

Consumer

Challenge

Panel

**CCP24 Advice to Australian Energy Regulator on
Evoenergy Revised 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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We also thank the AER staff for their support and guidance during this process.

Confidentiality

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

The Consumer Challenge Panel sub-panel CCP24

The AER established the Consumer Challenge Panel (CCP) in July 2013 as part of its Better Regulation reforms. These reforms aimed to deliver an improved regulatory framework focused on the long-term interests of consumers.

The CCP assists the AER to make better regulatory determinations by providing input on issues of importance to consumers. The expert members of the CCP bring consumer perspectives to the AER to better balance the range of views considered as part of the AER's decisions.

CCP24 is a sub-panel of the AER's Consumer Challenge Panel. The AER established the sub-panel to focus specifically on the AER's regulatory access arrangement review for Evoenergy for its ACT (and surrounding areas) gas distribution network, and for Australian Gas Networks' South Australian Network for the 2021-2026 regulatory period. CCP24 has provided advice related to these reviews during 2019-21, which can be found on the AER website.

Acknowledgement of Country

We recognise the traditional owners of the land on which the Evoenergy gas network operates. We respect the elders of these nations, past and present along with the emerging leaders.

1. Introduction and Context

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

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. Evoenergy submitted its 5-year plan for 2021-26, referred to as the Gas Networks 21 (GN21) Plan to the AER in June 2020.

CCP24 provided Advice on the GN21 Plan to the AER in August 2020¹. Following the AER's Draft Decision on the GN21 Plan, Evoenergy submitted its Revised GN21 Plan to the regulator in January 2021. This Advice from CCP24 responds to both the AER Draft Decision and the Revised GN21 Plan prepared by Evoenergy.

Evoenergy is also the electricity distribution business for the ACT and so have a nearly unique situation in Australia of being able to manage gas and electricity transitions. It is crucial for customers that both transitions are as cost effective as possible, both for the individual networks and for the combined impact on customers for both networks

Context

In our advice on the GN21 Plan, CCP24 noted 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.'

This question about the future of the gas network continues to be the central issue in any consideration of Evoenergy's Revised GN21 Plan.

In late 2020, following lodgement of the GN21 Plan, the ACT Government faced an election. Attitudes towards decarbonisation of the ACT's energy network were strengthened with the incoming government which comprises a coalition of Labor and Greens elected representatives. Political observers suggested that the surprise of the election was the number of votes received by the Greens Party with them winning 6 of the 25 seats in the ACT House of Representatives.

¹ https://www.aer.gov.au/system/files/CCP24%20-%20Submission%20on%20Evoenergy%20Access%20Arrangement%20-%2010%20August%202020_0.pdf

The new government developed a ‘Parliamentary and Governing Agreement’ (P&G Agreement), which is included at Appendix 1 of this Advice. The Agreement includes commitment to both reduce emissions from gas and to “reduce the emissions intensity of the existing ACT gas network as much as is possible, by injecting zero-emissions gas alternatives”. As well as preventing new gas connections to greenfield developments in the ACT, the Agreement clarifies the intention of the government with regard to working towards all-electric infill developments as well. We examine the implications of the Agreement in the following sections of this Advice.

At the time of preparing our Advice on the GN21 Plan, many parts of Australia were in lockdown due to restrictions imposed in response to the COVID-19 pandemic. Concerns regarding the impact of COVID-19 restrictions on consumers, gas demand, and also on the ability of distribution businesses to operate and maintain their networks safely were very real. Fortunately, at this point, it appears that the ACT and surrounding areas have been relatively unaffected, although the longer-term impacts are still to play out. In particular, COVID-19 does not appear to have had a significant lasting impact on gas demand.

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

2. Summary of CCP24 advice

Evoenergy is the proverbial ‘canary in the coal mine’ for the future of gas in Australia. They have had to navigate the considerable complexities around the obligations under the gas rules to connect customers and increase gas consumption, the uncertainty around the details of ACT Government policy, and consumers who want to see reduced carbon emissions from gas but seem reluctant to pay to for the stranded assets that inevitably arise from a large reduction in consumption.

We review the criteria the AER has developed to decide whether accelerated depreciation is allowed and find them too inflexible. They result, we argue, in intergenerational inequity. More flexibility would result in accelerated depreciation sooner and less intergenerational inequity. It is clear to us that the NSW Government is heading in the same direction as the ACT Government. They just might take a few more years to get there. This is why we support Evoenergy’s proposal that the accelerated depreciation the AER has supported for ACT assets is extended to NSW assets on the basis that it better achieves the NGO for all Evoenergy customers.

We have greatly benefitted from the discussions we have had with Evoenergy and AGN and this has been reflected in how our views have developed over the course of this AA reset. We are pleased to note the AER’s decision to elevate consideration of the future of gas in their strategic priorities list.

Two aspects that we highlight are the impact on electricity network investment from a reduction in gas demand, and the argument that Governments should share in any stranded asset cost. The former because of the potential investment in the ACT electricity network to cope with peak winter gas demand. The latter because of the ACT Government’s 50% shareholding in Evoenergy.

These are very complex issues and networks need to start detailed consumer engagement concurrently with any wider review of the gas rules. This wider review should begin as soon as possible to allow its conclusion to be considered in the forthcoming access arrangement reviews for Victorian transmission and distribution networks.

As a result of the downward revision in Evoenergy's demand forecasts in the Final GN21 Plan, the 10% price fall for customers in year 1 of the next period which was anticipated in the Draft Decision has now disappeared.

We question the steep reduction in Evoenergy's revised demand forecasts, and encourage the AER to give consideration to a streamlined process to revisit demand forecasts and actual demand in the middle of the next regulatory period. We believe that consumers should not have to bear all of the risks of low demand forecasts under a price cap regulatory approach.

The transition away from natural gas, whether to an all-electric or a hydrogen future, presents challenges and uncertainties for both Evoenergy and its customers in both the short and longer term. In a time of such uncertainty, it is more critical than ever that the intensity and transparency of the engagement between Evoenergy and its customers is not diminished, indeed that the engagement is broadened and strengthened. We urge Evoenergy to commit to a comprehensive engagement strategy, in concert with the ACT Government, that will provide the information and support that all parties will need to successfully navigate the inevitable transition away from natural gas.

3. Comparison between GN21 Plan and Revised GN21 Plan

The following table provides a snapshot of the main differences between the GN21 Plan and the Revised GN21 Plan.

	GN21 Plan	AER Draft Decision	Revised GN21 Plan
Allowed total revenue (real \$20/21)	\$294m	\$290.6m	\$289.4m
Opex	\$171.0m	\$171.0m	\$171.0m
Capex	\$63.3m	\$63.3 (placeholder)	\$54m
Nominal vanilla WACC	4.68%	4.60%	4.60%
Customer connections (end 25/26)	156,773	-	134,027

It can be seen that with the exception of demand forecasts (as reflected in forecast customer numbers), and the related capital expenditure, the AER has largely accepted Evoenergy's GN21 Plan.

4. Consumer and Stakeholder Engagement

Engagement following submission of the GN21 Plan

Since Evoenergy submitted its GN21 Plan in June 2020, it has continued to enact the business's comprehensive Consumer and Stakeholder Engagement Strategy, reproduced below from Evoenergy's GN21 Plan. Since July 2020, phases 4 – 6 of the Strategy have been progressed.

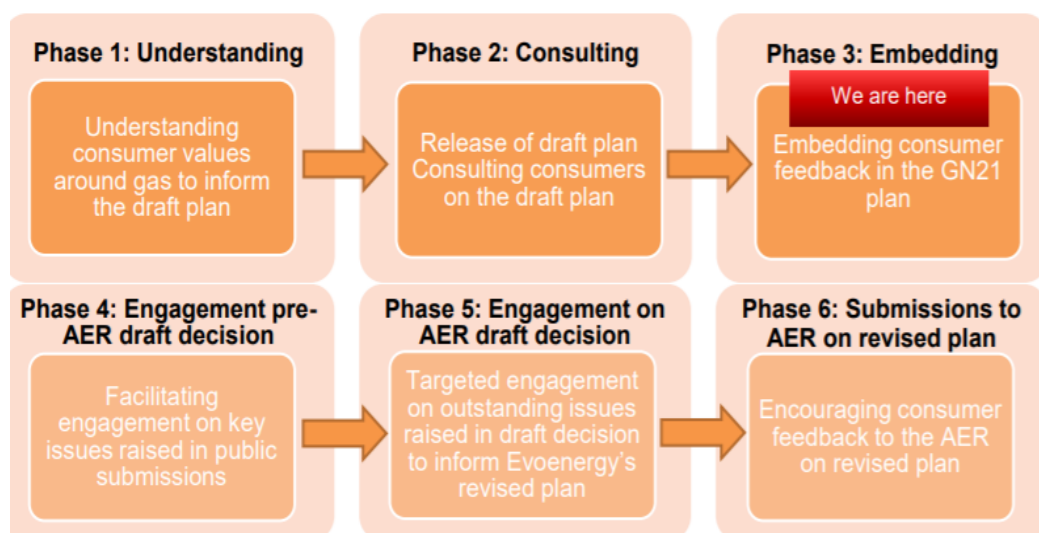


Figure 4.1: Evoenergy Consumer engagement phases

Key activities during this time have included:

- 4 regular meetings of Evoenergy's Energy Consumer Reference Council (ECRC) in August, October and December 2020, and February 2021;
- A deep dive consultation on stranded asset risk in September 2020;
- Briefings for various stakeholders on Evoenergy's response to the Draft Decision, and the changes proposed for the Revised GN21 Plan;
- Engagement with energy retailers on the arrangement for operational balancing gas using a third party, Farrierswier; and
- A survey of residential customers to assess their energy fuel preferences, future gas usage intentions, and responsiveness to electrification incentives carried out by Sagacity Research.

CCP24 involvement

CCP24 had the benefit of a briefing from Evoenergy on the Revised GN21 Plan in January 2021. CCP24 members also attended all four ECRC meetings held since July 2020, as well as the deep dive consultation on stranded assets in our role as observers of the engagement processes. We did not have any involvement in the engagement with retailers or with the customer survey carried out by Sagacity Research.

CCP24 comments on the engagement

Consumer and Stakeholder Engagement Strategy

We again congratulate Evoenergy on their Consumer and Stakeholder Engagement Strategy which was developed in mid-2019, and has consistently guided engagement activities for the past 18 months. Evoenergy has continued to progress the later phases of the strategy which are linked to the release of the AER Draft Decision, and submission of the Revised GN21 Plan. This demonstrates the value of an overarching engagement strategy that extends beyond lodgement of an initial

regulatory proposal. For stakeholders, it has enhanced confidence in the sincerity of the engagement program.

ECRC

Evoenergy recognises that consumer and stakeholder engagement for the regulatory access arrangement process must be integrated with business-as-usual engagement activity. The ECRC forms an important element of business-as-usual engagement for Evoenergy, with senior managers regularly in attendance. GN21 has been on the agenda for each of the last 4 ECRC meetings.

