable tool for facilitating engagement in the detailed content of the proposed AA, and is significant step towards greater transparency and openness in the regulatory process. We congratulate Evoenergy for this development.

In contrast with other network businesses, Evoenergy elected to use the Draft Plan as the primary platform to elicit stakeholder views on detailed matters of significant consumer interest or concern. (An alternative approach is to consult on key issues using deep dives or similar mechanisms as an input to preparation of the Draft Plan).

During the 4-week Draft Plan consultation period, the emerging COVID-19 pandemic lead to a strong public health response in Australia in mid-March 2020, with the Australian public being advised to self-isolate and to minimise any public engagement. Businesses were required to enable employees to work from home if possible. This constrained further engagement on issues raised in the Draft Plan submissions, and may also have been a factor in the limited number of formal submissions received.

Deep Dive

Following release of the Draft Plan, a 'deep dive' (Part A) was conducted in mid-March to present details of the Plan to stakeholders, and to consult on appropriate performance parameters for the proposed Capital Efficiency Sharing Scheme. Deep Dive Part A involved Citizens' Jury and ECRC members. A follow-on workshop (Part B) was attended by consumer advocates and other specialists, and examined aspects on the Draft Plan in more detail. Although Part B of the Deep Dive had to be conducted online as a result of the COVID-19 restrictions, Evoenergy took written questions from workshop participants and provided written responses.

Energy Consumer Reference Council (ECRC)

The ECRC has conducted two additional (online) meetings since release of the Draft Plan. Each meeting included a briefing on development of the final GN21, and changes since release of the Draft Plan. Following consultation on the need for further discussion/deep dive on accelerated depreciation and stranded assets in its most recent meeting (June 2020), ECRC members supported the need for further engagement on this issue.

Engagement with business customers and retailers

As noted in the CCP24 Advice to the AER on Evoenergy's Draft Plan, CCP24 has not observed or seen details of Evoenergy's engagement with business customers on the GN21 Plan (apart from some representatives' participation in the ECRC).

We understand that in proposing changes to its Reference Service Agreement (RSA), Evoenergy provided 6 retailers with a high-level summary of the proposed key changes to tariffs and the RSA and were invited to meet to discuss any issues[10]. Two retailers undertook further engagement with

[10] Evoenergy, Access Arrangement Information Attachment 11, page 9

Evoenergy on the RSA. CCP24 is not aware of any other engagement with retailers in relation to the GN21 proposal.

Unfinished business

As identified in Figure 1.1 above, Evoenergy's engagement program extends beyond lodgement of the GN21 Plan. Phase 4 of the program covers engagement pre-AER Draft Decision, and contemplates 'facilitating engagement on key issues raised in public submissions'.

CCP24 considers that there are two important issues that were raised in submissions to the Draft Plan[11] that warrant further engagement prior to the AER Draft Decision:

- The move towards net zero emissions, market expansion, related stranded asset risk and accelerated depreciation;
- Tariff structures and impacts on vulnerable consumers.

In the discussion on market expansion and stranded asset risk, we suggest that it will be important to identify whether the perspectives of NSW consumers differ from those of ACT consumers on this issue, as these possible variations have not been explored to date.

We understand that Evoenergy is actively considering further engagement on these topics in the form of deep dives involving a range of customer and stakeholder representatives. CCP24 encourages Evoenergy to continue progressing these activities.

Further Opportunities

With the exception of the Citizens' Jury and the Deep Dive session on appropriate parameters for the proposed Capital Efficiency Sharing Scheme, Evoenergy's engagement has been largely conducted at the inform/consult level of the IAP2 Public Spectrum. We encourage Evoenergy to consider the benefits of moving more of its engagement activities towards the involve/collaborate levels of the spectrum.

In our previous comments on Evoenergy's Draft Plan, CCP24 stated that Evoenergy's efforts, particularly with ACTCOSS, to facilitate input from low income and disadvantaged customer perspectives is laudable. We participated in the Energy Consumer Advocacy Workshop for representatives of energy consumers who are on low incomes, experiencing disadvantage, or at risk of hardship. We suggest that this group, under the leadership of ACTCOSS, provides Evoenergy with an opportunity to obtain direct input from this cohort of hard-to-reach consumers. CCP24 encourages Evoenergy to investigate opportunities for more targeted engagement with this group to provide a low income/disadvantage perspective on the GN21 Plan.

[11] As reported by Evoenergy in the Draft Plan Submission Feedback Report https://www.aer.gov.au/system/files/Evoenergy%20-%20Appendix%201.10%20-%20Draft%20plan%20public%20feedback%20summary%20report%20-%20June%202020.pdf. Draft Plan submissions are not publicly available.

5. The future of gas

As noted in our introduction, the GN21 Plan has been prepared in a time of heightened uncertainty and significant challenge for gas networks. This is particularly the case for Evoenergy as the ACT Government is the first jurisdiction in Australia to actually legislate a zero emissions target, in this case to be achieved by 2045. While this provides a clear policy objective, the Government is yet to legislate the detailed pathway of how this target is to be achieved eg what are intermediate targets specifically in relation to gas consumption. All that is available now are an indicative pathway and intermediate targets.

By contrast the NSW Government has an aspirational zero emissions target but is yet to put this in legislation.

This section discusses the Evoenergy response to the ACT Government's legislation and the absence of NSW legislation, and the associated actual and potential stranded asset risk. Section 8 more specifically discusses our response to Evoenergy's proposed accelerated depreciation for new capex in the ACT. It also proposes and an industry wide review led by the AER or the AEMC be undertaken to enable all stakeholders to consider the complex policy options, and discusses some of the issues that should be considered in that review.

We welcome the decision by Evoenergy to undertake a detailed deep dive in September on issues associated with stranded assets and we look forward to participating.

The reader is also referred to CCP24's discussion of the same Future of Gas topic in our Advice to the AER on the AGN Final Pan for 2021-26[12]. There are many common issues between the two networks, but the key difference is that the SA Government is in the same place as the NSW Government - an aspirational zero net emissions target that is yet to put it into legislation.

GN21 AA

ACT and NSW Government policy and Evoenergy scenarios

The Government legislated in 2019 for net zero emissions by 2045. It proposed reducing emissions by 50-60% below 1990 levels by 2025, 65-75% by 2030 and 90-95% by 2040. There are three key initiatives relation to natural gas usage[13]:

4B	Reduce emissions from gas	4.3	Amend planning regulations to remove the mandating of reticulated gas in new suburbs.	EPSDD By 2020
		4.4	Conduct a campaign to support the transition from gas by highlighting electric options and savings opportunities to the ACT community.	EPSDD From 2020
		4.5	Develop a plan for achieving zero emissions from gas use by 2045, including setting timelines with appropriate transition periods for phasing out new and existing gas connections.	EPSDD By 2024

Detailed implementation plans including timelines and transition periods for phasing out new and existing gas connections are expected to be published by early in the 2021-26 AA period. Indicative

[12] https://www.aer.gov.au/system/files/CCP24%20-%20Advice%20to%20AER%20-%20AGN%20Draft%20Plan%20response%20-%20June%202020.pdf

[13] https://www.environment.act.gov.au/__data/assets/pdf_file/0003/1414641/ACT-Climate-Change-Strategy-2019-2025.pdf, p.10

numbers presented by the ACT Government last year would mean significant reductions in gas use in the residential sector to 2030 with commercial reductions in later years [14]:

- around 60,000 existing households not connected to gas by 2025, increasing to around 90,000 in 2030 and all houses by 2045, and
- a decline in new houses connecting to gas, with no houses connected to gas by 2045,

concurrent with a conversion to electricity supported by a range of subsidies. The ACT Government is skeptical about the economic of hydrogen conversion.

Given the lack of detailed ACT Government guidance, Evoenergy is proposing in the ACT to:

- minimise investment to that necessary to maintain the safety and reliability of the network,
- plan for no connections in new ACT developments reflecting the ACT Government's strategy to end the mandating of reticulated gas in new suburbs, and declining new connections in other areas, and
- to accelerate depreciation on new, long lived assets with the aim of reducing the stranding risk.

In relation to NSW, where the Government has a zero emissions policy objective that is yet to be legislated, Evoenergy is proposing to continue new connections – both in new developments and infill where gas reticulation already exists – effectively a business-as-usual (BAU) proposal.

In respect of the ACT Government's 2045 commitment, key Evoenergy engagement themes included:

- environmental sustainability is a key driver for many consumers;
- general, though not unanimous, support for Evoenergy's proposal to not connect customers to gas in new ACT developments;
- some community feedback called strongly for Evoenergy to cease all new gas network customer connections irrespective of whether this was in a new or existing suburb;
- where feedback was opposed to ACT network expansion, it was similarly opposed to expansion of the network in NSW;
- the overall direction from customers was to constrain investment given the uncertainty the gas network faces;
- concern for the cost implications of achieving the 2045 target - renewable gas, electrification, changing appliances, protecting vulnerable customers, need for compensation, reduced competition and who would end up paying for stranded assets; and
- a variety of views on accelerated depreciation of both new and existing assets.

Evoenergy is preparing a roadmap for transition to net zero emissions by 2045. It discusses two broad scenarios:

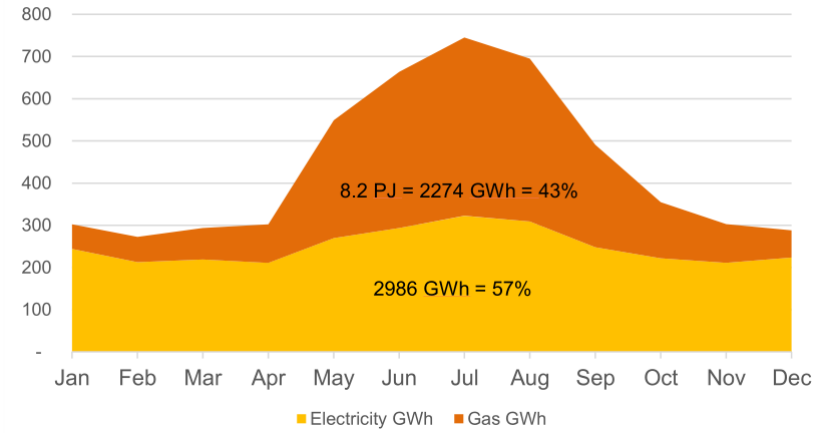
1. transition away from the gas network, with the region's energy needs being met by renewable electricity; and
2. transition away from carbon-emitting natural gas to renewable gas options, including hydrogen and biomethane.

[14] See p.39 https://www.environment.act.gov.au/__data/assets/pdf_file/0003/1414641/ACT-Climate-Change-Strategy-2019-2025.pdf

Converting to renewable electricity

Evoenergy argues that converting existing gas use to electricity would involve considerable investment at both the network and household/business levels as the gradual disconnection from the gas network occurs. The electricity network would need to be configured to meet a much higher winter peak demand depending on the level of demand response and energy efficiency. No cost estimates are provided, but costs would be high particularly in older established and more densely populated suburbs.

Figure 3 ACT energy demand 2018



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Converting to Hydrogen

The renewable gas strategy would involve a gradual move to increasing the proportion of renewable gas (hydrogen and biomethane) drawing on research that Evoenergy and other gas networks are doing across Australia

Evoenergy is involved in a range of hydrogen related activities:

- A Hydrogen Test Facility with the Canberra Institute of Technology (CIT), the ANU and Deakin University to understand hydrogen's potential application and impact on existing materials, equipment and work practices;
- Collaborating with the ANU Energy Change Institute to research hydrogen as an emerging fuel and how it can be used and stored;
- Partnering with the Australian Gas Infrastructure Group (AGIG) in an Expression of Interest for achieving 10% renewable hydrogen in Australian gas networks to supply up to 10 percent hydrogen to the ACT market; and
- Considering hydrogen as a source for replacement of unaccounted-for gas (UAG).

Stranded asset risk and accelerated depreciation

Evoenergy commissioned a study by Incenta on options to respond to stranded asset risk that arises from the ACT Government's 2045 target[15]. Incenta concludes that Evoenergy faces considerable stranded asset risk if depreciation is based on an asset's technical life.

[15] https://www.aer.gov.au/system/files/Evoenergy%20-%20Incenta%20-%20Appendix%204.3%20-%20Responding%20to%20stranded%20asset%20risk%20-%20June%202020.pdf

A starting point for this conclusion is the so-called 'regulatory bargain' between network, regulator and consumer:

- networks provide sufficient investment for a safe and efficient network and agree to a price cap to avoid monopoly pricing; and
- consumers agree to pay a price that allows the network to recover that investment including an efficient rate of return based on the level of risk they bear.