ECRC members were briefed on:

- Issues raised in formal submissions on the GN21 Plan;
- Outcomes from the Stranded Asset Deep Dive;
- New issues being considered for the Revised GN21 Plan, including updated demand forecasts, use of speculative capital, and purchase of renewable gas for Unaccounted for Gas requirements
- The Revised GN21 Plan as submitted.

Engagement with the ECRC has been largely conducted at the inform level of the IAP2 Public Spectrum. We consider that with the growing maturity of the ECRC, there are opportunities to engage with this group at the consult/involve level. We encourage Evoenergy to consider the benefits of moving more of its ECRC engagement activities towards the consult/involve/collaborate levels of the spectrum.

Deep dive on stranded asset risk

In our Advice to the AER on the GN21 Plan, CCP24 stated²

CCP24 considers that there are two important issues that were raised in submissions to the Draft Plan 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.

CCP24 were therefore pleased to attend Evoenergy's Deep Dive on Stranded Asset Risk held on 16th September 2020. As COVID travel and meeting restrictions were still in place, the workshop was held online with 32 external stakeholders and 9 Evoenergy participants attending. External stakeholders included observers from regulatory bodies as well as 3 CCP24 members. Based on organisational representation, there were 2 participants representing NSW consumer interests. It should be noted that this deep dive was held prior to the ACT Government election and release of the new Government's climate change actions as announced in the Parliamentary and Governing Agreement.

² https://www.aer.gov.au/system/files/CCP24%20-%20Submission%20on%20Evoenergy%20Access%20Arrangement%20-%2010%20August%202020_0.pdf, p11

The Deep Dive was well organised and made effective use of online engagement tools (Mural - a digital workspace for visual collaboration that simulates a physical whiteboard). Information was presented on three topics:

- What is a stranded asset?
- The gas regulatory regime and stranded asset risk
- Evoenergy's proposed changes to asset lives.

Participants were asked to respond to the issues raised and ask questions by placing electronic 'post it notes' on the electronic whiteboard.

As observers, CCP24 members can confirm the two main themes emerging from the deep dive i.e.

- An expectation that the ACT Government should determine a financial solution to stranded assets that doesn't see the costs passed directly on to gas customers; and
- Evoenergy should be actively exploring hydrogen as a future fuel to preserve the value of the gas network.

There was tentative support for the accelerated depreciation option favoured by Evoenergy, however it was not clear that all of the participants understood the full implications of choosing one accelerated depreciation pathway over another.

We consider that it would have been valuable for the deep dive to explore the different perspectives and implications of stranded asset risk for NSW and ACT consumers, however this was not addressed. The issue of equity for NSW consumers is discussed further in Section 5 of this Advice.

Survey of residential customers

To better inform its demand forecast, Evoenergy commissioned Sagacity Research to undertake a survey of ACT residential customers on their energy fuel preferences, future gas usage intentions, and responsiveness to electrification incentives³.

Given the criticality of customer demand forecasts to the overall access arrangement proposal and hence to customer bills, CCP24 are supportive of any initiatives that will assist in gaining a deeper understanding of customer expectations and likely outcomes over the next regulatory period.

We do however, have some concerns about the Sagacity survey and its extrapolation to customer demand forecasts. Our concerns can be summarised as follows:

- The survey was only offered to residential customers who are on-line. While the ACT enjoys the highest digital inclusion score in Australia according to the Australian Digital Inclusion Index 2020 report⁴, ABS statistics show that in the latest Household Use of Information Technology Report released in 2018⁵, approximately 10,000 ACT households did not have internet access. The Digital Inclusion Index report identifies that the least digitally included cohorts are mobile-only users, people in low-income households, people aged 65+, and people who did not complete secondary school. It is not

³ Survey approach, methodology and non-confidential findings are presented at https://www.aer.gov.au/system/files/Evoenergy%20-%20Sagacity%20Research%20-%20Attachment%208.3%20-%20Demand%20for%20natural%20gas%20report%20-%20January%202021_0.pdf

⁴ https://digitalinclusionindex.org.au/wp-content/uploads/2020/10/TLS_ADII_Report-2020_WebU.pdf, p5

⁵ <https://www.abs.gov.au/statistics/industry/technology-and-innovation/household-use-information-technology/latest-release>

demonstrated that the intentions of households who are not on-line are consistent with the on-line cohort, or that any differences have been accommodated.

- The survey was targeted at home owners, but not owners of rental properties. The latest ABS Survey of Income and Housing report released in 2019 reveals that renters make up 34% of households in the ACT⁶. It is likely that landlords will be among the slowest to consider replacing existing gas appliances.
- The survey covered ACT residential customers only. NSW-based residential customers make up approximately 10% of Evoenergy's customer base. They are not entitled to take up the incentives provided by the ACT Government, and so may have different preferences and intentions to ACT-based customers. These differences have not been examined.
- The value-action gap (also called the *intention-behaviour gap*), is the space that occurs when the values (personal and cultural) or attitudes of an individual do not correlate to their actions. More generally, it is the difference between what people say and what people do.⁷ There is a body of literature that identifies the intention-behaviour gap under a range of circumstances, and the extent to which intention predicts variation in behaviour. It is not clear whether or how this gap has been accommodated in formulating the revised Evoenergy demand forecasts.

Unfinished business - tariffs

CCP24's Advice to the AER on the GN21 Plan also identified tariff structures and impacts on vulnerable consumers as an area requiring further engagement in response to customer concerns. This was reinforced for example, in the submission from ACTCOSS which called for further engagement⁸:

ACTCOSS recommends that Evoenergy respond to consumer feedback by undertaking analysis of equity and sustainability impacts of declining block tariffs to ensure there is alignment with the key themes of Evoenergy's consumer engagement

This sentiment was also reflected in ECRC discussions on tariff structures.

The AER Draft Decision accepted Evoenergy's Reference Tariff Schedule, however it also identified that⁹:

As part of a separate discussion with stakeholders on future gas market issues, there may be merit in reviewing the consistency of declining tariff block structures which promote natural gas consumption, with jurisdictional policy settings that are aimed at curbing natural gas consumption.

⁶ <https://www.abs.gov.au/statistics/people/housing/housing-occupancy-and-costs/2017-18#states-and-territories>

⁷ https://en.wikipedia.org/wiki/Value-action_gap

⁸ <https://www.aer.gov.au/system/files/ACTCOSS%20-%20Submission%20on%20Evoenergy%20Access%20Arrangement%20-%202013%20August%202020.pdf>, p21

⁹ https://www.aer.gov.au/system/files/AER%20-%20Draft%20Decision%20-%20Evoenergy%20access%20arrangement%202021-26%20-%20Overview%20-%20November%202020_0.pdf, p23

CCP24 encourages Evoenergy to continue to engage with consumer representatives to develop a shared understanding of the impacts of the approved tariff structures, and to identify any additional support arrangements needed for vulnerable consumers.

Navigating the gas transition

The transition away from natural gas, whether to an all-electric or a hydrogen future, presents challenges and uncertainties for both Evoenergy and its customers in both the short and longer term. In a time of such uncertainty, it is more critical than ever that the intensity and transparency of the engagement between Evoenergy and its customers is not diminished, indeed that it is broadened and strengthened. We urge Evoenergy to commit to a comprehensive engagement strategy, in concert with the ACT Government, that will provide the information and support that all parties will need to successfully navigate the inevitable transition away from natural gas.

5. The future of gas

Draft Decision and GN21 Revised AA

The Draft Decision accepted Evoenergy's proposal for shorter asset lives for assets in the ACT region, but rejected Evoenergy's proposal for this to extend to assets in the NSW region. Evoenergy has accepted the AER's decision on opening capital base and the methodology and updated forecast, but still argues for shortened asset lives to also apply in NSW. Evoenergy contends that its assets are operated as a single network with¹⁰:

“...major network assets located in both NSW and the ACT serve end users on both jurisdictions, making geographic distinctions arbitrary.”

so that the allocation of assets to discrete NSW and ACT sections is unworkable. Even if the assets could be divided, the future viability of the network without ACT customers:

“...is at best marginal given that NSW accounts for only 10 per cent of current customers.”

The Draft Decision noted¹¹:

“...in recognition of the importance of the gas market and our role in determining network access arrangements, ... (to) elevate consideration of future gas market issues in our strategic priorities list.”

CCP24 Comment

Introduction

CCP24 has discussed the future of gas networks extensively in previous Advice to the AER on both AGN and Evoenergy. This has led to lengthy discussions with both the AER and the two networks as we seek to better understand the issues around how consumers might be impacted by potential

¹⁰ GN21 Plan – Response to the Draft Decision p.26

¹¹ Draft Decision Overview p.10

stranded asset risk and how and when that risk might be borne. It also led to a recommendation for a wider review of the gas rules to ensure they are ‘fit for purpose’ for a zero emissions future. We welcome the AER’s adding this to their strategic priorities list.

We would recommend that this review be undertaken as a matter of urgency. The results need to be available for the current and forthcoming access arrangement reviews for the Victorian Gas Transmission System and the Victorian gas distribution networks. It was good to see Evoenergy take up our suggestion and hold a deep dive on stranded asset risk. This was an important first step in a detailed engagement process on a very complex topic.

In our earlier Advice, we supported Evo’s accelerated depreciation proposal, suggesting that¹²:

“... 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;”

This Advice picks up on some points in our earlier Advice with a particular focus on the position of NSW and the criteria the AER is using to decide if accelerated depreciation is warranted – specific legislation, gas reduction policy, falling demand forecast and falling proposed capex. This sets a very high bar for networks to succeed. Our proposition is that greater flexibility around these criteria is in the long term interests of consumers. Implementing this greater flexibility will result in shortened asset lives much sooner.

We initially based this proposition on a consideration of equity which we consider in two contexts:

- What is an equitable outcome between current ACT and NSW consumers? and
- What is an equitable outcome between today’s consumers, whether in ACT or NSW, and consumers in 10-20 years’ time in the lead-up to 2045?

We see our Advice having two objectives:

- To support Evoenergy’s proposal to extend shortened asset lives to NSW; while our initial driver was intergenerational equity, a review of the seminal academic literature on asset lives suggests there is also a strong efficiency basis; overall a better pathway to achieve the NGO, and
- providing some advice on what changes could be made for the next access arrangement review – not just for Evoenergy but for the next round of access arrangements resets in Victoria.

The AER seems to imply it will be flexible¹³:

“If there is more certainty about the phasing out of gas at the next access arrangement review, we would reconsider whether current assessment tools remain appropriate for the purpose of determining expenditure forecasts, demand forecasts, pricing structures and incentive schemes.”

Comments on the Draft Decision

The AER’s strict criteria creates a high bar for changing asset lives

¹² See p. 15 https://www.aer.gov.au/system/files/CCP24%20-%20Submission%20on%20Evoenergy%20Access%20Arrangement%20-%2010%20August%202020_0.pdf

¹³ Draft Decision Attachment 4 – Regulatory Depreciation p.25

In our Advice on Evo's proposal in August 2020, we looked in detail at the energy and climate policy developments in the ACT and NSW and discussed how they might influence the AER's approach to considering asset lives and accelerated depreciation. A key issue we discussed was – should the AER act early or wait? The approach the AER has taken in Jemena, AGN and Evoenergy decisions is one of 'wait' by creating a very high bar for a network to satisfy for the AER to agree to accelerated depreciation.

First, there has to be explicitly legislated policy¹⁴:

"All State and Territory Governments in Australia have some sort of target (aspirational or legislated) to achieve net zero greenhouse gas emissions by or around 2050. We consider that unless there is an explicit government policy aimed at curbing carbon emissions from natural gas in a particular jurisdiction, it is unclear whether a greenhouse gas emissions target—in and of itself—would solely cause the future usage for the gas network to significantly decline in that jurisdiction."

Second, there has to be a conscious Government commitment to get out of gas¹⁵:

"In the case of Evoenergy in the ACT, the ACT Government considers its 100 per cent renewable electricity supply to be a clear alternative to renewable gas. We consider that even if hydrogen for residential consumers becomes commercially viable in 10-15 years, the ACT Government's policies to get existing consumers to progressively switch over to electricity could lead to a decline in the future usage of Evoenergy's gas network."

That seems to suggest that were a jurisdiction to have a strong desire to reduce gas consumption as well as a strong desire to increase hydrogen consumption, then the network in that jurisdiction would not get accelerated depreciation despite the current uncertainty around the economics of hydrogen.

Third is a requirement around falling demand. In its final decision on Jemena, the AER rejected the Jemena commissioned Core Energy study that showed falling demand and endorsed the more comprehensive AEMO forecast that concluded¹⁶:

"...annual gas consumption for residential and commercial consumers in NSW [would] to continue to grow until 2038 under all scenarios in its 2019 Gas Statement of Opportunities (GSOO)."

And finally, a fall in proposed capex. This is the case for Evoenergy with a forecast 5.5% fall in the ACT capital by the end of 2021-26. But in NSW¹⁷:

"...we note Evoenergy's capex and demand proposals are 'business as usual' in regard to NSW. Therefore, we consider it is appropriate to maintain the longer standard lives for pipeline assets being built in NSW as currently there is insufficient evidence provided by

¹⁴ Attachment 4 – Regulatory Depreciation p.16

¹⁵ Op cit p.18

¹⁶ See p. 20 <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>

¹⁷ See Draft Decision Overview p.40

Evoenergy to conclude that the economic lives of these assets would be shorter than their technical lives.”

The AER’s argument for not applying accelerated depreciation for NSW assets is that:

“... we do not consider that reduced asset lives are warranted for capex associated with NSW expansion, given that Evoenergy has a positive consumer growth outlook for this region and the ACT Government’s climate change policies to curtail gas consumption do not apply to this region.”

Jemena’s proposal for a ‘business as usual’ ~\$900m capex for new demand (connections and augmentation) failed the test.

Where is the policy dial in NSW?

As we commented in previous Advice, the NSW Government has an aspirational policy of a zero net emissions target but it has not yet been formally legislated. It is interesting to look at NSW Government views since that Advice. On the day before the NSW Independent Planning Commission’s decision to grant Santos conditional state environmental approval for the Narrabri gas project, the NSW Environment Minister Mr Kean was quoted as saying in a speech¹⁸:

“...gas has no future in NSW...the business case for gas is on the clock...

Gas "may be useful in the short term" but the economics don't stack up, he told the gathering, adding "we should be making decisions based on the economics [and] gas is a hugely expensive way of generating electricity...as we get cheaper technologies, cheaper ways to deliver energy, we should be moving towards that,"

In another article Mr Kean was quoted as saying¹⁹:

“Santos’s board faces a big risk proceeding with its \$3.6bn Narrabri gas project if it wins approval from planning authorities given the danger of the project becoming a stranded asset.

I just think it’s a big gamble for them, particularly in this environment... You only need to look at capital and investment cycles. Already we’re seeing people getting out of fossil fuels and that will only increase. There will still be a market for gas for a long time, but will it be as big a market? Probably not.

I just think they’re taking a big risk — how long is gas going to be viable for? Maybe 5-10 years at best. Are they going to take a punt at it? I doubt it. Santos just had that massive writedown on some of their other assets and if you’re a director on that board are you really going to be saying ‘hold on, let’s go bet our house on a risky venture over here’.”

¹⁸ Elouise Fowler “Gas is not the future for NSW” Australian Financial Review 20th September 2020 <https://www.afr.com/policy/energy-and-climate/gas-is-on-the-clock-says-nsw-environment-minister-20200930-p560i5>

¹⁹ Perry Williams “Narrabri gas project risky even if approved: Kean” Australian 29th September 2020 <https://www.theaustralian.com.au/business/mining-energy/narrabri-gas-project-risky-even-if-approved-kean/news-story/8665ea8fdd4a0b1284f7f3daabed3cf4>

This suggests the NSW Government is clearly heading in a direction of moving out of gas. The recently passed legislation on the NSW Roadmap will²⁰:

“...help NSW deliver on its ambitions to reach net zero emissions by 2050.

While we see many indications of the NSW Government’s intentions, they do not meet the AER’s high bar.

The logical extension of the AER’s argument is that as long as there is no specific legislative requirement for zero net emissions and substitution of electricity for gas (and hence continuing business-as-usual expenditure proposals from Evoenergy in NSW as it meets its obligations under the NGR), they would not allow accelerated depreciation even as other arms of Government policy, plus simple economics for gas consumers going over to electricity, leads to a large reduction in consumption leaving a much lower consumption base to bear increasing stranded asset risk.

Indeed, the AER does raise an interesting issue when it says²¹:

“It is not clear at this point in time whether Evoenergy would cease connecting new consumers in NSW if the ACT Government decides to move to full electrification in the ACT.”

In its discussion on the impact of climate change policies on gas networks in Chapter 4 of the Draft Decision, the AER draws on the submission of the SA Energy Minister to the AGN reset where the Minister says²²:

“Related to this proposal is AGN's discussion on the future of gas and its recommendation not to change the economic lives of its assets and therefore the existing approach to depreciation. The South Australian Government supports this proposal at this point in time given the development of a hydrogen industry and its potential use in gas distribution networks.”

The AER goes on to argue²³:

“This demonstrates that even if a jurisdiction has a net zero greenhouse gas emissions target, it does not automatically mean that the gas network would become stranded unless the jurisdictional government is actively taking steps to encourage consumers to disconnect from gas. However, it does mean that the nature of the gas network could be different in 20–30 years’ time as it transitions to potentially transport renewable gases.”

And then goes on to survey progress in trials of 10% hydrogen blending with the implication that progress here is a reason to delay consideration of accelerated depreciation.

The question is which option should the AER follow here:

- should it be a passive observer of this occurring and leave increasing stranded asset risk on NSW customers to cross subsidise the ever-dwindling numbers of ACT customers? or

²⁰ See <https://energy.nsw.gov.au/government-and-regulation/electricity-infrastructure-roadmap>

²¹ *ibid*

²² See p. 5 <https://www.aer.gov.au/system/files/SA%20Minister%20Energy%20%26%20Mining%20-%20Submission%20AGN%20Access%20Arrangement%20-%20203%20August%202020.pdf>

²³ Draft Decision Chapter 4 pp. 27-8

- should it be proactive and seek to shield NSW customers and ensure a fair allocation of historical and future costs between not just current consumers in the ACT and NSW but future consumers in both locations?

We suggest the latter would better meet a long term NGO. The AER's high bar does have consequences on intergenerational equity, particularly for vulnerable consumers. The logical extension of the AER's approach is that a jurisdiction could have a whole range of climate policies that have a range of impacts, including reducing gas consumption and increasing hydrogen use, but, because it does not meet all of the above four criteria then there is no case for accelerated depreciation. So gas volumes are decreasing and while the remaining consumers waiting for hydrogen to become available, they are paying higher and higher prices as they are left to pay the progressively higher stranded asset cost. Where is the intergenerational equity in this scenario? The AER approach seems to give too much emphasis to what is happening now rather than what might reasonably happen over the following and subsequent AA periods. This longer time period has to be the focus given the long technical asset lives.

Some may argue that the potential for hydrogen may be a reason to delay changing asset lives. Our response is that our conclusion would only be influenced by the timeline for the development of hydrogen if economic hydrogen for reticulated gas (i.e. ~\$1.20/kg *delivered*) were to be a high probability before 2030. Not even AGN, which is leading the various gas blending trials across Australia, is suggesting that.

We would argue that Evoenergy's obligation under the gas rules to connect new customers in NSW (i.e., demand is not falling) can be, in principle, consistent with a view that there should be accelerated depreciation. It is rational for new customers to connect as their gas consuming assets have a life less than 2045 or 2050. But to supply these new customers requires the network to build assets, major classes of which have a life well beyond 2045 or 2050. But to not ensure these new customers face the consequences of their decision to connect (e.g. via accelerated depreciation) is the source of intergenerational inequity. New customers should have to pay for the risk that the assets they are utilising could be stranded in the future and not be expected to be cross-subsidised by existing customers.

We wonder if the AER's view on NSW assets is consistent with the view it expressed in the Jemena decision regarding the potential application of r85 on capital redundancy as a source of stranding risk within the regulatory framework. The AER's final decision on Jemena notes²⁴:

"We consider that there would be a narrow range of circumstances in which this rule would be used – in particular, we might consider stranding assets under rule 85 if a significant proportion of the capital base was impacted and we were satisfied the assets in question would become completely unused by a given date. Given the integrated nature of networks, it is unlikely a significant proportion will become completely unused at the same time.

The situation for Evoenergy is that this risk does exist. Where would that place NSW consumers?

But does the policy really matter all that much?

²⁴ See p. 12 <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>

AGN in their commentary on the Future of Gas argue that²⁵:

“...whilst decarbonisation policy is important, the focus on whether a particular jurisdiction in Australia has or does not have a decarbonisation policy and the strictness of that policy is somewhat misguided. Each Australian state has a different approach to encouraging the decarbonisation of its network – the ACT is somewhat of an outlier with policies specifically targeting the electrification of gas usage, whereas in other jurisdictions we have seen more effort in encouraging new renewable electricity generation. However, all States have seen significant increases in renewable electricity driven both by policy but even more so by technology costs.”

We find this argument convincing. The specific legislation criteria should be more flexible.

Is the AER consistent in the bars it sets for networks to meet?

It is interesting to contrast the very high AER bar for allowing accelerated depreciation with the implicit bar for consideration of the hydrogen potential and how that influences a decision on accelerated depreciation. The Draft Decision argues²⁶:

“While we consider there is a possibility that the pipeline assets would not reach the end of their technical lives, there is currently not enough evidence to say that all assets would be stranded by 2045. This is because the ACT Government is still considering a transition towards renewable gas to achieve net zero emissions from gas use, which would allow Evoenergy to use its pipelines beyond 2045 to transport renewable gas. We consider the reasonable approach under the current climate change policies in the ACT is to assign asset lives which are longer than the 2045 target but shorter than the technical lives of the assets.”

We would suggest the level of knowledge today of the potential for hydrogen to be competitive at a particular future time period²⁷ is considerably less than the level of knowledge today around the likelihood that the NSW Government will formally legislate for zero net emissions in the near future (particularly as the Federal Government moves to do so) and implement more specific policies to encourage reduced gas consumption. If the same ‘burden of proof’ that is being applied to the likelihood of economic hydrogen being realised (so that the network would continue to be utilised), were applied to whether NSW assets should have accelerated depreciation, then there is very strong case for accelerated depreciation in NSW from 1 July 2021.