This means that the return provided by WACC does not compensate for stranded asset risk. So why would a network invest if it is unable to have confidence around recovery of that investment?

There are two ways to ensure this cost recovery with stranded asset risk – removing it (eg accelerated depreciation) or compensating for it. Incenta argue that the former is the preferred approach – it is NPV neutral, more likely advances allocative efficiency and avoids the latter's potential for windfall gains and losses. Doing it earlier is preferred as the later it is done the greater asymmetric risk. At some point it will be too late eg when too few customers are left and they either are unable to pay or there is a form of 'death spiral' as the increased gas price from delayed accelerated depreciation promotes a rush for electricity substitution.

The Incenta report quotes the current approach of the New Zealand Commerce Commission supporting acting early. An NPV neutral solution avoids the price shock that would come from a decision delayed until there is more certainty about stranded asset risk.

Incenta argue that:

- the Evoenergy proposal for accelerated depreciation for only new capex is only a small part of the potential risk to Evoenergy;
- the potential for the natural gas network to convert to hydrogen or other net zero emitting gas is insufficient to conclude that the risk of asset stranding is low; and
- if a conversion does occur subsequent to instituting accelerated depreciation it is reasonable to expect that cost based regulation would reflect the benefits of this earlier accelerated depreciation.

CCP24 response

Our Advice to the AER on the Evoenergy Draft Plan contained an extensive discussion of the impact of the ACT Government's 2045 target on the GN21 Access Arrangement proposal. We summarise it here and provide additional comments based on Evoenergy's GN21 discussion and our further reflection on the issues in the context of both the Evoenergy and AGN proposals. In particular we:

- support the principle of accelerated depreciation for new long life capex with the revised life being aligned with the date to achieve zero net emissions;
- suggest there is an arguable case that the long term interests of consumers would be advanced by starting accelerated depreciation or other stranded asset policies in the 2021-26 period, not only for the ACT but also for NSW assets;
- note that accelerated depreciation is one of a range of policies that may be available under the National Gas Rules to address stranded asset risk for new and existing assets in both ACT and NSW. We suggest consideration of these policies and whether the current rules are 'fit for purpose' in a zero net emissions policy landscape, is best done in the context of an AER or AEMC gas network-wide review involving all stakeholders in a complex discussion of policy options. We also discuss possible timing given the cycle of gas resets; and

- while the decisions for the gas network resets is governed by the rules, we consider that there is an arguable case for ACT Government compensation for stranded asset risk for capex spent until the end of the current period, and the ACT Government is in a unique position to consider this as the 50% owner of both the gas and electricity networks in the ACT.

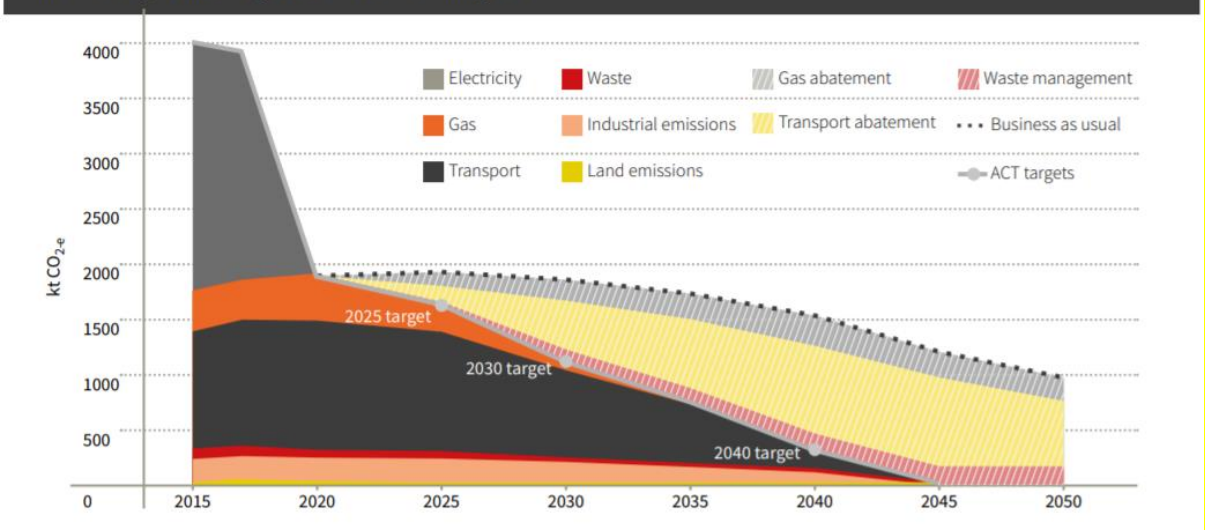
ACT and NSW Government policy

Even with the ACT Government's legislated policy, there is still a degree of uncertainty that will remain until the Government spells out its implementation plan in more detail. This is recognised in the March 2020 letter from the Minister for Climate Change and Sustainability to the Evoenergy Citizens' Jury members:

> "The ACT Government has not announced or made a commitment to ban natural gas usage. The Government committed to amending planning regulations to remove the mandatory installation of reticulated gas in new suburbs. This does not prevent its installation should customers continue to value its service. However, in developing its position on the future of natural gas, the ACT Government recognises the inconsistency of ongoing natural gas use with achievement of emissions targets."

As we wait for more detail from the ACT Government, we draw on the Government's 2019-2025 Climate Change Strategy published in 2019. Given the barriers facing reducing transport emissions, the advice from the ACT Environment, Planning and Sustainable Development Directorate was that gas is expected to do some of the early stage 'heavy lifting' in emissions reduction. The diagram below presents one scenario in the ACT Government's modelling[16] illustrating the early role of reduced gas emissions.

Figure 6: A potential pathway to achieving interim targets and net zero emissions by 2045.
Source: ACT greenhouse gas emissions modelling 2018.



In our Advice to the AER on the Draft Plan CCP24 highlighted:

- the move away from residential gas usage over the last decade;
- that the above pathway would mean a significant reduction in residential gas usage to 2030 and reduction in commercial use after that;

[16] Ibid p.38

- the range of incentives the ACT Government is offering for conversion from gas to electricity under the Actsmart programme[17];
- the strategy emphasising the need to avoid investment in infrastructure that locks in emissions from natural gas [18]; and
- the ACT Government's commitment to zero emissions from gas by 2040 and a 33% reduction on 2020 levels by 2025[19].

We were not convinced that the Evoenergy Draft Plan was consistent with the ACT Climate Strategy in that it argued for considerable investment in new connections and a forecast increase in customer numbers from 154,000 to 164,000. This increase was seen to be inconsistent with a 'no regrets' approach if hydrogen/renewables gas does not prove to be economically viable and consumers are left to pick up stranded asset risk.

Our conclusion on the GN21 proposal is that it is less inconsistent with the ACT Climate Strategy given the reduced customer numbers forecast and lower expansion capex. However, there is still a forecast increase in customer numbers of 3.5% over the next period, when the indications last year were that the Government's detailed implementation strategy may well embed a target to significantly reduce customer numbers from current levels over the next 5-10 years.

While we await the Government's detail, we can get an indication from the recent announcement by the Labor Party in the ACT that if re-elected, it will provide interest free loans of between $2,000-$15,000 to help cover the upfront costs of installing rooftop solar panels, household battery storage and hot water heat pumps. Customers would repay the loan over 10 years. The total amount of loans will be $150m[20] at the 10 year Government bond rate, that is a cost of ~$2.5m/yr. While acknowledging this is a loan and not a grant, the total represents ~40% of the RAB at the beginning of the 2021-26 period.

In our Advice on the Draft Plan we expressed concern about the stranded asset risk of new expansion capex in NSW where 10% of Evoenergy's customers are located, and encouraged Evoenergy to consider this in more detail. However no additional information was provided in the GN21 AA.

Our view is that while there is not the explicit Government policy as there is in the ACT, NSW may simply be a few years behind the ACT in its legislation as we outlined in our Advice on the Draft Plan. The message from stakeholders to Evoenergy in the "Responsible transition/network expansion" theme was[21]:

> "Where feedback was opposed to ACT network expansion, it was similarly opposed to expansion of the network in NSW."

New expansion capex in NSW has a very high risk of simply increasing the stranded asset risk all Evoenergy consumers will have to bear – and of being inconsistent with a 'no regrets' approach. With a uniform tariff policy in the ACT and NSW, ACT consumers will be cross-subsidising NSW consumers' stranded asset risk. In our Draft Plan Advice, we suggested a separate tariff for NSW

[17] See https://www.actsmart.act.gov.au/
[18] Ibid p.66
[19] Ibid pp.71-75
[20] See https://www.abc.net.au/news/2020-08-03/act-labor-promises-interest-free-loans-canberra-solar-storage/12516962
[21] Overview p.15

customers so that they are not cross-subsidised by ACT customers, but Evoenergy does not support this[22].

It is interesting to note that a submission on the Draft Plan[23] proposed that demand customers could support network maintenance costs while residential volume customers transition away from the network. Evoenergy's response was that:

> "Evoenergy considers cross-subsidisation to support transition would be inconsistent with the Rules framework."

Yet a uniform tariff policy with increased stranded asset risk in NSW creates a cross subsidy. It would be useful to understand when a cross subsidy is allowed/is not allowed under the National Gas Rules.

Further, it would be useful to delve into the implications of the r 79 conforming capex test for allowing new customers if the additional revenue offsets the additional costs. Additional customers provide the opportunity to spread existing fixed costs over a broader customer base and this results in a lower price for all customers – the denominator increase offsets numerator increase. We look forward to this being a topic at the proposed Deep Dive on stranded assets, with attendees being provided with simplified examples about how this equation might change in the case where large accelerated depreciation increases the numerator when the denominator is falling as users convert to electricity.

The cost of converting to renewable electricity

We acknowledge that the winter heating driven gas demand peak in the ACT when gas provides 55-60% of total energy demand is an important factor in converting to electricity to achieve the 2045 target. But apart from noting that the issue exists eg[24]:

> "If significant numbers of customers transition away from gas in brownfield sites (established suburbs), and other areas already at electricity capacity, there may be only very limited—and costly—network solutions."

and providing a qualitative analysis of conversion in O'Conner, Evoenergy has provided no modelling to help consumers understand how big an issue it might be eg how widespread are constraints in expanding the electricity network?, what is the level of spare capacity in the current distribution network?, what is the potential contribution of DER such as rooftop solar and demand response that would limit required network investment?. We understand that Evoenergy did initiate discussions with a consultant to do some modelling, but this was not completed due to its claimed complexity.

As we noted in our Advice on the Draft plan, this modelling is not only about the costs of electricity substitution. It is about the comparative costs of an electricity pathway vs a hydrogen/renewable gas pathway.

Hydrogen research

Many Australian gas networks are involved in various hydrogen related trials designed to create a pathway to increasing levels of hydrogen/methane blends and ultimately replacing methane with

[22] Overview p. 21
[23] Submission from Conservation Council discussed in Attachment 10 p.10-3
[24] Overview p. 10

hydrogen. This is being supported and encouraged by the National Hydrogen Strategy and funding from ARENA and CEFC.

While we are a long way from proving whether or not renewable gas is economic, Evoenergy seems optimistic[25]:

> "The best approach to protecting our customers (of both gas and electricity networks) from cost increases is to avoid a staged shut-down of our network. We are already exploring how we can transition the Evoenergy gas network to renewable gas. This pathway will allow us to help achieve the ACT Government's net zero emissions targets without the costs of decommissioning the gas network or those of expanding the capacity of our electricity network."

CCP24 agree that is the best approach, but the current evidence does not support that approach.

In our Advice on the Draft plan we commented on potential barriers to developing hydrogen in the ACT eg embrittlement risk in the two steel transmission pipeline delivering gas to the ACT means hydrogen would need to be produced close to the ACT. Nevertheless, we encouraged Evoenergy to be more expansive in their views on the hydrogen potential for the ACT in the GN21. Apart from referring to its research efforts and making general statements like the one above, there was no indication of the timetable for when hydrogen/renewable gas is expected to be available in any quantities to support the second roadmap scenario of a transition to renewable gas by 2045.