In previous CCP24 Advice on Evoenergy and AGN we have explored a ‘no regrets’ framework. What would be the downside of starting accelerated depreciation in NSW from 1 July 2021?

- If hydrogen becomes economic say in the mid-2030s, then the accelerated depreciation up to that time will be reflected in a lower tariff applying to hydrogen that would be the case without accelerated depreciation; hydrogen consumers (many of which would be continuing natural gas consumers) would be the beneficiaries

²⁵ See p. 8 <https://www.aer.gov.au/system/files/AGN%20-%20Attachment%209.6%20-%20Future%20of%20Gas%20-%2013%20January%202021.pdf>

²⁶ *ibid*

²⁷ This is referring to 100% hydrogen and not a blend. Also noting that it will have to occur sooner rather than later in the period to 2045 as the later it occurs the less likely Evoenergy would be willing to maintain the asset ‘just in case’ hydrogen might be competitive some time in the future. For the purposes of this discussion assume that is around mid-2030s.

- If hydrogen does not become economic by the mid-2030s, then intergenerational equity is served as the new customers in 2021-26 will share in the stranded asset costs rather than leaving it only to those customers left on the system in the future; these latter customers are more likely to be those on lower incomes who are unable to switch to electricity e.g. renters.

This latter argument was put by Evoenergy:

“Evoenergy stated that its proposal for accelerated depreciation of new, long-lived assets is an early, precautionary measure against rising bills as the result of declining gas consumer numbers. It submitted that accelerated depreciation will reduce the risk that, in the event of network closure, consumers who find it difficult or unfeasible to move away from gas will be left to pay an unfair share of costs.”

and accepted by the AER in the Draft Decision for the ACT. We see the AER’s arguments of why NSW is different (no legislation, no falling demand, a BAU proposal) as a false distinction and not in the long term interests of NSW or ACT consumers – whether today’s consumers or consumers over the period to 2045.

Where does all this put the current gas rules?

We do not have intimate knowledge of the gas rules. Our previous Advice recommended a review of the rules to see whether they are ‘fit for purpose’ in the new world of carbon reduction and increasing competitiveness of electricity, and we pleased that the AER is exploring this further. The AER indicated that issues to be considered would include²⁸:

- Whether a more rigorous incremental revenue test for connections and augmentations would be more appropriate eg consumers being able to connect if they are willing to pay a higher up front cost reflecting potential stranded asset risk
- Are marketing costs justified
- Should CESS be applied
- Whether exit fees or different pricing structures would become necessary.

These are live issues in the current Victorian Transmission System reset and the forthcoming resets for the Victorian gas distribution networks. So we hope the review occurs in the required timetable to ensure that its recommendation can be considered in these access arrangement resets.

But should consumers pay?

The discussion so far has been on the assumption that consumers will pay for stranded assets. The Evoenergy workshop on stranded asset risk explored a number of scenarios of different levels of customer payment as a result of accelerated depreciation:

- No increase
- \$1/customer/year – AER level of approved accelerated depreciation of new assets to around 2055
- \$2.80/customer/year – accelerated depreciation of new assets to 2045
- \$54.50/customer/year – accelerated depreciation of all assets to 2045

²⁸ See pp24-5 <https://www.aer.gov.au/system/files/AER%20-%20Draft%20decision%20-%20Evoenergy%20access%20arrangement%202021-26%20-%20Attachment%204%20-%20Regulatory%20depreciation%20-%20November%202020.pdf>

with the result that²⁹:

“There was a strong opinion held by a number of participants that the costs of reduced asset lives should not be borne by customers at all.”

With one feedback theme of³⁰:

“Government and taxpayers should contribute to the burden of covering costs of stranded assets, given it is government policy causing them to be stranded. It was noted by one contribution that lessons can be learnt from the Government’s response to COVID-19 on how to address significant increase in social costs.”

“... commentary suggesting government and the broader tax-paying population should cover the costs, noting that the proposal to reduce asset lives was born out of government policy to eliminate gas usage.”

Suggestions include the ACT Government writing down its asset value. This fundamental issue is one that deserves considerable stakeholder engagement in any review of the gas rules.

The future of gas cannot ignore the future of electricity

While the ACT Government is implementing policy to replace gas with renewable electricity, the costs are not simply for some subsidies to facilitate this. As we have discussed in previous Advice, gas demand has a very winter high peak in the Evoenergy network. Moving that to the electricity network would require significant investment in the electricity network to meet that peak demand.

Evoenergy will soon begin the reset process for 2024-29 for its electricity network. If a large increase in capex is proposed to enable the transition from gas, it will be an interesting discussion about how the costs of the ACT energy transition – stranded gas distribution assets and expanded electricity distribution network – should be paid for. The fact that the ACT Government owns 50% of both the gas and electricity networks only makes the question more interesting.

Conclusions

As our various pieces of Advice to the AER over the course of the AGN and Evoenergy access arrangement resets have indicated, there are very complex issues at play here. Consumers are only starting to become aware of the complexity and need to be informed about options to make an informed contribution to the debate.

We hope the review of the gas rules the AER discusses happens in the near future. It will take time to bring the issues into full visibility to consumers who are going to be asked to make some tough decisions.

6. Operating expenditure

GN21 Revised AA

The Draft Decision accepted Evoenergy’s amended proposal for \$171.0m that was updated to reflect actual audited 2019-20 opex that was not available at the time of lodgment. The AER’s alternative

²⁹ See discussion at pp7-9 <https://www.aer.gov.au/system/files/Evoenergy%20-%20Communication%20Link%20-%20Attachment%204.1%20-%20Stranded%20asset%20risk%20deep%20dive%20report%20-%20January%202021.pdf>

³⁰ Ibid

estimate was slightly above at \$171.2m, and had differences in a number of components that effectively cancelled each other out on aggregation.

CCP24 Comment

We comment on two topics:

(i) Impact of revised demand forecasts

Evoenergy states that it:

“...has not revised its opex forecast because the AER accepted our amended proposal”³¹

Yet it was surprising that Evoenergy did not consider the impact of the now revised much lower demand forecasts on their expected opex level. Depending on the AER’s view of these demand forecasts, we look forward to seeing the final opex level reflecting the lower demand forecast.

(ii) Marketing

In our Advice on the GN21 Plan, we argued that rather than providing an allowance for marketing, that marketing should be a negative step change given ACT Government policy. Evoenergy responded that³²:

“...we consider this to be inconsistent with incentive regulation and that it would undermine the AER’s opex forecasting approach. Evoenergy would have serious concerns if the AER departed from this well-established and accepted approach, particularly when an opex efficiency carryover mechanism (ECM) is in operation, such as for Evoenergy.

Under the AER’s established opex forecasting approach (as adopted in our proposal) and the operation of the ECM, if Evoenergy considered it inefficient to continue the marketing program, either because of external policy decisions or an internal commercial assessment, we would have a strong incentive to discontinue this expenditure and be rewarded through ECM gains, with customers benefiting over the long term through lower costs.”

The Draft Decision also noted that the AER approach to incentive regulation adopts a top down approach to measuring opex based on revealed costs. Given Evoenergy’s costs were found to be ‘not materially inefficient’ a³³:

“...detailed consideration of the marketing costs in the Evoenergy’s base year opex is not required for the purposes of assessing the proposed total opex forecast against the opex criteria.”

The reason we went the ‘negative step change’ route was because we sought to argue that externally-imposed policy changes in the ACT were relevant and hence it was outside the top-down approach. While the policy framework may have been more high level at the time of our Advice in June 2020, we would suggest that following the 2020 election and the subsequent Parliamentary and Governing Agreement, the argument for a negative step change is even stronger.

There is now not only an explicit ban on connections in new sub-divisions, there is a ban from 2023 on new infill developments. So, we wonder, what will a marketing budget be used for? To get

³¹ Response to Draft Proposal p.13

³² Quoted p.35 Draft Decision Attachment 6 Operating Expenditure

³³ ibid

existing consumers to consumer more? The revised demand forecasts suggest that this is a forlorn exercise. In the past it has been used to convince customers to buy more efficient gas appliances. The survey data provided by Evoenergy suggests customers are much more interested in converting to electricity (utilising the Government subsidies) than to more efficient gas appliances (where there are now no Government subsidies).

Evoenergy's logic that the ECM provides a strong incentive to reduce expenditure if required, is correct. However, Evoenergy's incentive is that it retains 30% of the expenditure reduction with only 70% going to consumers. So, consumers are receiving 70% of a saving from an expenditure that arguably should not have been there in the first place. Consumers would obviously prefer receiving 100% of the saving due to it being excluded in the first place.

An alternative approach would be to exclude marketing costs from the ECM.

7. Capital Expenditure

GN21 Revised AA

In issuing its Draft Determination for the proposed Evoenergy capital expenditure, the AER said:

“For this draft decision, we determine an opening capital base of \$381.9 million (\$ nominal) as at 1 July 2021, which is \$0.4 million (0.1 per cent) lower than Evoenergy's proposed opening capital base of \$382.3 million.⁶³ This reduction is made because we have amended Evoenergy's proposed roll forward model (RFM) to update the actual capex and CPI inputs for 2014–15. Table 5 summarises our draft decision on the roll forward of Evoenergy's capital base during the 2016–21 period.”

The following table provided the annualised summary for capital expenditure over the period.

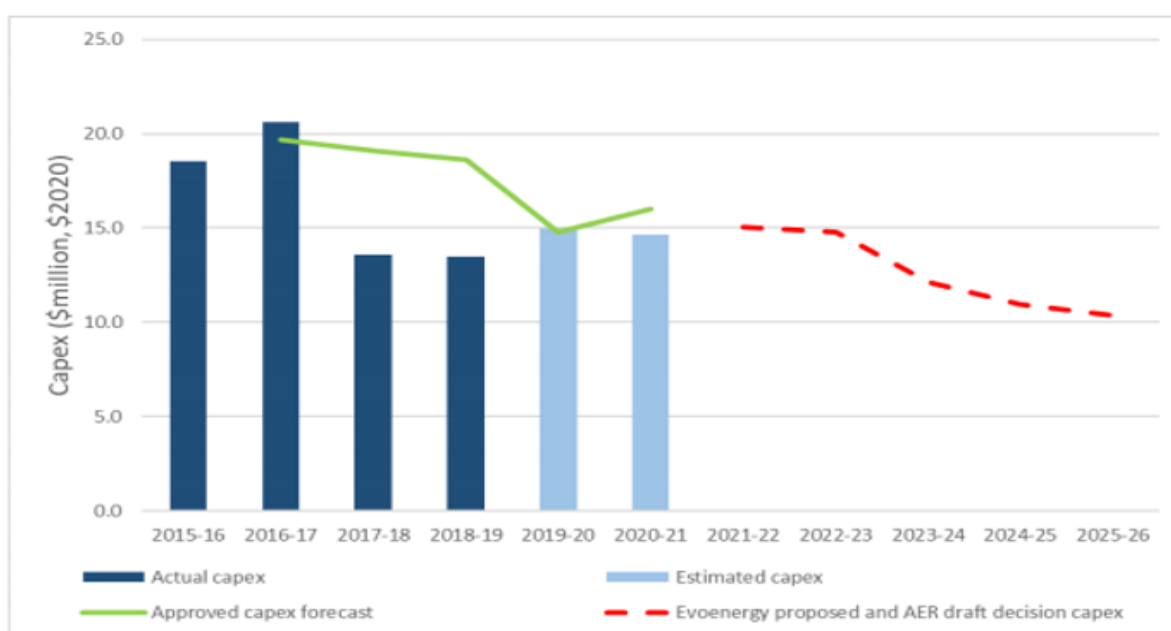
Table 6 AER's draft decision on Evoenergy's projected capital base roll forward for the 2021–26 period (\$ million, nominal)

	2021–22	2022–23	2023–24	2024–25	2025–26
Opening capital base	381.9	391.0	398.7	402.9	405.0
Net capex ^a	15.6	15.6	13.1	12.1	11.8
Indexation of opening capital base	9.1	9.3	9.5	9.6	9.6
Less: straight-line depreciation	15.6	17.2	18.4	19.6	20.7
Closing capital base	391.0	398.7	402.9	405.0	405.7

Source: AER analysis.