In our Advice to the AER on the AGN Draft Plan[26] we analysed the work done as part of the National Hydrogen Strategy, concluding that:

- hydrogen is unlikely to be a competitor for piped natural gas before 2030, and
- the discussion in 2024-25 leading into the 2026-31 revenue reset will be very similar to today – what risk should consumers continue to take on hydrogen development?

Stranded asset risk - who should pay?

The regulatory contract between the network, consumers and the regulator is that consumers commit to pay an efficient price and a network gets recovery of its efficient capex including a rate of return commensurate with the risk allocation between the network and consumers. Given these investments can have 50-80 year lives, there will inevitably be changes over their life that may influence the full recovery of that investment. This is more acute for gas than electricity given that gas is a fuel of choice and is subject to price cap rather than revenue cap regulation.

These changes can lead to the asset being 'economically' stranded. This can be due to factors such as own and cross price elasticities, competition, technology changes or changes in Government policy. We are concerned with the last – where a stranded asset is the result of an exogenous Government policy change – here an actual (ACT) or likely future (NSW) net zero carbon target.

In considering who should pay for stranded assets, we distinguish between three capex categories:

(i) Historical capex spent up to the end of the current reset period
(ii) Replacement capex proposed for 2021-26 to sustain existing connections

[25] Overview pp23-24
[26] See https://www.aer.gov.au/system/files/CCP24%20-%20Advice%20to%20AER%20-%20AGN%20Draft%20Plan%20response%20-%20June%202020.pdf

(iii) Expansion capex proposed for 2021-26 - both 'infill' where it is new connections in areas where gas is already available and 'augmentation' where it is expansion of the network to new regions/suburbs.

We make a further distinction between ACT and NSW given the different policy framework.

Capex categories (i) and (ii)

It can be argued that historically the network provided these assets in good faith and consumers connected in good faith over time expecting to be able to use gas up to the end of the asset's technical life. Implicitly, both the network and consumers accepted that there were market and regulatory risks eg the price of gas increasing significantly to make gas use uneconomic for consumers continued access or the network's return on and of their capex that may mean the asset's economic life is less than its technical life. We see these risks as part and parcel of the existing regulatory contract.

We would suggest that major changes in Government policy are in a different category. This leads to consideration of a new regulatory contract that involves a different risk allocation. Until relatively recently, the ACT Government actively supported a shift to gas usage based on the view that it was relatively cheap, clean and efficient – at least compared with a coal dominant electricity supply. Until 2019, natural gas reticulation was mandated for new suburban developments and subsidies were provided to consumers to upgrade to more efficient gas appliances[27]. Now the Government's zero net emissions policy is suddenly reversing past policy and introducing new stranded asset risk to past regulatory approved investments where the approved WACC return does not compensate for this risk.

While it is outside of the AER's remit to implement the rules, if we were to apply a 'causer pays' approach then there is an argument for the ACT Government to bear at least a portion of the stranded asset risk associated with that previously approved capex. Their 50% ownership of Evoenergy (and hence both the gas and electricity network) puts them in a unique position to consider just that. The ACTCOSS submission on the Draft Plan discussed the potential contribution of Government to the cost, given it was a Government policy change that led to the issue arising[28].

Capex category (iii)

Here we see a strong case for a new regulatory contract which involves a different range of policy options and risk allocation. Both consumers and networks now have the explicit Government policy in the case of the ACT and the expected policy change in the case of NSW. This suggests both parties should make decisions on investing and consuming new long life assets in 2021-26 aware that they will increase the stranded asset risk in the ACT and may increase that risk in NSW. This means a regulatory contract that ensures for ACT investments:

- Evoenergy has confidence that it will recover the full value of its investments before 2045; and
- ACT consumers are aware that the price they will pay reflects a shorter asset life.

[27] Evoenergy is proposing that they continue in 2021-26 as part of opex.
[28] See ACTCOSS "Submission to Evoenergy Gas Network 2021 Draft Plan pp15-16. https://www.actcoss.org.au/sites/default/files/public/publications/2020-submission-Evoenergy-GN21-Draft-Plan.pdf

For NSW investments it means both Evoenergy and consumers proceed on the basis that asset lives will be reduced with the legislation of a zero emissions target in NSW. One response would be pricing to reflect that potential stranded asset risk.

The argument for Governments to bear some of that potential stranded asset risk in both ACT and NSW is much weaker than in the case of (i) and (ii) given the expansion capex was committed in the full knowledge of the Government's actual (ACT) or foreseeable (NSW) policies.

Stranded asset risk and policy options

Given that the AER is to make its decision within the rules, we now focus on how the stranded asset risk should be allocated between consumers and the networks in the absence of Governments bearing some of that risk. We initially focus on accelerated depreciation and then briefly consider differential tariffs and finally comment on the possible role for Government to share the risk[29].

We find a lot to agree with in the Incenta analysis of the stranded asset risk facing Evoenergy[30]. Independently of whether we agree with the AER's burden of proof on accelerated depreciation in the Jemena gas decision[31], we believe that Evoenergy has met that burden for their proposed accelerated depreciation proposal applying to new assets. This is required to give confidence that they will recover their costs.

In addition to supporting Evoenergy's proposed accelerated depreciation of new long-lived assets – category (iii), we suggest there is an arguable case for some accelerated depreciation for categories (i) and (ii).

The AER in rejecting Jemena Gas's application for accelerated depreciation seemed to support this[32]:

> "JGN's revised proposal suggested demand would end for each of the pipeline asset classes at different times from 2050 to 2075. Existing assets are proposed to reach the end of their technical lives, with the longest lived asset expected to expire in 2100. It would be inconsistent with the depreciation criteria to approve some economic lives based on an expectation of demand ceasing by 2050, but then allowing other economic lives for similar assets to continue to 2100."

So, if there is a case for accelerated depreciation for new assets, it cannot be separated from a case for accelerated depreciation for all assets to ensure full recovery of ACT costs by 2045 and to mitigate potentially inequitable outcomes for NSW consumers. Our proposition is that, in the absence of explicit Government commitment to cover stranded asset risk, the longer a decision on accelerated depreciation is delayed, the greater the potential for intergenerational inequity.

[29] There are other options we discussed in our Advice on the AGN Draft Plan https://www.aer.gov.au/system/files/CCP24%20-%20Advice%20to%20AER%20-%20AGN%20Draft%20Plan%20response%20-%20June%202020.pdf

[30] See Appendix 4.3

[31] See Jemena Attachment 4 Regulatory Depreciation p. 13 https://www.aer.gov.au/system/files/AER%20-%20Final%20decision%20-%20JGN%20access%20arrangement%202020-25%20-%20Attachment%204%20-%20Regulatory%20depreciation%20-%20June%202020.pdf

[32] See Jemena Attachment 4 Regulatory Depreciation p. 13 https://www.aer.gov.au/system/files/AER%20-%20Final%20decision%20-%20JGN%20access%20arrangement%202020-25%20-%20Attachment%204%20-%20Regulatory%20depreciation%20-%20June%202020.pdf

This position is informed by our view expressed above around the timing of when we think that hydrogen might be commercially feasible (rather than when we might know for certain that it is commercially feasible).

Significant government support for developing cheaper hydrogen is not a guarantee that it will result in a hydrogen price that is competitive with reticulated gas. Based on current evidence, this requires a hydrogen price of slightly above $1/kg, nearly half the $2/kg stretch target the Commonwealth Government has set the advisory group under Dr Finkel[33]. Even if there is an agreed pathway to $1/kg by 2030, there is the time period to when it is actually delivered. By that time the ACT Government's policy is likely to have resulted in a significant number of customers leaving the gas network leading to the potential death spiral.

Given that 30% of Evoenergy's assets on 1 July 2021 (~$115m) will remain unrecovered by 2045[34], it is arguable that the long term interests of consumers may not be served by delaying a decision on accelerated depreciation to say 2026 or 2030 or some time when a conclusive statement can be made like "hydrogen will not be economic" or "hydrogen may be economic in the next 5-10 years". If hydrogen is proven not to be economic in 5-10 years' time, consumers may be suddenly faced with a gas network charge assuming an asset life of only a further 15 years rather than 50, as accelerated depreciation steps in. Slow recovery of capital suddenly becomes very fast as network charges increase significantly.

Given the ACT Government's expected significant fall in the number of gas consumers by 2030, those consumers that remain are more likely to be lower income and less able to pay a network charge that suddenly has only 15 years to recover a significant level of assets still in the RAB. It is not a case of stranding as a result of the reduction in demand from one group of customers (who have substituted electricity for gas) that can be made up by recovering that shortfall from another group of customers because this latter group is declining. Rather, it is a case where total demand is falling at an increasing rate.

The two major gas customers in the ACT – the Government and ANU both have clear policies to exit gas:

- ACT Health and the Government policy to move to have a zero emissions public health sector by 2040[35]
- ANU Acton campus and its Acton Campus Energy Strategy to move to 100% renewables[36]

Evoenergy forecasts that annual network consumption will fall from 7.5PJ in 2016-17 to 6.1PJ in 2025-26. As noted above, average residential consumption has fallen 35% over the last 15 years.

The earlier the accelerated depreciation starts, the more customers and volume that is around to share that cost. This is no different to the logic Evoenergy uses to justify its marketing expenditure being used to retain gas customers[37]:

> "Keeping customers who choose to continue to use gas is in the long term interests of Evoenergy's gas consumers as using energy efficient appliances reduces the bills of those

[33] See https://www.minister.industry.gov.au/ministers/taylor/speeches/keynote-address-ceda-future-direction-energy-technologies-event-sydney
[34] Incenta p.11
[35] See ACT Climate Change Strategy p.75
[36] See http://imagedepot.anu.edu.au/scapa/ANUACEnergyManagementStrategy.pdf
[37] See Attachment 2 p.2-5

> customers who have taken advantage of the gas rewards program. In addition, it will deliver bill reductions to all customers by maintaining the customer base over which our costs are spread."

If hydrogen does prove to be economic then the accelerated depreciation in the time up to that decision would be reflected in lower network charges subsequent to that decision. Consumers keep all the benefits of accelerated depreciation in an NPV neutral outcome.

The logical extension of this view is, in principle, to not support any expansion capital even where it is for in-fill in existing reticulation areas. As the AER noted in its Jemena Gas decision[38]:

> "…capex is typically only approved by us on the basis that the asset will be used for its technical life."

The alternative is to support it where the particular consumer cohort pays a network charge that reflects the stranded asset risk from that new investment. It is understood that this is possible under the rules, but Evoenergy has indicated it does not want to move away from a postage stamp tariff. This results in existing consumers cross-subsidising future consumers. We think that is inequitable.

We are open to supporting expansion capex where it is accompanied by measures that confine the stranded asset risk to those using the expansion capex assets. We discussed a range of these in our Advice on the Draft AGN Plan. The response from gas networks is a combination of:

- their obligation under the rules to connect with any additional charge to reflect stranded assets risk very unlikely under r 79, and
- their support for continuation of postage stamp tariffs.

Yet they can meet their obligations under r79 and still have differential tariffs for different customer classes as some do now.

The benefit of a network wide review of the rules

These issues around stranded assets are complex and should be the subject of extensive consumer engagement prior to any significant decisions that impact on prices today vs prices in the future, being taken.

Our Advice on the AGN Draft Plan recommended the AER undertake a fit for purpose review of the gas law and rules to see how they might need to be changed to meet the NGO in the context of Governments' net zero emissions policies. Further discussions with other consumer groups have also included the possibility of an AEMC review given there are potential rule changes involved. We have discussed a few of the policy options here and what we believe are considerations relevant to that discussion. The review would examine not only what the options might be but also how they might be best combined to meet the NGO.

Given our views above on the potential adverse equity issues around too long a delay, we would support the review taking place sooner rather than later. Two options are:

- in time to be considered for the Victorian gas resets for the period 2023-27, or
- in time for the next Jemena Gas reset for the period 2025-30.

[38] Jemena Attachment 4 Depreciation p. 14

6. Operating expenditure

GN21 AA

Opex is the major component of the building block revenue assessment accounting for 60% of proposed revenue over the 2021-26 period.

Evoenergy is proposing to use the standard base, step, trend approach for forecasting opex with 2019/20 as the efficient base year. Three components are estimated using the 'bottom-up' category specific approach - government charges, unaccounted for gas (UAG) and the IT asset utilisation fee (ITAUF), which together account for a third of Evoenergy's opex forecast.