(a) Net of forecast disposals and capital contributions. In accordance with the timing assumptions of the PTRM, the capex includes a half-year WACC allowance to compensate for the six-month period before capex is added to the capital base for revenue modelling.

The following graph shows the AER's decision and past and proposed capex in \$million 2020-21



Source: AER analysis.

The following table summarises the AER's approved capital expenditure by category for the 2021 to 26 regulatory period in real \$2020-21.

Category	2021-22	2022-23	2023-24	2024-25	2025-26	Total
Market expansion (Connections)	4.7	5.0	4.8	5.2	5.2	24.8
Stay-in-business - meter renewal (Meter replacement)	5.7	4.3	4.7	3.4	4.2	22.2
Capacity development (Augmentation)	0.2	0.2	0.2	0.2	0.2	0.9
Stay-in-business - network renewal (Mains replacement plus facilities and pipes)	3.8	4.6	1.9	1.6	0.4	12.2
Non-system (Other)	-	-	-	-	-	-
Overhead	0.9	0.8	0.7	0.6	0.6	3.6
GROSS TOTAL	15.2	14.9	12.2	11.0	10.5	63.8
Contribution	0.1	0.1	0.1	0.1	0.1	0.5
NET TOTAL	15.1	14.8	12.1	10.9	10.4	66.3

Source: Evoenergy, *Response to information request IR012*, received 25 September 2020 and 16 October 2020.
AER analysis. Totals may not sum due to rounding.

The following table is Evoenergy's revised capital expenditure proposal, by category, to enable comparison with the AER approved capital expenditure from the Draft Determination

Table 3.2 Revised capex forecasts 2021/22 to 2025/26 by category

Capex category	GN21 plan	Revised GN21 plan
	\$ millions (2020/21)	
Market expansion	26.3	11.7
Capacity development	0.9	1.1
Stay in business - network renewal	12.9	13.6
Stay in business - meter renewal	23.6	28.0
Non-system	0.0	0.0
Gross capex	63.8	54.4
Capital contributions	0.5	0.3
Net capex	63.3	54.0

Reflecting on the two tables confirms the following:

- the AER accepted Evoenergy's initial access arrangement proposal
- Evoenergy has reduced their market expansion capex to being about connections, augmentation expenditure has been removed. This is a direct result of the ACT government's climate policy.
- The Revised GN21 Plan includes an increase of \$4.2 million for meter replacements.

The following reflects briefly on changes of substance between the AER draft decision and the Revised GN21 Plan.

Market expansion.

Evoenergy describes their revision with the following

"In its draft decision, the AER accepted our proposed market expansion capex of \$26.3 million, including indirect costs and \$0.5 million in capital contributions, on a placeholder basis. The AER expected further changes due to revised connection forecasts, but none due to changes in the way we forecast market expansion capex. The market expansion capex forecast is developed using unit rates and connection volumes, so changes in the latter will have a direct proportional impact on capex. The recent commitments from the ACT Government to phase out natural gas use, discussed in the previous section, have reduced our connection forecast and, in turn, our market expansion capex forecast for the revised GN21 plan to \$11.7 million. Our revised market expansion capex forecast is explained in more detail in section 3.4.2. Aside from the demand forecasts, all other aspects of our methodology for forecasting market expansion capex are retained from the GN21 plan."

Infill capex in ACT

The Evoenergy Revised GN21 Plan

"Capital expenditure The AER's draft decision was to approve our GN21 plan capex forecasts, subject to: "... additional information from Evoenergy in its revised proposal on its proposed market expansion capex in brownfield developments, and how this interacts more broadly with ACT Government policy."

Evoenergy further explained the rationale for this revision by saying:

“The ACT Government’s Climate Change Strategy 2019–25 had prompted cessation of mandatory reticulation of gas in new ACT land developments. This caused us to exclude market expansion capex for and associated gas demand from these developments from our GN21 plan capex and demand forecasts. The climate change strategy did not, however, directly seek to exclude ACT infill (brownfield) developments within the existing network footprint. The situation has, been changed with publication of the P&G Agreement which, as shown in Box 1.1, commits the government (at point viii) to: Commence a transition project, working with industry and other stakeholders, to advance all-electric infill developments, with a goal of no new gas mains network connections to future infill developments from 2023.”

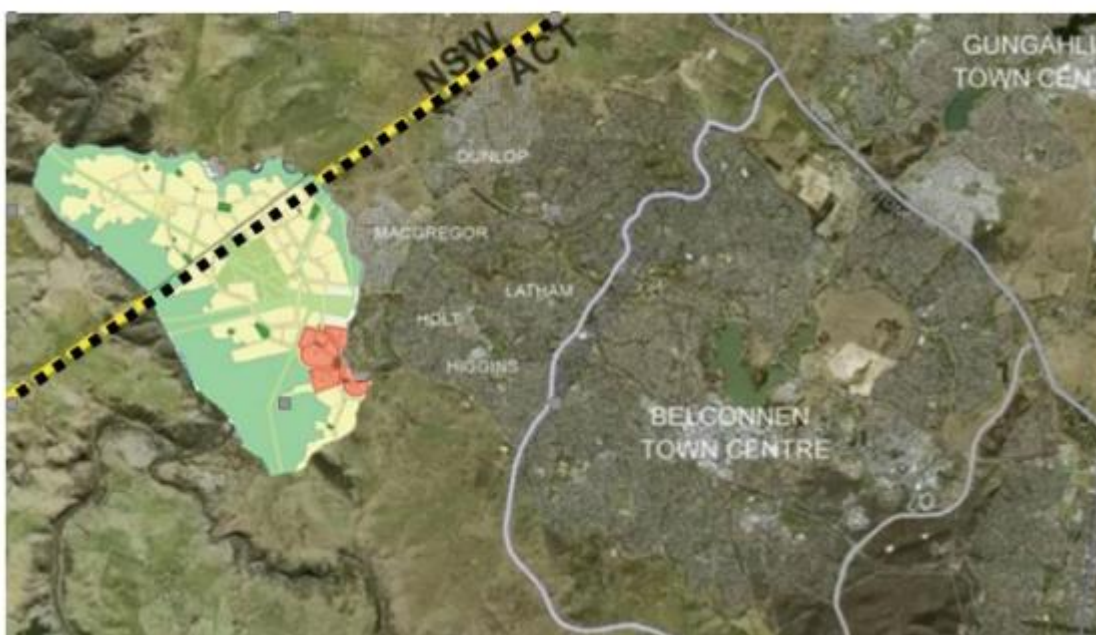
NSW expansion

Evoenergy is dealing with two sets of State/Territory legislation in its network with some developments now occurring across the NSW/ACT boundary, the Ginninderry development being a case in point.

Evoenergy says:

“The AER draft decision accepted this conforming capex as a placeholder, pending receipt of further information from Evoenergy on \$0.2 million of expenditure incurred to lay gas mains in the Ginninderry development. The Ginninderry development (highlighted in Figure 3.1 below) includes new suburbs either side of the border between the ACT and NSW and is planned to include a total of 11,500 dwellings to be built over several stages. In the initial stage over 2017–2022, 1800 dwellings are planned. The initial stage of the development (shaded in red in the highlighted area of Figure 3.1 below) was the first instance in the ACT of homes being required to have all electric appliances at least for a trial period of the first three years. This restriction does not apply to dwellings located in the NSW portion of the development. The gas mains installed in stage 1 of the development are a prerequisite for gas reticulation for further stages of the Ginninderry development.”

Figure 3.1 Ginninderry Precinct



Evoenergy further explained their previous augmentation Capex decision in the revised access arrangement proposal:

“At the time of making the investment decision, we expected that the revenue would exceed the costs of laying the mains. We note that this decision was made before publication of the ACT Government’s 2019-25 Climate Change Strategy and the November 2020 P&G Agreement.

Our investment decision considered:

- the need for mains to supply commercial premises (not subject to the mandatory use of electricity);
- that NSW homes are highly likely to connect to gas;
- that ACT homes are likely to connect to gas. While we recognised that homes in stage 1 were part of an electric-only trial, we expected that once the trial concluded many homes would seek a gas connection. This expectation was based on the sustained long-run trend of high switching rates to gas since the roll-out of the network in the 1980s and continued high connection rates of new homes (in excess Evoenergy ACT, and Queanbeyan-Palerang gas network 19 of 85 per cent). Our analysis indicates that a threshold connection rate for revenue to exceed costs could be as low as 20 per cent. Given this low threshold and the long-run and sustained revealed preference for gas we were confident that revenue would exceed costs; and
- the significantly lower costs of laying mains in shared trenches (avoiding future civil works, traffic management and restoration costs). This saving is only available if the mains are installed at the time the development is under construction. As a result, at the time of the investment decision it was reasonable to expect revenue to exceed the costs of laying the mains.”

We discuss the reduction in connections and gas usage demand for the ACT in Section 8, dealing with demand. The main focus is on a significant reduction in demand for gas in the ACT over the life of this next access arrangement period. Accounting for about 10% of Evoenergy’s customer base, the situation is likely to be quite different in New South Wales.

BIE confirm the difference for New South Wales for the 2021-26 period in Appendix 8.1 of the revised access arrangement documents saying that *“the forecast of NSW dwelling approvals is similar to the previous forecast from 2021/22.”*

Speculative capex

Attachment 11.1 of the initial Evoenergy Access Arrangement proposal describes “speculative capex”³⁴ as follows:

“Any new capital expenditure undertaken by Service Provider that does not satisfy the requirements of rule 79 of the National Gas Rules (referred to in those Rules as non-conforming capital expenditure), to the extent that it is not to be recovered through a Surcharge on Users or a capital contribution by Users under rule 82 of the National Gas Rules, forms part of the Speculative Capital Expenditure Account (as contemplated by rule 84 of the National Gas Rules). The Service Provider may increase the Capital Base in

³⁴ <https://www.aer.gov.au/system/files/Evoenergy%20-%20Appendix%2011.1%20-%20Marked%20up%20AA%20-%20June%202020.pdf>, page 18

accordance with rule 84(3) of the National Gas Rules if a part of the Speculative Capital Expenditure Account subsequently satisfies the requirements of rule 79 of the National Gas Rules.”