The table summarises the total opex (excluding debt raising costs) expenditure in the current and forecast periods. Forecast opex is 3% higher than the current period allowance and 10% higher than forecast opex in the current period.

2016-21		2021-26 Forecast	
AER Allowance	Forecast	Draft Plan	AA
$171m	$160m	$173.5m	$175.1m

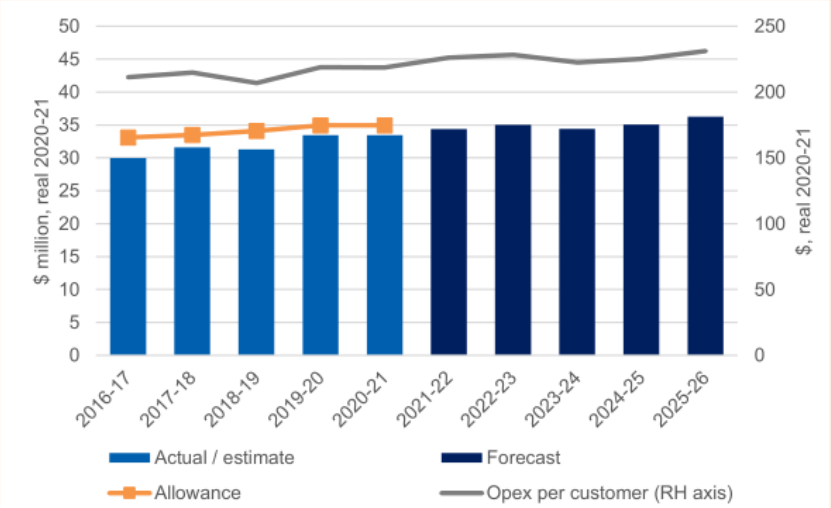
The breakdown of opex by category for the current period is shown below.

Table 2.1 Breakdown of actual opex by category

$ million 2020/21	2016/17	2017/18	2018/19	2019/20	2020/21
Controllable costs	17.62	19.87	20.05	20.50	20.75
Energy Industry Levy	0.48	0.83	0.63	0.48	0.47
Utilities Network Facilities Tax	7.06	7.39	7.70	8.16	7.96
Unaccounted for Gas	2.53	2.01	1.70	1.65	1.61
IT Asset Utilisation Fee	1.00	0.94	0.88	0.83	0.81
Other	1.29	0.55	0.32	1.81	1.85
Total	**29.98**	**31.59**	**31.27**	**33.43**	**33.45**

Opex per customer increases because the rate of increase in customer numbers is lower than the rate of increase in total opex.

Evoenergy's forecast opex for 2021-26 with the AER's allowance and actual opex for the current period



Two main factors contribute to over half of this increase:

- A $3.5m increase in the ACT Government's Utilities Network Facilities Tax (UNFT) to a total of $45.3m or 26% of total opex[39]; and
- A step change with $2.5m pipeline inspection (pigging) costs, which were capitalised in the current period and are proposed to be expensed in the 2021-26 period. Pigging is designed to ensure existing assets are maintained in good working order for their asset life – not to extend that asset life. It also reduces stranded asset risk. This move was approved by the AER in its recent Jemena Gas decision.

The 2019/20 base year is considered efficient based on a benchmark study by Economic Insights, the existence of the efficiency carryover mechanism, and because it is less than that set by the AER as efficient in 2015. Evoenergy adopts the AER electricity opex productivity growth rate of 0.5% per year. This is the midpoint of the Economic Insights analysis that showed annual productivity growth 0.4% for 2007-14 and 0.6% for 2014-2019.

Labour costs are assumed to increase at an annual real rate 0.70-0.97% as the average of the Deloitte and BIS Oxford forecasts. With a zero real change in non-labour prices, annual real price change varies from 0.42% to 0.58%.

Table 2.3 Rate of change forecast

Rate of change	2021/22	2022/23	2023/24	2024/25	2025/26
Real price change	0.43%	0.42%	0.55%	0.58%	0.50%
Output growth	0.79%	0.55%	0.52%	0.50%	0.50%
Productivity growth	0.50%	0.50%	0.50%	0.50%	0.50%

[39] Add in the Energy Industry Levy for regulatory costs including AEMO and total Government/regulatory charges total $48.5m or 28% of opex.

Unaccounted for Gas (UAG) is a pass-through to consumers based on the volume and price forecasts. Jemena manages UAG as part of the services provided to Evoenergy under the Distribution Asset Management (DAMS) agreement. Evoenergy provides a technical report that concludes that, given their relatively modern network, UAG is mostly attributable to measurement issues and not leakage. Yet Evoenergy's UAG level has increased from around 1.96% in the prior Access Arrangement period to a four year average of 2.49%, and the latter average is the proposed volume for 2021-26. Two independent reviews (technical by HWGM and commercial by KPMG) of Jemena's UAG procedures concluded that their approach is in line with good industry practice.

The base opex includes an allowance for marketing costs ($1.1m in the base year) to encourage consumers to move to more efficient gas appliances. Evoenergy argues this allowance offers a choice for consumers following the ACT Government's ending of subsidies for gas efficiency upgrades in July 2019.

CCP24 Comment

In contrast to the situation with electricity networks, the AER has less data at its disposal to assess gas network efficiency. There are revealed costs as a result of the incentive provided by the Efficiency Carryover Mechanism (ECM) but, at best this is an indicator of relative improved performance over time for the network, not an indicator of either the network's relative efficiency compared with other networks (provided by benchmarking data), nor of the absolute efficiency (all the networks may be inefficient).

In the absence of this AER data, it is encouraging to see the gas networks developing their own benchmark data. It is early days and we need to be cautious about the results, but they do provide a measure of comparability and performance. Evoenergy presents data prepared by Economic Insights is support its position on base year efficiency and the level of productivity improvement.

Benchmarking – Base year

The Economic Insights (EI) report for the two measures indicates Evoenergy is "average"[40]:

- average opex per customer (in $2010) over the latest five-year period was $120, which was well below the average opex per customer for the six gas distribution businesses (GDB)s with lowest customer density ($151). The seven GDBs with higher customer density tended to have lower opex per customer.
- opex per km of mains was $3,685 over the latest five-year period, which is lower than the average of for the GDBs with comparatively low customer density ($4,449 for the latest five-years). The average opex per km for GDBs with higher customer densities was similar to the average for those with lower customer density.

After normalising opex per customer for some of the main determinants of real opex, Economic Insights concludes that[41]:

> "Evoenergy's normalised real opex per customer is similar to the sample average."

and we do not consider "average" as "efficient".

[40] See GN21 Plan, Appendix 2.4 p.4
[41] Op cit p.5

We look to the AER to undertake an analysis of the appropriateness of the proposed base year and the robustness of the EI analysis. We note the AER's conclusions regarding the Economic Insights study on Jemena Gas's base year efficiency[42]:

> "Economic Insights stated that JGN appears to be close to the average across all gas distributors for most of the efficiency measures in its analysis. However, it acknowledged that its comparison does not control for other opex cost drivers that may be relevant; therefore, caution should be exercised in drawing inferences. Economic Insights' findings suggest that JGN does not have any material inefficiency and does not require an adjustment to its base year opex…
>
> We agree with Economic Insights that the conclusions from its benchmarking analysis should be treated with caution. This analysis is limited by the small sample size of gas distribution businesses and it is difficult to test some of the underlying data sources— among other things. However, as set out above, and in the absence of any evidence to the contrary, we are satisfied that the 2017–18 base year opex is efficient."

Benchmarking – Forecast productivity growth

Evoenergy's selection of 0.5% productivity growth seems to be drawn from a particular reading of the Economic Insights modelling results. The EI conclusions are:

- Evoenergy's efficiency score was 0.85 which put it close to the average for the sample (13 GDBs – 11 Australia, 2 – New Zealand); the highest score was 0.98.
- Evoenergy's rate of technical change or 'frontier shift' is between 0.54 and 1.35 per cent per annum; with an intermediate estimate of 0.95 tough this is likely to include an element of catching up to the frontier as well as frontier shift and then concludes[43]:

  "For these reasons, the estimate of 0.95 should be regarded as an upper bound, and a somewhat lower estimate may more reliably reflect the underlying opex efficiency rate of change."

We look to the AER to assess whether the selection of 0.5% that is lower than even the lower bound, is an appropriate number. We doubt it. This compares with the 0.74% proposed by Jemena Gas and accepted by the AER, contingent on the AER accepting labour costs based on the weighted average of the Deloitte and BIS Oxford Economics estimates, which it did in the Jemena Gas Final Decision.

Unaccounted for gas

We encourage the AER to undertake a network wide analysis of UAG to assess how Evoenergy performs against other gas distribution networks. Evoenergy provides no comparative performance data, unlike AGN. It is recognised that there are differences between networks. We also encourage the AER to examine Evoenergy's gas procurement arrangements to give comfort to consumers that competitive processes and sourcing options were used.

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[42] See AER "Draft Decision Jemena Gas Networks Attachment 6 Operating Expenditure" November 2019 p. 26 https://www.aer.gov.au/system/files/AER%20-%20JGN%202020-25%20-%20Draft%20decision%20-%20Attachment%206%20-%20Operating%20expenditure%20-%20November%202019.pdf

[43] GN21 Plan, Appendix 2.4 p.9

Marketing costs

The base year costs for 2019/20 include ~$1.1m in marketing for the 'gas rewards' cash back programme. In our Advice on the Draft Plan we argued that the justification for a continuation of marketing costs seems inconsistent with ACT Government policy[44]. It is indeed difficult to understand that the ACT Government as a 50% shareholder in Evoenergy is proposing to spend a considerable marketing budget to get consumers to buy more efficient gas appliances at the same time as they are spending a considerable budget subsidising those same consumers to convert from gas to electricity. A number of other submissions on the Draft Plan expressed similar views[45].

Evoenergy cite their online survey that revealed[46]:

> "…almost 60% of survey respondents expect to use the same or more gas over the next 5-10 years"

Aside from providing no detail on sample size of control variables for it being a representative sample, even it if were statistically correct, there are 40% of respondents saying they will consume less gas, so they are not interested in paying for marketing expenditure.

The ACT Government explicitly ended subsidies for gas efficiency upgrades because it wanted consumers to move from gas to electricity ie it explicitly does not want consumers to have the choice Evoenergy wishes to retain and charge consumers for.

We continue to believe that marketing should be a negative step change.

7. Capital Expenditure

GN21 AA

The impact of the ACT Government policy is seen in the reduced capex, particularly for market expansion in both the current period and next period. Proposed net capex is 18% below that forecast actual spend for the current period and 28% below the AER allowance for the current period.

Table 6 Net capex by category, current 2016-21 and forecast 2021–26 period

$ million (2020/21)	AER allowance 2016-21	Actuals 2016-21	Forecast, 2021-26
Market expansion	49.7	45.9	26.3
Capacity development	7.1	7.2	0.9
Stay-in-business - network renewal	17.0	8.2	12.9
Stay-in-business - meter renewal	18.2	17.4	23.6
Non-system	0.6	0.0	0.0
Gross capex	**92.6**	**78.7**	**63.8**
***less* capital contributions**	4.5	1.7	0.5
Net capex	**88.1**	**77.0**	**63.3**

Note: Includes construction management fee, capitalised overheads, and labour cost escalation.

[44] And as noted above the recent Labour Party promise if re-elected to provide large interest free loans to encourage electricity replacing gas.
[45] GN21 Plan p. 19
[46] See Attachment 2 p.2-5

With the spend falling considerably over the 2021-26 period.

Table 3.2 Forecast capex by category, 2021-26 access arrangement period

$ million 2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	Total
Market expansion	5.0	5.3	5.1	5.5	5.5	**26.3**
Capacity development	0.2	0.2	0.2	0.2	0.2	**0.9**
Stay-in-business – network renewal	4.0	4.8	2.0	1.7	0.4	**12.9**
Stay-in-business – meter renewal	6.0	4.5	4.9	3.6	4.4	**23.6**
Non-system	0.0	0.0	0.0	0.0	0.0	**0.0**
Gross capex	**15.2**	**14.9**	**12.2**	**11.0**	**10.5**	**63.8**
less capital contributions	0.1	0.1	0.1	0.1	0.1	**0.5**
Net capex	**15.1**	**14.8**	**12.1**	**10.9**	**10.4**	**63.3**

*May not sum due to rounding.

The two largest capex expenditure categories are 'market expansion', 42.5% of total proposed capex allowance and meter replacement, 37% of proposed expenditure - 79.5% of proposed capex, in combination. We consequently focus our attention on these two expenditure items.