In the Revised GN21 Plan, Evoenergy has said that they intend to make use of the speculative capex provisions for trials associated with using the (existing) gas network for transporting renewable gas alternatives (biomethane and hydrogen produced from electrolysis) through the gas network. They say that this is in line with the ACT Government’s net zero greenhouse gas emissions policy and in particular action (ii) from appendix 1 of the ACT Government coalition parties Parliamentary and Governing Agreement which is discussed in greater detail in section 9 of this Advice, this action being:

“ii. Progress a project with relevant asset owners and key stakeholders to reduce the emissions intensity of the existing ACT gas network as much as is possible, by injecting zero-emissions gas alternatives.”

CCP24 Comments

CCP24 is satisfied that capital expenditure proposals have been reduced in the Revised GN21 Plan from those accepted by the AER in the Draft Determination, due to the changing policy settings in the ACT. This is appropriate, with there being no customer benefit from further expansion or augmentation of the ACT gas network to maintain a safe network for those who will continue to use gas over the transition to a net zero carbon emissions outcome.

The reduction in market expansion capex appears reasonable, subject to review by AER expertise.

Similarly, there is no need for any augmentation of the network to cope with infill developments because these will not be connecting to gas as result of recent ACT government policy changes.

The continuation of a more business as usual approach for New South Wales elements of the network is reasonable in the short term though will need to be curtailed in preparation for the likely adjustment to New South Wales climate change policy. We comment on potential CESS implications below.

For the Ginninderry development we are not convinced of the merits of the non-conforming capex for laying mains in this development when it was clear from the ACT Government at the time that their intention was for an all-electric development. We encourage the AER to investigate the proportion of the gas main that will deliver gas to the NSW section of the development, which we expect to be justifiable. We do not consider that future customers should pay for the ACT share of the non-conforming capex by allocating this expenditure to the regulated Asset Base

Regarding “speculative capex” we consider that this provides a useful mechanism for trialling non-conforming capex, as defined in the Rules, but that it should only be applied:

1. following detailed consumer engagement
2. where funding for such trials is not available from other non-customer sources. (The potential sources for funding for renewable gas trials include ARENA, which has already funded renewable gas projects, and Commonwealth and ACT Governments)
3. where the Evoenergy trial links with other relevant renewable gas programs and trials, for example the National Hydrogen Strategy
4. where there is a well-developed, practical and costed project proposal

5. for hydrogen related projects, resolution of the dilemma that hydrogen is not classified as a gas under the national gas rules.

8. Customer number and demand forecasts

GN21 Revised AA

Arguably no Australian energy network has had a greater challenge in developing its demand forecasts for a forthcoming regulatory period than Evoenergy for this gas Access Arrangement proposal. We are clear in the understanding that demand for gas use in the ACT over the next five years cannot be estimated with a reasonable degree of confidence.

The challenge for Evoenergy, the AER and consumers is to seek some understanding about what a prudent gas network operator should do in the changing policy environment and the uncertainty of the responses to these changes by ACT customers.

We would note that in a price cap regulatory regime, an underestimate of demand results in total revenue being above the forecast allowable revenue in AER's final decision.

A very brief history

When Evoenergy commenced the development of their gas Access Arrangement proposal for 2021-26, we understand that they were anticipating an increase in gas demand in both the ACT and the New South Wales component of the network with gas supply continuing to be offered to new homes in new developments.

There was also a clear public sentiment about a general view across the population to reduce carbon emissions and to increasingly look to renewable electricity to supply the energy needs of the ACT. This is strongly reinforced by the Citizens Jury that was conducted during 2019.

Evoenergy was actively considering their Access Arrangement proposal in early 2019 when the ACT Government was also developing its "climate change strategy 2019-25". This strategy was released later in 2019³⁵ and included commitments for the ACT to reduce emissions from 1990 levels by 40% for 2020; 50 - 60% for 2025; 65-75% for 2030 with 100% net zero emissions by 2045.

The strategy included 10 elements, the fourth goal area being "energy, buildings and urban development." Key actions included legislation for a 100% renewable electricity target by 2020 while for gas the following three actions were given:

- "Amend planning regulations to remove the mandating of reticulated gas in new suburbs by 2020
- Conduct a campaign to support the transitioning from gas by highlighting electric options and savings opportunities to the ACT community by 2020
- 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."

³⁵ https://www.environment.act.gov.au/__data/assets/pdf_file/0003/1414641/ACT-Climate-Change-Strategy-2019-2025.pdf/_recache

This prompted Evoenergy to reduce their forecasts for gas expansion into new “green fields” developments but to maintain an expectation of gas supply being available for infill “brown fields” developments.

Evoenergy engaged consultants CIE (the Centre for International Economics) to develop forecasts to assist in the development of their GN21 Plan.

A range of consumer engagement activities was undertaken that included seeking consumer views about how they should respond to the ACT climate change strategy; we have documented these in our response to the initial Evoenergy GN21 Plan³⁶.

In the Draft Determination the AER did not accept the demand forecast for individual volume customers, a majority of Evoenergy’s customers, and instead provided an alternative forecast as a placeholder.

The new government’s P&G Agreement was released shortly before the lodgement of the Revised GN21 Plan. Evoenergy commissioned three separate reports to consider implications for the demand for gas. These have been reflected in the revised Access Arrangement proposal.

Further details of these considerations follow, with recognition that a rapidly changing and still somewhat uncertain policy environment makes forecasting difficult. In addition, there is the incentive under price cap regulation arrangements, that apply to gas networks, to underestimate demand because revenue increases for demand levels above those forecast.

Changes over the course of the regulatory process

In responding to the Evoenergy GN21 Plan the AER said in the draft determination:

“Our draft decision is to not accept Evoenergy’s proposed demand forecast for individual volume consumers (Tariff VI) for the 2021–26 period. We have provided an alternative forecast as a placeholder, as set out in Table 2. Specifically, we do not accept the following aspects pending further information, analysis and updates to the latest source data:

- Evoenergy’s post-model adjustment to increase the incremental impact of the ACT Energy Efficiency Improvement Scheme (EEIS) from 2.8 per cent (as forecast by Evoenergy’s consultant, The Centre for International Economics (CIE)) to 10 per cent by 2025–26
- Evoenergy’s post-model adjustment to triple the rate of permanent disconnections (abolishments) from CIE’s forecast by 2025–26.”

³⁶ https://www.aer.gov.au/system/files/CCP24%20-%20Submission%20on%20Evoenergy%20Access%20Arrangement%20-%2010%20August%202020_0.pdf

Table 2 AER's draft decision on Evoenergy's forecast demand (Tariff VI) for the 2021–26 period

	2021–22	2022–23	2023–24	2024–25	2025–26
Residential and Commercial Connections ^a	152,990	154,594	156,116	157,700	159,354
Total Residential and Commercial Demand (TJ)	6,448	6,388	6,340	6,314	6,255

Source: AER analysis using CIE demand forecasting model.
(a) Closing connections including suspended connections.

Table 2 AER's draft decision on Evoenergy's forecast demand (Tariff VI)

the AER analysis of the draft decision led them to accept the following aspects of Evoenergy's demand forecast for the 2021–26 period as being reasonable:

- *“the base model, which has been derived by CIE and takes into account of weather normalisation, price elasticity, historical trends and projections in line with the Australian Energy Market Operator's (AEMO) demand forecasting approach*
- *Evoenergy's input assumption to exclude four ACT postcodes from its connection forecast, on the basis these greenfield development areas are likely to be the first to cease connection to the gas network driven by existing ACT Government policy*
- *Evoenergy's proposed demand forecast for volume boundary consumers (Tariff VB)*
- *Evoenergy's proposed demand forecast for industrial and large government consumers (Tariff D).”*

In attachment 12 associated with the draft determination, the AER provided further analysis regarding Evo energies demand forecasts. This analysis includes the following:

“Based on the information before us, we do not accept Evoenergy's Tariff VI demand forecasts for the 2021–26 Access Arrangement period. We are not satisfied that the overall demand forecast proposed by Evoenergy has met rule 74(2) of the National Gas Rules (NGR). Evoenergy has not established that its post model adjustments are arrived at on a reasonable basis because:

- Evoenergy's proposed 10 per cent reduction in gas usage by existing ACT customers by 2025–26 is materially different to the 2.8 per cent stated in its consultant's final report.
- Evoenergy's proposed tripling of the rate of abolishments in the ACT by 2025–26 is not included in its consultant's final report.
- Evoenergy has not demonstrated that its proposed post model adjustments are more reasonable compared to its consultant's final report. We are concerned Evoenergy has adjusted the findings stated in the final report of its consultant, The Centre for International Economic (CIE). These adjustments were made without quantitative analysis.”

The following demand forecasts for “volume customers” in the ACT were provided:

Table 12.5 AER demand forecasts for Tariff VI and Tariff VB for the 2021–26 access arrangement period

	2021–22	2022–23	2023–24	2024–25	2025–26
Residential and Commercial Connections ^a	152,990	154,594	156,116	157,700	159,354
Total Residential and Commercial Demand (TJ)	6,448	6,388	6,340	6,314	6,255
Volume Boundary Connections	15	18	21	24	27
Total Volume Boundary Demand (TJ)	9	11	12	14	16

Source: AER analysis using Evoenergy, *Appendix 7.2 Demand Forecasting model, base model prepared by CIE, June 2020, Confidential.*

Notes: a. closing connections including suspended connections.

Evoenergy Revised GN21 Plan

The P&G Agreement had specific implications for the revised GN21 Plan, in particular the appendix 1 which summarises “policy issues of particular interest.” This is included at Appendix 1 to this Advice.

Evoenergy Response through their revised GN21 Plan

Some of the murkiness in determining how to apply the 10 items in Appendix 1 is indicated in the following two comments from Evoenergy’s revised GN21 Plan:

“We are committed to achieving the ACT’s net zero greenhouse gas emissions by 2045 target. The ACT Government’s plan to achieve this target involves phasing out natural gas and we will continue to explore using our network to transport renewable gases to allow us to continue to deliver value for our customers and shareholders.”

Vs

“Our revised demand forecast sees declining customer connections and average gas usage per customer as the government puts in place policies to cease new connections and provide incentives for ACT households and businesses to make the switch from gas to electric appliances. This has flow on effects for our revised capital expenditure forecast, which is 15 per cent lower than that proposed in our GN21 plan and accepted as a placeholder in the AER’s draft decision.”

In response to the necessity of developing realistic demand forecasts for the revised plan that reflected the ACT government policy, Evoenergy engaged three consultants and charged them with different aspects of demand forecasting.