Market Expansion

Around 42% is expansion capex vs forecast 58% in the current period. This is driven by the downward revision in forecast new homes connections. The only expansion capex in the ACT is from infill to suburbs where gas reticulation already exists covering both households and new multi-unit developments[47].

Capex category	Medium/High density	New homes & other market expansion categories	Total
Market expansion			
ACT	5.6	16.3	21.9
NSW	0.1	3.8	3.9
Total market expansion	**5.7**	**20.1**	**25.8**
Capacity development			**0.9**
Network renewal			**12.9**
Meter renewal			**23.6**
Non-system			**0.0**
Total			**63.3**

Evoenergy's response to Draft Plan submissions that did not support any expansion capex within the existing network footprint (including CCP24) was:

- Evoenergy must comply with the rules that oblige it to make connection offers and provide third party access to their network;
- These connections must be made without a capital contribution and a connection charge can only be imposed when expected revenue is less than the capex required for the connection; almost all connection applications pass this test on the assumption that the connections will last at least 10-15 years – well before 2045 - it takes on average only seven years for a connection to yield more revenue than the capex incurred;
- New connections drive price reductions as capex is spread out over more customers;
- New connections increase the likelihood that the network will have a role in the future delivery of hydrogen.

[47] Table provided by Evoenergy 17th July 2020

The proposed market expansion by category is given below

Table 3.4 Market expansion capex by category excluding capital contributions

$ million (2020/21)	AER allowance 2016-21	Actuals/ Estimate 2016-21	Forecast 2021-26
Electricity to gas	8.8	1.7	0.6
New homes	25.1	28.0	8.5
Medium density/high rise	6.7	6.3	5.8
Industrial & commercial	8.9	11.3	11.4
Total	**49.5**	**47.2**	**26.3**

The table shows both the rapid decline in "electricity to gas" and "new homes" customers while declines in forecast expansion are modest for medium density and C&I customers.

Meter replacement

Evoenergy explains their meter replacement approach as follows. "Residential gas meters are statistically sampled prior to 15 years of service in accordance with the requirements of Australian Standard AS4944. A sample of residential gas meters is removed from service and tested two years prior to reaching 15 years of service. It is expected that these meters will be approved for a five-year life extension with the additional opportunity to include testing to attain a subsequent life extension at 20 years. However, the statistical sampling testing will provide actual replacement requirement volumes.[48]"

CCP24 Comments

A number of submissions on the Draft Plan, including CCP24, questioned whether it is prudent to continue connecting customers within the existing network footprint, not just in the ACT but also in NSW. Our Advice on the Draft Plan suggested that such connections may be inconsistent with a 'no-regrets' strategy as it does not minimise the overall stranded asset risk to Evoenergy's customers should the renewable gas option fail to eventuate.

As noted previously, while the NSW Government is yet to formally commit through legislation to a net zero emissions target, it does have it as an aspirational target[49]. We would submit that this provides sufficient basis for not undertaking expansion capex in new areas in NSW – even if it does not satisfy the AER Jemena Gas test for accelerated depreciation. No expenditure makes the accelerated depreciation discussion redundant.

The usual test for allowing new customers is if the additional revenue offsets the additional costs. Additional customers provide the opportunity to spread existing fixed costs over a broader customer base and this results in a lower price for all customers – the denominator increase offsets numerator increase. However, we think it would be useful for Evoenergy to provide, and engage on, a simplified

[48] Evoenergy AA proposal, attachment 3 https://www.aer.gov.au/system/files/Evoenergy%20-%20Attachment%203%20-%20Capital%20expenditure%20-%20June%202020.pdf

[49] See https://www.environment.nsw.gov.au/-/media/OEH/Corporate-Site/Documents/Climate-change/achieving-net-zero-emissions-by-2050-fact-sheet-160604.pdf

example about how this equation might change in the case of large accelerated depreciation in the future increases the numerator when the denominator is falling as users convert to electricity.

For the market expansion categories, we are unconvinced by the expansion forecasts for both medium density housing and C&I customers, while recognizing the difficulty of forecasting in the current state of uncertainty.

Meter replacement

With an increase of 36% compared to actual expenditure for the current period, in a declining capex spending environment, meter replacement appears to be inconsistent with other capex item trends. We asked Evoenergy why there is such a substantial increase proposed for the next period, particularly when the current period capex expenditure is significantly less than the allowance. Evo responded by saying that as a matter of principle, meters are only replaced when they need to be replaced. The average life of a meter is about 15 years. Over the past and current regulatory periods, meters have been assessed and kept if still functioning after their notional 15 year life, so entering the next period there is an increase in the number of meters that are 20 years old or more. The more telling information is that the ACT gas network underwent considerable expansion during the 1990's and so there is a greater number of meters that are reaching the end of their useful lives in the next period, from the 1990's expansion.

This explanation satisfies our initial concerns. We look to the AER to further validate the Evoenergy meter replacement perspective.

8. Capital Base and Depreciation

GN21 AA

Regulatory depreciation is forecast to be $6.5m higher than the current period. This is particularly driven by the forecast expenditure on meters combined with their 15 year asset life.

Evoenergy proposes shortening the asset lives for three categories of new investments:

- high pressure mains from 80 years to 50 years
- medium pressure mains from 50 to 30 years, and
- medium pressure services from 50 to 30 years

It argues that this is an appropriate response to the ACT Government's net zero emission policy and consistent with the rules that[50]:

> "…specifically allows for adjustments to asset lives to ensure that they remain reflective of economic lives and so as to allow a service provider sufficient funds to meet its financing and other costs."

Evoenergy differentiates its situation from that of Jemena Gas where the AER rejected Jemena Gas's application for accelerated depreciation on the basis that:

- it was a 'business as usual' plan that involved expansion capex; and

[50] Attachment 4 p. 4-5

- NSW has not formally adopted a position which is likely to result in the end use of gas in NSW by 2050.

There is a legislated target in the ACT and Evoenergy, unlike the current period, is not proposing any new market expansion in new suburbs. GN21 is not a 'business as usual' plan. The ACT situation would justify accelerated depreciation for both new and existing assets but Evoenergy is only proposing it on new assets which are a relatively small part of total assets. The increase in depreciation is $0.7m out of total period proposed revenue of $264m.

CCP24 comments

Our comments on the Draft Plan were not supportive of the accelerated depreciation proposal.

> "We do not understand why customers should bear a risk that best sits with the business owners and the ACT Government. The ACT Government as a 50% owner of Evoenergy is in a unique position. Government policy is the driver of any stranded asset risk and associated call for accelerated depreciation."

We referred to the AER's Draft Decision on Jemena Gas (now confirmed in its final decision) to not support accelerated depreciation for all new capex with >30 year asset life. We also pointed to the proposed capex spend in new market expansion. We were concerned about the distributional impact – increase in prices would encourage consumers who can afford to switch to electricity to do so leaving a greater burden on those who cannot, even with Government subsidies, move to electricity. We also noted the different approach that AGN is taking for its 2021-26 proposal – delaying any decision on accelerated depreciation until the 2026-31 period when they expect to have a clearer view on the hydrogen potential.

In the absence of ACT Government support for Evoenergy and its customers, and after considering the arguments Evoenergy has advanced and reviewing the Incenta report, we are persuaded to support the application of accelerated depreciation subject to further understanding of the details eg why the revised asset life does not result in an economic life to 2045 to align with the emissions target? Does it only cover assets in ACT?

We note the support for various levels of accelerated depreciation in other submissions on the Draft Plan with some proposing that it apply to both future and current assets. We agree with the ACTCOSS position that bringing forward asset cost recovery will spread out the costs over a larger customer base and lessen the level of asset recovery left to a declining, potentially lower income, customer base in the future as consumers move to electricity. As we commented above, we believe there is an arguable case to supporting accelerated depreciation on past, approved capex and this should be the subject of a wider AER consultation process on an overall review of the rules and options to address stranded asset risk, rather than considered as part of a particular reset.

Inevitably, application of accelerated depreciation at any level will have an impact on customer bills for both current and future customers. CCP24 supports Evoenergy convening a stakeholder Deep Dive on accelerated depreciation to consider a range of accelerated depreciation options and associated price impacts for consumers. We expect that discussion should also include consideration of accelerated depreciation on the existing RAB.

9. Customer number and demand forecasts

GN21 AA

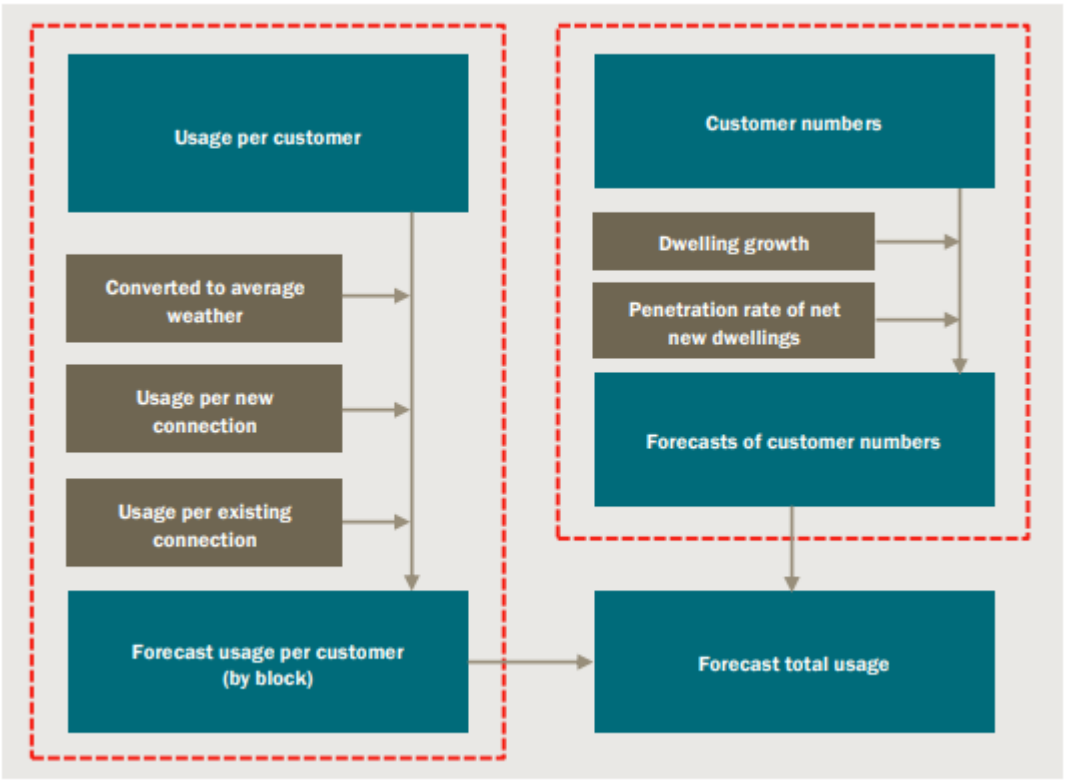
We recognise that forecasting is never an easy task, and in the current context with uncertainty about energy policy, the future of gas and COVID-19 impacts, forecasting is all the more difficult. In this context a significant input into Evoenergy's forecasts for 2021-26 was the engagement of Centre for International Economics (CIE) to develop independent forecasts.

The Centre for International Economics (CIE), as expert consultants, developed an independent and detailed forecast of demand and customer numbers for the Evoenergy gas distribution network. CIE's approach involves developing forecasts for the two main customer groups:

- Volume customers, which include around 150,000 residential and small business customers who use less than 10 TJ of gas a year and are charged based on the volume of gas they consume; and
- Demand customers, which include around 40 of the largest commercial and industrial customers who use more than 10 TJ of gas a year, and are mainly charged on how much capacity they require.

CIE use the following approach to estimate demand for both residential (volume) customers and commercial and industrial (demand) customers.

4 Forecasts of Tariff VI residential gas connections and usage



Data source: CIE.

Figure 9.1. Source, Evoenergy GN21 AA, appendix 7.1

Evoenergy has disaggregated the forecasts to separately consider ACT and NSW customers and to consider 'greenfields' connections, requiring new network, and 'brownfields' or infill developments

where existing pipeline infrastructure can be utilised. The following table shows the ACT / NSW split for residential customers.

	Residential customer numbers	Share
ACT	134 264	90%
NSW	15 188	10%
Total	**149 453**	**100%**

Source: CIE analysis of Evoenergy billing data

Figure 9.2: Source, Evoenergy GN21 AA, appendix 7.1

Application of ACT climate policy effectively rules out new connections in greenfield sites, so new residential connections will come from NSW, which the chart above shows is about 10% of Eovenergy's customers, and from infill development in Canberra.

Residential Demand

While the AER does not yet conduct benchmarking analysis for gas network businesses in Australia, CoRE Energy produced some benchmarking data in their analysis for AGN, including forecasts for residential demand across the gas networks. These results are copied below:

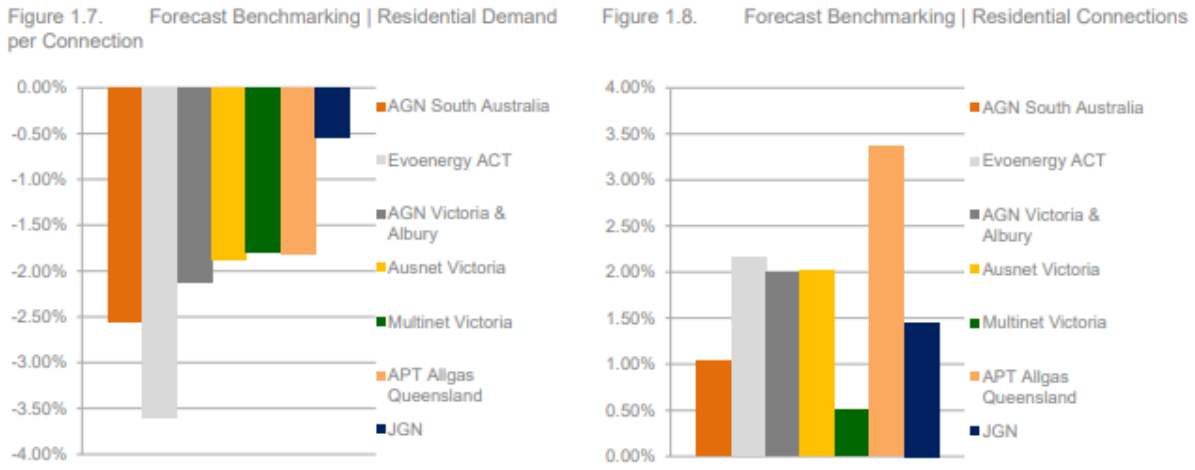


Figure 9.3: Source, AGN Final Plan, CoRE Energy

All Australian gas networks are expecting reduced demand per connection over the coming years with CoRE explaining why Jemena Gas (JGN) is something of an outlier, stating "It should be noted that the slowest decline in demand for connection shown for JGN is due partly to growth in a new multi-dwelling meter type whereby one metered connection is typically supporting 50-100 individual dwellings."

The analysis leads to the forecasts for residential gas use for Evoenergy's network for the period 2021-26 as given in the chart below. This chart reflects a modest increase in connections of about 2% being offset by the highest level of gas demand reduction per connection in Australia. We understand that these results factor in assumptions about climate change and weather, cross referencing with CoRE Energy's normalising for weather methodology.

The analysis leads to the following estimates for residential demand for Evoenergy over the next AA period.

Volume (household) customers

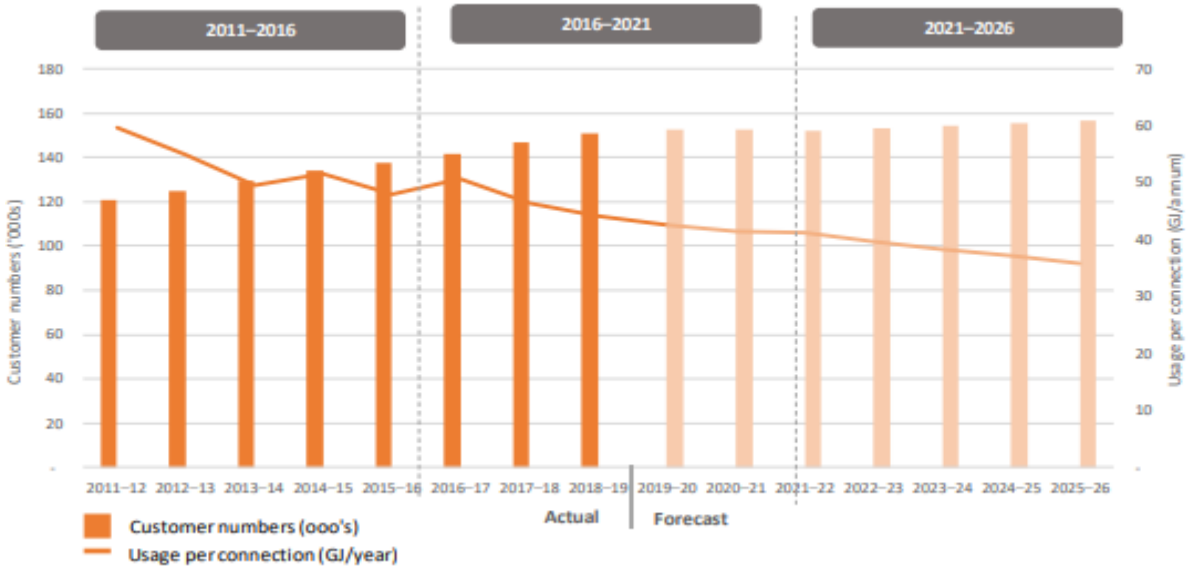


Figure 9.4: Source, Evoenergy GN21 AA, appendix 7

Demand (C&I) customers

The gas demand for Evoenergy is mainly for households, however commercial customers are also important. Evoenergy say in their AA proposal

> "The number of demand customers has been relatively stable at around 40 customers for the past 18 years, and this trend is forecast to continue for the 2021-26 AA period. An increase of two customers is forecast in 2019/20 to account for two volume customers who have recently used more than 10 TJ over 12 months, with no further growth in customers forecast thereafter. Overall, demand customers are forecast to use around 1.2 PJ each year, similar to levels observed over the past 8 to 9 years."

Actual and forecast demand for Demand customers

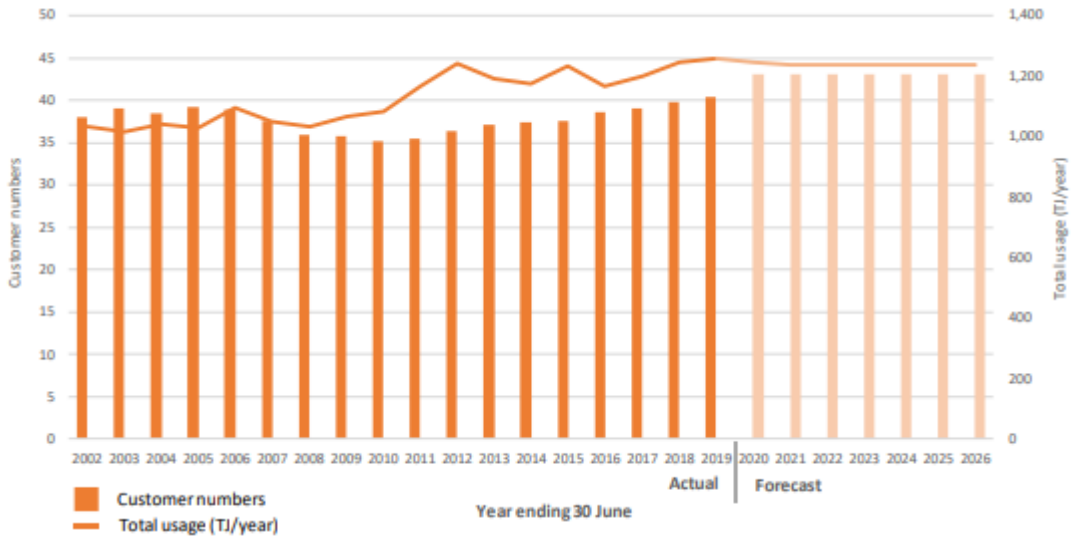


Figure 9.5: Source, Evoenergy GN21 AA, appendix 7

CCP24 comments

Evoenergy has undertaken a very comprehensive approach to forecasting customer numbers and demand for each of their major customer segments through to 2026. The approach, and that adopted by their consultants, CIE are consistent with the methodology accepted by the AER to the best of our knowledge and would be difficult to improve from a methodological perspective. The forecasts consider all known variables, but still are forecasting in a very uncertain environment, particularly regarding uncertainty about COVID-19 impacts on demand.

As could be expected the rate of growth of new connections continues to fall, as well as average consumption for household customers, a trend that has also been evident through the current AA period

We agree with Evoenergy's approach to not forecast new connection in greenfield developments, due to ACT climate policy. We consider that the forecasts for NSW may be optimistic and there is considerable uncertainty about the rate of future connections for brownfield developments.

The C&I forecasts are dealing with known entities for Evoenergy, however the forecast of flat rather than declining growth for this customer sector may be optimistic, particularly given that the ACT Government is amongst Evoenergy's largest customers and they plan to actively reduce gas use during the AA period.

CCP24 looks to the AER to make a detailed assessment of forecasts and compliance with the rules. We anticipate that the forecasts are compliant and consider them to be as comprehensive and rigorous as is possible in the current climate of substantial uncertainty particularly for gas.

We also anticipate that there will be merit in revising forecasts for the revised AA proposal to reflect any emerging trends, at that time, regarding COVID-19 impacts on demand.

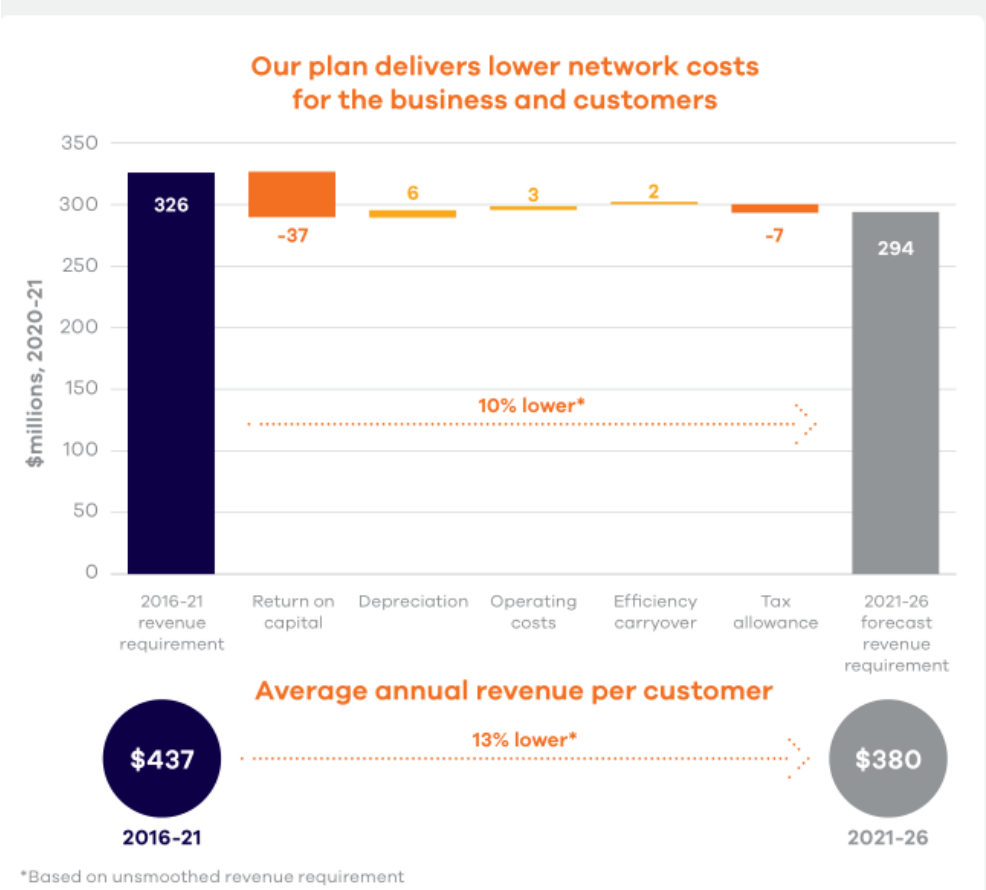
10. Revenue requirement and price impacts

GN21 AA

Feedback to Evoenergy was that affordability is a key concern:

> "Evoenergy received feedback on affordability, with many consumers indicating that current prices are too high and there was a need to focus on reducing network charges going forward."