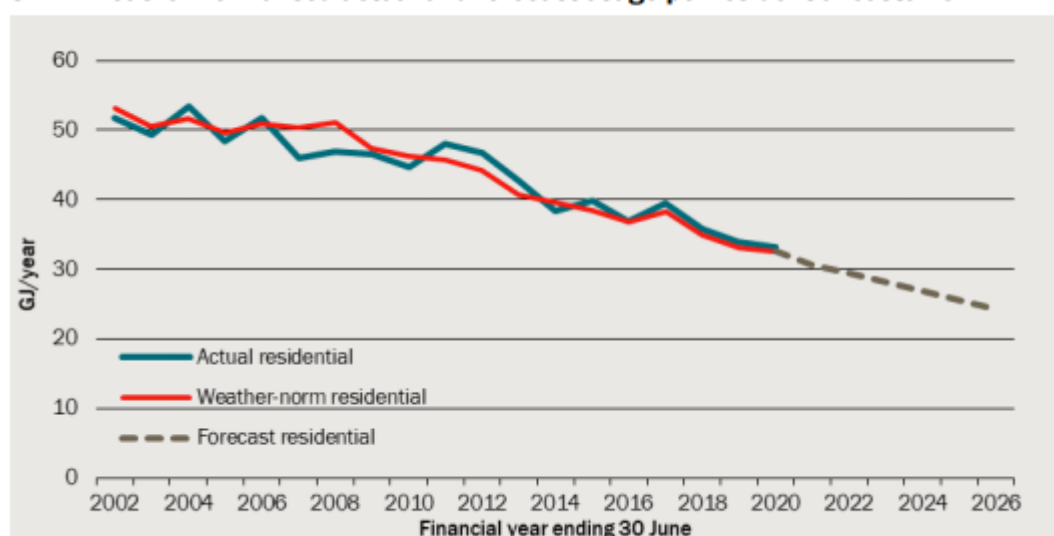
1. They returned to the Centre of International Economics (CIE) and asked them to revise their earlier demand estimates to take into account the new policy settings, a revision of the top-down methodology.
2. Sagacity was engaged to survey customers about their gas use intentions
3. Core Energy & Resources (CE&R) were engaged to undertake a bottom-up assessment of demand estimates.

Centre for International economics, Paper 8.1³⁷

The CIE paper revised their earlier estimates, applying a methodology that the AER had accepted.

Regarding usage per customer forecasts, CIE presented the following two graphs for residential and commercial customers. Both show significant reductions in forecast demand.

3.2 Weather-normalised actual and forecast usage per residential customer



Data source: CIE analysis

3.3 Actual and forecast growth in commercial customer numbers



Data source: CIE analysis

³⁷ https://www.aer.gov.au/system/files/Evoenergy%20-%20CIE%20-%20Attachment%208.1%20-%20Update%20to%20forecast%20demand%20report%20-%20January%202021_0.pdf

CIE presented the following table for residential demand highlighting their expectations of declining connections and declining use per customer over the next five years.

3.5 Forecast Tariff VI fixed charges and total usage

	Fixed charge quantities	Growth in fixed charge quantities	Usage per connection ^a	Growth in usage per connection	Total usage	Growth in total usage
	Number	per cent	GJ/year	per cent	PJ/year	per cent
2011/12	120 637		58.7		7.2	
2012/13	125 035	3.6	54.0	-8.1	6.9	-4.5
2013/14	129 746	3.8	48.7	-9.7	6.4	-6.4
2014/15	134 135	3.4	50.9	4.5	6.9	7.8
2015/16	137 789	2.7	47.6	-6.6	6.6	-4.4
2016/17	141 803	2.9	49.8	4.7	7.2	8.4
2017/18	146 963	3.6	45.6	-8.4	6.8	-4.9
2018/19	151 098	2.8	43.7	-4.3	6.7	-2.5
2019/20	152 442	0.9	41.9	-4.0	6.5	-2.2
2020/21	150 477	-1.3	39.5	-5.8	6.2	-4.2
2021/22	145 872	-3.1	38.5	-2.6	6.1	-2.0
2022/23	143 621	-1.5	37.0	-3.8	5.9	-3.5
2023/24	140 719	-2.0	35.6	-3.9	5.7	-4.1
2024/25	137 351	-2.4	34.0	-4.3	5.4	-4.5
2025/26	133 975	-2.5	32.6	-4.3	5.2	-4.6

Sagacity survey of Homeowners³⁸

The Sagacity online survey of residential customers led them to the following key findings:

1. future uncertainty for gas increases from 9% in the next year to 18% in five years' time. After this point there is little change suggesting that few (people) are thinking much further ahead.
2. Most uncertainty in the immediate future (the next two years) comes from those who are renovating and looking to change **appliances** from gas to electric. After this point the expected need to replace becomes equally influential.
3. The offer of rebates would appear to have a substantial impact on behavior, increasing uncertainty for gas by up to 60% - the result for those currently aware of the gas to electric heating rebate.
4. However, we should remain cognisant of the directionality, as those currently aware of the rebate may have already been more predisposed to drop gas, so their behaviour does not necessarily reflect what those who follow will do. Indeed, while the rebate is attractive for those not currently aware, there is a high level of inertia, with many not choosing to change until their appliance(s) need replacing.

³⁸ https://www.aer.gov.au/system/files/Evoenergy%20-%20Sagacity%20Research%20-%20Attachment%208.3%20-%20Demand%20for%20natural%20gas%20report%20-%20January%202021_0.pdf

Core Energy & Resources³⁹

CE&R provide the following table as their “best estimates, high and low scenarios of the future changes the Evoenergy ACT network demand, which is attributable to Government intervention, having regard to ACT Government targets, and ACT Government performance to date in achieving previously stated emission reduction targets.

- Existing connections – Impacted connections of an average of 7,500 p.a., at an average reduction in consumption of 35 GJ p.a.
- New connections – Reduction in connections of an average of 250 dwellings p.a. at an average reduction in consumption of 15 GJ p.a.”

Table 1: Summary of CE&R Forecast of Impact of Government Intervention Only on VI Gas Demand

Summary	FY	2022	2023	2024	2025	2026
Best Estimate						
Annual demand impact	GJ	266,250	266,250	266,250	266,250	266,250
Cumulative annual demand impact	GJ	266,250	532,500	798,750	1,065,000	1,331,250
Percentage of 2020 Demand	%	4.09%	8.17%	12.26%	16.34%	20.43%
High						
Annual demand impact	GJ	301,250	301,250	301,250	301,250	301,250
Cumulative annual demand impact	GJ	301,250	602,500	903,750	1,205,000	1,506,250
Percentage of 2020 Demand	%	4.62%	9.25%	13.87%	18.49%	23.12%
Low						
Annual demand impact	GJ	213,750	213,750	213,750	213,750	213,750
Cumulative annual demand impact	GJ	213,750	427,500	641,250	855,000	1,068,750
Percentage of 2020 Demand	%	3.28%	6.56%	9.84%	13.12%	16.40%

8.3.1 Volume tariff customers

Table 8.4 sets out Evoenergy’s revised forecast of connection numbers (number of fixed charges) and total usage for volume customers for the 2021–26 period. This captures all customers on the Volume Individual (VI) and Volume Boundary (VB) tariffs.

Table 8.4 Evoenergy’s revised demand forecast for Tariff VI and Tariff VB 2021–26

	2021/22	2022/23	2023/24	2024/25	2025/26
Tariff VI connections	145,872	143,621	140,719	137,351	133,975
Tariff VI total usage (GJ)	6,117,672	5,901,230	5,656,742	5,399,626	5,151,378
Tariff VB total connections	13	13	13	13	13
Tariff VB total usage (GJ)	4,226	4,160	4,093	4,027	3,965

Note: Number of connections is expressed as the average number of supply charges over the year.

Evoenergy says: “The number of connections on the volume tariffs is forecast to fall by approximately 8.2 per cent over the period. Compared to Evoenergy’s GN21 plan, which forecast a

³⁹ <https://www.aer.gov.au/system/files/Evoenergy%20-%20Core%20-%20Attachment%208.4%20-%20Assessment%20of%20impact%20of%20climate%20change%20initiatives%20-%20January%202021.pdf>

small increase in connections, the revised forecast reflects the ACT Government's commitment to have no new gas connections for infill developments from 2023. For this reason, the number of customers on the Tariff VB is forecast to remain unchanged over the period.

The revised connections forecast also reflects CIE's analysis of the results of Evoenergy's residential customer survey, which predicts there will be approximately 2,500 new zero-consuming customers for ACT detached dwellings each year. As Revised GN21 plan 46 described in our GN21 plan,⁴³ Evoenergy is forecasting that customers who have recorded zero consumption for the previous 12 months or longer will be suspended and will no longer pay the fixed charge.

Total gas usage for the volume market is expected to decrease by approximately 15.8 per cent between 2021–22 and 2025–26. This reflects both a decrease in connections as well as usage per connection, which is forecast to fall as a result of customers' increasing energy efficiency and switching from gas to electric appliances."

Include COVID

COVID-19 will have some impact on demand for gas due to some possible changes in demand for housing, particularly with fewer overseas arrivals and more people working from home and will also have some limited impact on demand from business.

However, the major changes in demand for gas in the ACT, including over the next five years of this GN21 Plan, will come from policy changes from the ACT Government. These impacts have been discussed in the previous section of this Advice. CCP24 believes that any COVID-19 impacts will be minuscule by comparison with the policy changes.

CCP24 comments

We have been clear in identifying the dilemmas confronted by network business and regulator alike in determining likely demand for gas in the ACT over the next five years. We are focused on demand from ACT customers because they account for about 90% of the Evoenergy demand and so have far away the greatest influence on future demand. We also expect that rates of change for New South Wales customers will be less dramatic than they may be for ACT customers.

In commissioning three different perspectives on likely future gas demand, Evoenergy has been responsible in seeking external perspective.

Despite these efforts, the CCP24 perspective is that the revised GN21 Plan overstates the likely demand reduction over the next access arrangement period.

Our reasons for this view include:

- the consultant reports have generally accepted the demand reduction indications / targets from the P&G agreement, without some further testing of the practicality of implementing some aspects of these targets.
- Demand analysis has not adequately deconstructed the residential market, in particular, the Sagacity report in particular only deals with homeowners. This is despite the near certainty that landlords will be amongst the last to change appliances and to renovate and so renters in existing dwellings are much more likely to be using gas well into the foreseeable future.
- There remain some potential contradictions in some components of the policy settings for gas in the ACT with both targets for a rapid transition to electrification while signalling a desire to maintain the gas network for 'renewable gas.' The ACT pathways for achieving a gas transition are less advanced than for some other jurisdictions.

- The forecasting has generally underutilised behavioural evidence which we think would indicate slower take-up of electric options than the forecasting suggests.

We would expect the ACT demand for gas over the next five years to lie somewhere between the AER's draft determination placeholder (which was before the ACT P&G Agreement) and Evoenergy's revised GN21 Plan, which is based heavily on the revised CIE forecasts.

These are indicated in the chart below.