Evoenergy's response is that total proposed revenue for 2021-26 is 10% lower than the AER's Final Decision for the existing period and 13% lower on a per customer basis. The key drivers of the reduction are the rate of return and tax expenses, offset to a small extent by an increase in depreciation and operating expenses.



Evoenergy considered three options for smoothing revenue over the access arrangement period:

- capturing all the real price reduction in year 1 followed by zero real price changes in the following years;
- smoothing the real price reduction over the full access arrangement period with equal price reductions in each year; and
- setting the price changes in each year to meet the AER's preferred threshold of 3% between smoothed and unsmoothed revenue in the final year.

The resulting price path for each option is shown in Figure 8.2:

Figure 8.2 Price path options

Evoenergy believes that the first option – all the price reduction in year 1then zero real price change for years 2-5, provides the best outcome in terms of price stability and meeting affordability concerns. Given network charges are ~28% of the delivered price, this 4% real decrease in year 1 results in, assuming all other components of the bill are unchanged, a 1% delivered price reduction in 2021-22 for both residential and commercial customers.

Table 8.3 Real indicative retail bill impacts, average residential customers

	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
Residential annual gas bill	1224[1]	1210	1210	1210	1210	1210
Evoenergy component	337[2]	323	323	323	323	323
Residual component	887	887	887	887	887	887
Annual change $		-14	0	0	0	0
Annual change %		-1.1%	0.0%	0.0%	0.0%	0.0%

Table 8.4 Real indicative retail bill impacts, average commercial customers

	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
Commercial annual gas bill	13527	13402	13402	13402	13402	13402
Evoenergy component	3043	2918	2918	2918	2918	2918
Residual component	10485	10485	10485	10485	10485	10485
Annual change $		-125	0	0	0	0
Annual change %		-0.9%	0.0%	0.0%	0.0%	0.0%

CCP24 comments

The two major drivers of the small price decrease – WACC and tax allowance – are both matters outside of Evoenergy's control. It is these factors that are allowing prices to be 'stable'. Without these factors, prices would have risen because of higher capex/depreciation and opex, which is within Evoenergy's control. Average annual revenue per customer is falling more that the price fall to individual customers because of rising customer numbers.

Given the current historically low risk free rates, there is a real risk that consumers could face considerable price rises in the next 2026-31 period as the ACT Government implements its zero emissions policy. Declining customer numbers and declining average consumption per customer are likely to offset a declining RAB as the network and its customers have to deal with increasing stranded asset risk.

11. Incentive Mechanisms

11.1 Efficiency Carryover Mechanism (ECM)

GN21 AA

Evoenergy is currently subject to an ECM that provides an incentive to achieve savings over the allowed opex expenditure. It is proposed to retain the scheme for 2021-26.

CCP24 comments

We make the same comments as we made in our Advice on the Draft Plan:

- we support continuation of the ECM;
- given that Evoenergy proposes to exclude capex ($2.1m) associated with new connections from CESS, we think it would be consistent to exclude opex associated with new connections from ECM.

In responding to our position on exclusion of expansion opex, G21 notes[51]:

> "Evoenergy notes that a key feature of the ECM is its ability to enhance the credibility and accuracy of the base-step-trend opex forecasting method. This requires the ECM to include costs forecast using the single-year revealed cost approach. Therefore, Evoenergy has not proposed to exclude opex associated with new connections from the ECM, and considers that this is approach is most consistent with the overall objectives of the scheme."

We consider that the exclusion of opex that may or may not occur depending on the soon to be released details of the ACT Government's 2045 policy would enhance the credibility and accuracy of the base step trend forecasting. If costs are not incurred then they will be removed from the base for the next regulatory period. We expect the amount to be relatively small.

In explaining why expansion capex was not included in the CESS, Evo says[52]:

> Based on feedback received through our engagement on the CESS, and similar to the CESS proposed by JGN, we are proposing to exclude new connections related capex from Evoenergy's CESS. We believe that, to provide a sharp incentive, the CESS should only apply to categories of capex that are within Evoenergy's control. Capex related to new connections is likely to be strongly influenced by market forces and the policy environment in the ACT. We accept that it may be undesirable to incentivise us to avoid additional unforeseen connections, or to reward us for underspends that arise from connection numbers being less than expected."

[51] G21 Attachment 9 p.9-3
[52] G21 Attachment 9 pp. 9-8-9

We think the same logic supports exclusion of expansion opex from the ECM. We do not support Evo being rewarded for an underspend on opex flowing from the ACT Government's detailed 2045 pathway.

11.2 Capital Expenditure Sharing Scheme (CESS)

GN21 AA

Evoenergy proposes to introduce the Capital Expenditure Sharing Scheme (CESS) for the 2021-26 AA period, similar to the schemes recently approved by the AER for the four gas distribution businesses in Victoria and Albury, and for Jemena in NSW. It believes that the proposed CESS is in the long-term interests of customers and will help further improve the efficiency of the capital expenditure program, keeping downward pressure on bills.

Reflecting concerns expressed in stakeholder consultation that adoption of a CESS does not result in a deterioration in service quality, the proposed CESS includes a Contingent Payment Factor. This will reduce the return to Evoenergy if service quality deteriorates below the target level. There was consumer group input in the selection of appropriate network performance measures and weightings, ensuring the new incentive achieves customers' preferred balance of efficiency and service quality. The frequency and duration of unplanned supply interruptions was the most important service quality measure.

Given the policy uncertainty over the future of gas in the ACT, Evoenergy is proposing that any capital expenditure associated with new connections should be excluded from the operation of the scheme. This means that $37m of the proposed $63.3m capex would be subject to CESS.

CCP24 comments

CCP sub-panels are generally supportive of Capital Expenditure Sharing Schemes for all network businesses, primarily to encourage efficient capex programs and also to balance the incentives between opex and capex expenditure when an ECM is also operating. We support the proposed CESS, the exclusion of expansion capex, the Contingency Payment Factor and associated performance measures and targets, and the proposed adjustments where they are consistent with recent AER gas network CESS decisions.

12. Tariffs

GN21 AA

The GN21 tariff proposals are very similar to the Draft Plan:

- simplifying its tariffs by abolishing a number of tariffs which have zero or very few customers on them;
- combining residential and business tariffs into one class;
- simplifying the process for Demand customers to reset their chargeable demand; and
- making the ancillary charges more cost reflective.

The GN21 AA provides responses to concerns we raised in our Advice on the Draft Plan following our discussions with residential consumer advocates (which also raised these issues in their own submissions) relating to:

- equity and environmental sustainability of declining block tariffs
- a separate tariff for NSW customers.

Evoenergy is not proposing to remove its declining block tariff as it is consistent with the objective of Rule 94(4)(b)(ii) that requires two part tariffs to have regard to the ability of customers to respond to price signals. The low fixed charge combined with declining block provides this incentive in a network where the marginal costs of supplying additional unit of gas is materially lower than the average costs (the benefit of 'bulk buying'), encouraging increased network utilisation.

With regard to the separate NSW tariff, Evo responded:

> "We do not consider this is currently required. We see this, as a medium to long term tariff strategy rather than something to be implemented as part of the 2021-26 access arrangement revision proposal."

There was overall stakeholder support for simplification of the number of tariffs.

CCP24 comments

The Evoenergy approach is understandable given the gas rules and the commercial objective of maximising network utilisation:

- the average cost of provision of network services decreases with volume and pricing needs to reflect costs
- growing the market benefits all customers as fixed costs are spread over a wider customer base.

It is therefore not surprising to see Evoenergy explicit target a lower block 2 price in the current period which is where the heating load occurs and it remains competitive with electricity[53]. This tariff variation is consistent with gas networks taking demand risk and it is consistent with the NGO. However, it is not consistent with a reduction in gas demand to achieve the ACT Government's 2045 target.

This highlights the arguments advanced in the Attachment to our CCP24 Advice to the AER on the AGN Draft Plan. There we recommended an AER review to consider whether:

- the current NGL/NGR are fit for purpose given emerging Government policy on zero emissions, and
- required changes can be achieved through a change in the interpretation and application of the existing rules or whether amendments are needed.

Our reason for suggesting consideration of a separate NSW tariff was based on Evoenergy's proposal to continue expansion capex in NSW. The risk for NSW customers is that significant reductions in connections under the ACT Government's policy will leave NSW customers carrying significant stranded asset risk for ACT assets. This risk still remains. We are puzzled by Evoenergy's comment that this is[54]:

> "…part of a medium to long term strategy rather than something to be implemented as part of the 2021-26 access arrangement…".

[53] See Attachment 10 p. 10-16.
[54] Attachment 10 p. 10-2

The 2021-26 period would seem an appropriate time to start implementing a medium to long term pricing policy. It is consistent with Evoenergy's proposal for accelerated depreciation for new capex – both mitigate future stranded asset risk.

13. COVID-19 implications

This section deals with some of the questions that arise as a result of Access Arrangement considerations that result from the uncertainties associated with COVID-19. As this advice is written, Victoria is in stage 4 lockdown and has had the worst day for COVID related deaths since the virus was detected in Australia. The ACT and South Australia are tentatively re-opening their economies, but a spectre of uncertainty remains across Australia. The initial optimism that the public health response to the pandemic would be brief and that economic activity would soon bounce back is evaporating. There is a growing community sense that the impacts both from health and economic perspectives will be of a longer duration.

On June 10th Renew Economy[55] reported on the International Energy Agency's global gas outlook reporting:

> "The International Energy Agency has described the start of 2020 as a "meltdown" for the international gas market, with export prices and demand for gas smashed so hard that it puts any prospect of a "gas led" economic recovery into serious question.
>
> In its Gas 2020 report released on Wednesday, the International Energy Agency said that global gas markets are set to become significantly oversupplied, as investments in new gas production coincides with a largest ever decline in consumption see prices tumbling."

While on 22nd July AEMO[56] reported in quarterly energy dynamics for the second quester of 2020:

> "Wholesale gas prices continued to fall, with the Gas Supply Hub (GSH) price averaging $4.10/GJ, its lowest level since Q4 2015. Factors influencing low gas prices included declining international gas prices (and subsequently a reduction in LNG exports and high levels of gas flows south from Queensland), lower electricity prices, and increased supply from Moomba and Orbost."

These quotes indicate some of the uncertainty in post-COVID gas (and electricity) markets. They also indicate that gas prices are likely to plummet and will probably slow the assumed decline in gas consumption and should also reduce the anticipated costs of UAFG gas for the gas networks

This section draws substantially on the work of CCP17 in their recent response to Victorian DNSP regulatory proposals which will be impacted by COVID as will AGN and Evoenergy through their Access Arrangements.

Responding to COVID-19 requires a holistic approach and we recognise that many of the responses to the pandemic need to be "NEM wide", while there are some responses that have more immediate

[55] https://reneweconomy.com.au/iea-global-gas-market-in-meltdown-as-demand-and-prices-smashed-by-covid-19-91980/
[56] https://aemo.com.au/-/media/files/major-publications/qed/2020/qed-q2-2020.pdf?la=en

application to the two gas Access Arrangement proposals. In this section we consider both NEM wide and AGN/Evoenergy responses as they are inter-twined for CCP24 considerations.

On page 1 of the Issues Paper[57], Victorian electricity distribution determination, 2021-26, the AER observes "there are unique circumstances for this regulatory reset, namely recent bushfires and timing changes for the reset period. The coronavirus (COVID-19) will impact both our approach to stakeholder consultation and the ability of all market participants to engage." We suggest that the same comments also apply to Evoenergy and AGN AA proposals

The Introduction describes the different approach that was undertaken in conducting the Public Forum due to COVID-19, with an online video link approach being utilised for both AGN and Evoenergy public forums. The AER concluded the Victorian DNSP introduction section of their Issues Paper with the following "we are proposing to adopt a greater degree of flexibility in our approach to requesting and receiving information (from all stakeholders) and how we need to consider the extenuating circumstances in our analysis. We will provide the distributors with a chance to submit on the effect of COVID-19 on their proposals and other stakeholders a chance to respond to the business's submissions. This may also impact on timing of some elements of the process going forward."

We agree that the impacts of COVID-19 have been and will be significant and cannot be reasonably predicted, therefore all stakeholders involved with this reset will wrestle with uncertainty where previously there was at least a reasonable degree of predictability, even if it didn't seem to be the case, at the time.

The next section provides a brief background to key responses to COVID-19 to date and the following section provides some thoughts from CCP24 about some of the areas of impact and processes to deal with the largely unknown impacts of COVID-19 pertinent to this reset.

What has happened?

The COVID-19 pandemic was emerging as Evoenergy and AGN were in final phases of their consumer engagement while only initial impacts were being observed when these two gas businesses lodged their AA proposals. For Australia, responses to the global pandemic started during mid-March and rapidly escalated by the end of March, by which time all Australian residents were being told to self-isolate, working from home where they could and businesses that could not operate with social distancing requirements ceased operation. The Commonwealth Government instituted a JobKeeper payment to enable people with no work, but likely work with their employer post COVID-19, to be retained by employers and still have income while maintaining isolation.

Two of the substantial impacts of the March COVID-19 measures have been:

- a significant number of businesses pausing their operations for an unknown period of time – particularly in Victoria; and
- a substantial increase in the number of people unemployed or underemployed and spending more time at home.

Energy network business responses

Quite early in the COVID-19 isolation phase, on 2nd April, Energy Networks Australia (ENA) released a statement on behalf of energy networks across Australia that recognised the arrival of COVID-19 and committed network businesses to some responses.

[57] AER, Issues Paper, Victorian electricity distribution determination, 2021-26

ENA CEO Andrew Dillon said, "*Networks understand these are extraordinarily tough times for small business and energy bill relief will really help*".

His explanation of assistance to be provided by networks included:

> *"For small businesses that are mothballed, electricity and gas network charges will not be applied from the start of April to the end of June 2020, if their consumption is less than a quarter what it was in 2019.*
>
> *Networks know it is in everyone's interest to support small businesses through what is an extremely challenging period … Networks will be deferring or rebating electricity and gas network charges for impacted customers.*

This assists impacted customers and helps energy retailers, who administer energy hardship programs."

The ENA has further explained that "*the residential part of the network relief package aims to support energy retailers so that they can better assist residential customers who experience energy bill hardship as a result of COVID-19, networks will work with individual retailers to determine how retailers systems can best deliver assistance to affected customers… Networks are working with retailers to develop transparent and easily administered criteria for the application of the relief package."*

In early April on the 9th, the AER released a formal "Statement of Expectation" to give guidance to both energy businesses and consumers about reasonable responses to a sudden influx in rates of people experiencing financial hardship, both for households and small businesses. The AER's Statement of Expectations required energy businesses *"to ensure the continued safe and reliable supply of energy to homes and businesses, and to support both residential and small business customers experiencing financial stress*."

The statement included 10 principles intended to both protect customers at risk and to maintain reliability of supply for energy markets, these principles being:

- Offer all residential and small business customers who indicate they may be in financial stress, including small businesses eligible for the JobKeeper Payment, a payment plan or hardship arrangement, regardless of whether the customer meets the 'usual' criteria for that assistance.
- Do not disconnect any residential or small business customers who may be in financial stress (including small businesses eligible for the JobKeeper Payment), without their agreement, before 31 July 2020 and potentially beyond.
- Do not disconnect any large business customer, including businesses eligible for the JobKeeper Payment, without their agreement, before 31 July 2020, and potentially beyond, if that customer is on-selling energy to residential or small business customers (for example, in residential parks or retirement villages).
- Defer referrals of customers to debt collection agencies for recovery actions, or credit default listing until at least 31 July 2020.
- Be prepared to modify existing payment plans if a customer's changed circumstances make this necessary.

- Waive disconnection, reconnection and/or contract break fees for small businesses that have ceased operation, along with daily supply charges to retailers, during any period of disconnection until at least 31 July 2020.
- Prioritise the safety of customers who require life support equipment and continue to meet responsibilities to new life support customers.
- Prioritise clear, up-to-date communications with customers about the issues addressed in this Statement, including by keeping website, social media and call centre waiting and hold messages up to date, so customers can readily access updates when they need them and relieve some pressure on affected call centres.
- Prioritise clear communications with customers about the availability of retailer and other supports, including the availability of payment plans, energy efficiency advice and fault repair.
- Minimise the frequency and duration of planned outages for critical works and provide as much notice as possible to assist households and businesses to manage during any outage.

Some of these principles reflect particular responses required in the current COVID-19 pandemic, while others reinforce existing requirements under energy laws.

The AER also said "We recognise that our expectations in this Statement may add to the risks and costs facing energy businesses. We are particularly concerned about the continued viability of energy businesses and we are proactively working with all stakeholders on options to appropriately balance these risks and costs across the sector and to ensure energy businesses get the assistance they may need in the coming months."

Subsequently the AER submitted an urgent rule change[58] to back-up their Statement of Expectations to allow electricity retailers to defer payments to networks. The AER proposal states that:

"While the Government has taken steps to increase income support, it is clear many electricity customers are facing difficulties in paying their electricity bills. More than 20,000 electricity customers have registered for payment plans since early March 2020 and over a thousand customers per week are seeking assistance from retailers."

The intent of the rule change is summarised as "Notwithstanding any agreement for payment deferrals for customers in financial stress, the National Electricity Rules (NER) currently require retailers to make full payment of network charges as they fall due. The purpose of this rule change proposal is to alleviate cash flow pressure on electricity retailers. In particular, we are concerned that the COVID-19 pandemic could potentially undermine the operation of retail electricity markets leading to multiple retailer failures."

In summary the rule change proposal is stated by the AER as: "We propose network charges for customers on a COVID-19 customer arrangement be deferred by up to 6 calendar months."

The AER explains that some of the aspects of the rule change include:

"Network charge deferrals include distribution and transmission components. Distribution networks would in turn withhold a reasonable amount from transmission networks to account for transmission charge deferrals. At the end of that period, network charges in respect of eligible customers must be paid by retailers regardless of whether the customer has paid the retailer."

[58] https://www.aer.gov.au/communication/aer-proposes-new-rule-to-support-electricity-retailers-during-covid-19

We are also aware that signatories to the Energy Charter (which include AGN through Australian Gas Infrastructure Group and Evoenergy through ActewAGL membership) are also actively collaborating on industrywide responses to energy affordability issues related to economic slowdown and social isolation impacts of COVID-19.

More recently, on 1st August, the AER[59] released a second of expectations, basically extending the initial expectations beyond 31st July 2020 for a further 3 months.

Should COVID-19 change the reset process or considerations?

This discussion is a preamble to the question of how, if at all, the processes for consideration of the 2021-26 Access Arrangements should be adjusted to consider all impacts of COVID-19.

CCP24 suggests that we are now at the stage of COVID-19 responses when we are able to identify a significant number of the "known unknowns" relevant to future trajectories of COVID-19 responses, so businesses should be able to better identify many of the potential impacts. and hence some reasonably well developed thinking about how the Regulator responds to these. Before the final gas AA decisions are released, the AER should be better placed to respond to some of the COVID-19 impacts, and have discussed these with the networks.

It is quite easy to identify a long list of likely through to possible impacts of COVID-19 on AGN and Evoenergy. These gas network businesses will be impacted operationally in much the same way as other network businesses are affected, however the timing of the AA process arguably means that at least some COVID-19 responses will need to be considered sooner than the impacts are considered for network businesses at 'later' stages in the regulatory cycle.

Likely impacts of COVID-19 on energy distribution businesses include:

- delayed payments from retailers, as per the AER statement of expectations, noting that this will be limited by the AEMC final decision on the AER rule change.
- reduced revenue due to a higher number of customers unable to pay their bills and some sharing of these increased under recoveries with retailers,
- changed cash flow,
- some movement of load from business to households with potential changes in load shape,
- greater uncertainty in demand forecasting,
- greater difficulty in engaging with "end use" customers,
- changing methodologies for consumer and stakeholder engagement,
- potential supply chain delays particularly for major capital expenditure requiring equipment or expertise from overseas,
- deferred or reduced license fees to be paid by network businesses,
- a greater need for more frequent review of all key aspects of business operation,

[59] https://www.aer.gov.au/system/files/AER%20Statement%20of%20Expectations%20-%20From%201%20August%202020.pdf

- changing circumstances for opex step changes including those related to opex cost trend factors, and
- changed global economic circumstances with implications for network business rate of return and depreciation rates.

We also note that some of these impacts will be time-limited, others may play out over months or years or even the entire regulatory period.

General Responses

The following are CCP24 views about options for dealing with COVID-19 uncertainty for the two gas networks.

Consumer Engagement

While consumer engagement processes will be impacted as social isolation and public gathering conditions apply, this is no reason for consumer engagement activity to be reduced. Engagement methodologies will need to be adjusted to approaches that do not require groups of people in the same location. Neither should effective consultative approaches be readily discarded because "there's no time to do them".

The reality is that the network businesses that have well-established relationships with consumers, consumer advocacy groups and other relevant stakeholders, will be best placed to utilise these relationships to maintain engagement and consumer perspective on their decision-making. COVID-19 restrictions will make it more difficult to make new contacts and to establish new relationships, but this is not impossible either.

Consumer engagement should be an ongoing priority for network businesses and the AER should expect to see evidence of consumer support for key network business decisions. Indeed, it is our opinion that times of heightened uncertainty mean that the best responses are those where there is a greater level of shared understanding of the challenges and shared decision-making. This means more frequent interaction between consumers, consumer interest groups and stakeholders. More consumer engagement should be expected in response to the COVID-19 crisis, not less. We recognise that there are resourcing issues for consumer advocacy groups that could hinder optimal levels of engagement.

Statement of Expectations

The AER's two Statements of Expectation were timely, responsive and appropriate. We suggest that this approach be applied throughout the COVID-19 period with (semi) regular updates of further expectations, from the AER, and developed through nimble engagement with consumer groups and other relevant stakeholders.

The "Statement of Expectations" approach can reduce uncertainty but is most effective in an environment of cooperation. We have seen good evidence of heightened cooperation with the process for this reset.

Embrace mistakes

Some responses to the challenges thrown by COVID-19, made in good faith and on reasonable evidence, will, in hindsight prove to be the wrong decisions. It is critically important that a culture of "no blame" is applied in such circumstances. The crucial process for these unprecedented times is that learning is constantly created and shared, particularly including learning from mistakes. The same principles apply to responding to the uncertainties posed by an unknown future of reticulated gas.

Getting on the Front Foot

CCP24 expect that the AER will carry out sensitivity analysis on the components within the revenue determination building blocks and form a plan to respond to these variations should they arise. This is preferable to scrambling to develop a response after major problems have occurred.

Plan for Incentive Schemes

It is also important that there is a plan on how to manage efficiency payments, in particular CESS and EBSS, in a volatile environment.

Regular Updates

In order to attempt to keep key stakeholders in touch with the rapidly changing circumstances that envelop this reset, we suggest that the AER with the businesses should consider providing updates and briefings for stakeholders. These could occur in the period between the lodgement of responses to the regulatory proposals and stakeholder responses to the Draft Decision and Revised Revenue Proposals. This is a period of 6 months, during which some of the impacts of the initial COVID-19 isolation will become more evident and allow for some nimbleness of approach to be taken to the anticipated changing circumstances. The updates and briefings would deal with substantive issues where circumstances changed, including demand, forecasts, major shifts in capex projects etc.

The updates could be in the form of a videoconference (using a platform such as Zoom, Webex, Skype, or Microsoft Teams) briefing of between 60 minutes and 90 minutes in duration with limited moderated questions for clarification, not debate of content.

This would provide one straightforward mechanism for keeping stakeholders in touch and enabling the relevant AER teams and the five network businesses to be keeping each other informed. This also responds to an anticipated higher rate of change over coming months than has occurred over similar times in previous resets.

These updates and briefings would be additional to the anticipated October 2020 pre-determination conference in response to the draft decision – a forum whose process remains uncertain, but we are optimistic that this could well be a face-to-face forum. In-person participation is the format we strongly recommend if at all possible.

Alternatively, additional public forums / briefings could be scheduled in addition to the predetermination conference.

Greater Flexibility

The AER, for the Victorian electricity resets have committed to a "greater degree of flexibility in our approach to requesting and receiving information" for this reset. We support this approach for all COVID-impacted regulatory proposals and observe that the impacts of COVID-19 uncertainty have been and should continue to be an attitude of flexibility, even forgiveness, when things do not go as planned or anticipated.

Decision Review

We suggest that in this instance the AER should signal that it will be reviewing COVID-19 impacts, and perhaps suggest a notional timeframe, maybe 18 to 24 months after the final decision is made.