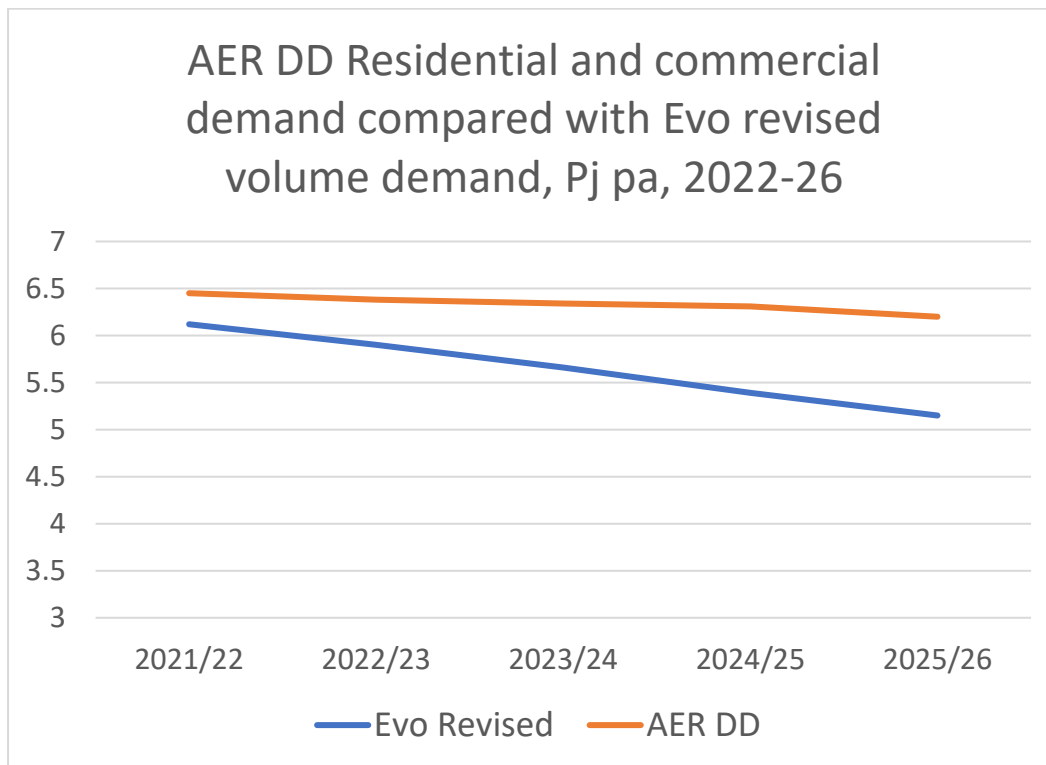


Figure 8.1 Source Evo revised GN21 Plan and AER Draft Determination

This chart shows the divergence in forecasts over time.

Our view is that a better forecast lies somewhere between the initial AER forecast and the Evoenergy revised forecast for ACT demand. Recognising the identified forecasting concerns, we encourage the AER to reassess the validity and implications of the forecasts in making their final determination.

This is also one of the rare occurrences where some form of brief mid regulatory period review is likely to have value for all parties, including consumers, in responding to the significant uncertainty. We encourage the AER to give consideration to a streamlined process to revisit demand forecasts and actual demand in the middle of this regulatory period since consumers should not have to bear all of the risks of low demand forecasts under a price cap regulatory approach.

9. Revenue requirement and price impacts

GN21 Revised AA

The Draft Decision accepted most of Evoenergy's initial proposal. The revised proposal reflects a number of changes eg lower capex, lower demand/new connections, changes in WACC and the AER's decision on expected inflation methodology. These changes have a significant influence in customer bill impacts⁴⁰.

Table 9.3 Customer bill impacts

\$ (nominal)	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
Revised proposal						
Real weighted average price change across all tariffs (%)		-0.05	0.00	0.00	0.00	0.00
Increase in the typical residential customer network bill (\$)		9.81	8.22	8.42	8.62	8.82
Estimated Evoenergy network gas bill for the typical residential customer (\$)	337	346	355	363	372	380
Estimated retail gas bill for the typical residential customer (\$)	1,440	1,488	1,547	1,616	1,674	1,721
Draft decision						
Real weighted average price change across all tariffs (%)		-9.77	0.00	0.00	0.00	0.00
Increase in the typical residential customer network bill (\$)		-24.02	7.42	7.60	7.78	7.96
Estimated network gas bill for the typical residential customer (\$)	337	313	320	328	335	343
Estimated retail gas bill for the typical residential customer (\$)	1,440	1,454	1,512	1,580	1,637	1,684

CCP24 comments

The impact of the ACT Government's implementation of its gas policy under its zero net emissions target is to completely remove the previous 10% price fall in year 1. It is a sign of what will occur in the future as demand continues to fall and the costs of past and future capex needs to be recovered. We discuss this in more detail in the future of gas section above.

Consumers are bearing the costs of potentially stranded assets.

10. Incentive Mechanisms

11.1 Efficiency Carryover Mechanism (ECM)

GN21 Revised AA

Evoenergy has accepted the Draft Decision on the ECM.

CCP24 comments

In our advice on the Gn21 Plan we proposed that given that Evoenergy proposes to exclude capex (\$2.1m) associated with new connections from CESS, we thought it would be consistent to exclude opex associated with new connections from ECM. This was mentioned, but not discussed in the

⁴⁰ Revised G21 Plan p.49

Draft Decision. As noted above we expect the significantly reduced demand forecast to be reflected in lower opex so our recommendation may be achieved another way by simply not having these costs included in the first place.

11.2 Capital Expenditure Sharing Scheme (CESS)

GN21 revised AA

Evoenergy accepted the Draft Decision on CESS. Projects associated with the projects to connect or progress the injection of renewable gas will be excluded.

CCP24 comments

We supported the application of CESS in 2021-26 subject to exclusion of new connection capex and this is reflected in the Draft Decision. We support the further exclusions proposed.

We would also suggest that were the NSW Government to legislate for net zero emissions and implement policy to reduce gas consumption in the 2021-26 period, then any reduction in capex spend due to this decision should be excluded from CESS.

11. Cost Pass Throughs – Insurance Coverage Event

GN21 Revised AA

Evoenergy has proposed an additional change to its access arrangement to introduce an Insurance Coverage Event. This is intended to replace the existing Insurance Cap Event and is prompted by the fact that Evoenergy, like other network service providers, has incurred higher premiums and insurance coverage gaps, and expects this situation to continue⁴¹. The proposed change is consistent with the changes reflected in the AER's final decision for South Australia Power Networks (SAPN), Energex and Ergon Energy electricity distribution determinations for 2020-2025⁴².

CCP24 comments

CCP24 are aware of the challenges faced by network service providers in securing appropriate insurance coverage in global insurance markets at an acceptable cost. We understand that while this is a more significant issue for electricity distribution businesses, it also impacts on gas network businesses. We support the proposed change from Insurance Cap Event to Insurance Coverage Event to reflect the current circumstances in the insurance market, and particularly endorse the adoption of a consistent, standard insurance coverage event definition across all regulated network businesses.

⁴¹ <https://www.aer.gov.au/system/files/Evoenergy%20-%202021-26%20-%20Revised%20GN21%20Plan%20-%20January%202021%20-%202014%20Jan%202021.pdf>, p55

⁴² AER, Final Decision, SA Power Networks Distribution Determination 2020 to 2025, Attachment 14 – Pass Through Events, June 2020. pp. 13-14

12. Reference Service Agreement Terms and Conditions

GN21 Revised AA

Following lodgement of the GN21 Plan, Evoenergy received feedback from users (retailers) on the terms and conditions of its Reference Service Agreement in relation to operational gas balancing⁴³.

Evoenergy engaged Farrierswier to complete a review of operational gas balancing arrangements and identify potential improvements. As part of the review Farrierswier were asked to interview key stakeholders to understand any concerns with the current arrangements. Representatives from 8 organisations were interviewed. Based on the information obtained from stakeholders, Farrierswier's recommendations included improvements to the drafting of Schedule 5: RSA, Annexure 3: Gas Balancing.⁴⁴ Evoenergy has flagged these changes in the Revised Reference Service Agreement.

CCP24 comments

CCP24 commend Evoenergy for undertaking this targeted engagement with retailers, and support the initiative to simplify and clarify the RSA terms and conditions. We encourage Evoenergy to continue with the engagement with a view to finalizing the proposed drafting changes in time for inclusion in the Final Decision.

⁴³ <https://www.aer.gov.au/system/files/Evoenergy%20-%202021-26%20-%20Revised%20GN21%20Plan%20-%20January%202021%20-%202014%20Jan%202021.pdf>, p56

⁴⁴ <https://www.aer.gov.au/system/files/Evoenergy%20-%20Farrier%20Swier%20Consulting%20-%20Attachment%2011.1%20-%20Review%20of%20OBG%20arrangements%20-%20January%202021.pdf>, pv

Appendix 1 – Parliamentary and Governing Agreement

“Parliamentary and Governing Agreement 10th Legislative Assembly for the Australian Capital Territory⁴⁵

Appendix 1: Policy issues of particular interest

The ACT Labor and Greens Agreement will take the next essential steps to a net zero-emissions ACT, through the following actions:

1. Phase out of fossil-fuel-gas in the ACT by 2045 at the latest, support energy grid stability and support vulnerable households, by doing the following:

i. Implement a program of zero-interest loans of up to \$15,000 for households and not-for-profit community organisations to assist with the upfront costs of investing in: rooftop solar panels; household battery storage; zero emission vehicles and efficient electric appliances. The program will include an education and communications component about energy efficiency and the shift from gas to electric.

ii. Progress a project with relevant asset owners and key stakeholders to reduce the emissions intensity of the existing ACT gas network as much as is possible, by injecting zero-emissions gas alternatives.

iii. Enact minimum energy efficiency standards regulations for rental properties in 2021 with progressive implementation over the coming years.

iv. Implement a five-year, \$50 million program to improve building efficiency and sustainability for social and public housing, low income owner-occupiers, and the lowest performing rental properties; this includes upgrades to government housing, and financial incentives to implement minimum energy efficiency standards in rental properties.

v. Deliver at least 250MW of new ‘large-scale’ battery storage distributed across the ACT.

vi. Develop the Molonglo Commercial Centre as an all-electric commercial centre (no new connections to gas mains network, but allow transition gas arrangements such as tanks), in partnership with expert stakeholders, and use lessons from this project to assist the phase out of fossil-fuel gas in the ACT, and demonstrate national best practice.

vii. Legislate to prevent new gas mains network connections to future stages of greenfield residential development in the ACT in 2021-22. Future stages of Jacka and Whitlam will be all-electric.

viii. Commence a transition project, working with industry and other stakeholders, to advance all-electric infill developments, with a goal of no new gas mains network connections to future infill developments from 2023.

ix. Ensure all new ACT Government buildings and facilities are fossil-fuel-gas free, including new leases. All retrofitting in Government buildings and facilities will have a goal of net-zero emissions post retrofit.

⁴⁵https://www.cmtedd.act.gov.au/__data/assets/pdf_file/0003/1654077/Parliamentary-Agreement-for-the-10th-Legislative-Assembly.pdf

x. By 2021, implement the ACT ICRC recommendations to make it simpler for ACT consumers to get better energy deals by requiring electricity retailers to provide customers with a reference bill for a typical consumer, and notify customers if they have a plan that could reduce a customer's bills."