Consumer
Challenge
Panel

CCP24 Advice to Australian Energy Regulator on

Evoenergy Draft Plan

for Evoenergy Gas Network Access Arrangement July 2021-June 2026

Consumer Challenge Panel (CCP) Sub-Panel CCP24

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Acknowledgements

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

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

1. Introduction

This Statement of Advice is provided to the Australian Energy Regulator (AER) from Consumer Challenge Panel, sub-panel 24 (CCP24) in response to the Draft Plan published by Evoenergy in preparation for the Access Arrangement Review 2021-26 for the Evoenergy gas network. The Access Arrangement proposal is due to be lodged with the AER by 1st July 2020. The "Evoenergy gas network 2021 draft plan" (GN21 Draft Plan) was released in February 2020, with responses sought from consumers and other interested stakeholders by 2nd April 2020.

In common with current practice for the majority of regulated network businesses operating in the National Energy Market, Evoenergy has embarked on an early engagement program with its customers in order that customer needs are well understood by the business leading up to preparation of the next Access Arrangement Proposal. The GN21 Draft Plan has been published following completion of the majority of the consumer engagement activities associated with the price reset.

In responding to the Draft Plan, this document considers the information presented with the intention of:

- considering the linkages between the observed consumer engagement and the issues raised in the Draft Plan;
- providing feedback to Evoenergy on matters of importance to consumers generally, including revenue trends, focus areas for expenditure, and trends in efficiency;
- highlighting the areas where further consultation may be warranted leading up to lodgement of the Access Arrangement Proposal; and
- identifying any areas of importance to customers that may not yet be evident in the Draft Plan.

We present this report with the intended audience of:

a) The AER, to provide an early indication of how closely the Draft Plan reflects the outcomes of the early engagement programs;
b) Evoenergy, to assist in engagement leading to the submission of the Access Arrangement Proposal; and
c) informed customers and stakeholders who are taking an interest in, or actively participating in, this regulatory process.

It is important that the Draft Plan is not seen simply as a summary of the eventual Access Arrangement Proposal, but rather as a tool to facilitate conversation, comment and feedback. CCP24 encourages Evoenergy to seek and consider any feedback from stakeholders, and listen to the sentiment, questions and emotion presented in the responses to the Draft Plan. CCP24 will continue to take a keen interest in how feedback on the Draft Plan continues to influence the final Access Arrangement Proposal.

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

2. Summary of CCP24 advice

CCP24 remains concerned about apparent inconsistencies between the Evoenergy Draft Plan for 2021-26 and the ACT Government's Climate Change Strategy 2019-2025. We recognize the high level of uncertainty facing the Evoenergy gas network at this time, and appreciate that the forward pathway is not clear. In this environment, it is essential that careful consideration is given to the risks associated with the business's decisions, and who bears the consequences of those risks. In the absence of a clearly articulated strategy and feasible plan for transitioning the network to renewable gas, there is a clear risk to both current and future gas consumers of a cost burden associated with any extensions to the gas network in this period. We do not consider it appropriate for this burden to fall to customers. We encourage Evoenergy to further build their narrative in the Access Arrangement Proposal that they lodge to expand on the Draft Plan information to include further discussion about the options that they have considered and their reasons for the paths chosen.

We also look forward to the Access Arrangement Proposal further documenting the intended, ongoing consumer engagement strategy to consider the difficult questions about the future of gas in the ACT and for comments about Evoenergy's responses to the Citizens' Jury recommendations.

Evoenergy has invested significant effort in preparing a Draft Plan which foreshadows many aspects of their upcoming Access Arrangement Proposal. One of the objectives of the CCP is to assist each business to deliver an Access Arrangement Proposal which is, as far as possible, capable of being accepted by customers, other stakeholders and the regulator. In this report, CCP24 has endeavored to highlight those areas of the Draft Plan where additional information or explanation may enhance stakeholder acceptance, and potentially lead to an Access Arrangement Proposal which is largely capable of acceptance by all parties.

3. Overall Assessment of Evoenergy's Draft Plan

CCP24 congratulates Evoenergy on developing and publishing a Draft Plan 4 months in advance of the due date for lodgement of the formal Access Arrangement Proposal. We recognise that there is significant effort and commitment involved in this process, particularly for a relatively small network business such as Evoenergy and in a period of unprecedented uncertainty.

Evoenergy has prepared an easy-to-read, informative document which identifies the key elements under consideration for the Access Arrangement Proposal, and presents them in a way which is accessible and understandable for both the casual, and the well-informed reader. In particular, we acknowledge the way the Draft Plan outlines and analyses the potential pathways forward for Evoenergy, given the uncertainty surrounding the future of the gas network in the ACT. Environmental sustainability is clearly an issue of great concern for Evoenergy's customers, as evidenced repeatedly during the consumer engagement program. This major theme is addressed at length in the Draft Plan. CCP24 does note however, that while the policy environment in the ACT is addressed in some detail, there is minimal discussion of the New South Wales policy environment which is equally relevant for Evoenergy's non-ACT customers.

While the narrative of Draft Plans is critically important, key data is also important. To enable interested stakeholders to analyse the regulatory building block elements, some additional high-level data would be particularly helpful. For the broad elements of capital cost, operating cost and connections, this would include allowance for the current regulatory period, actual and predicted spending for the current regulatory period and amount proposed for the next regulatory period. Regulated Asset Base (RAB) growth is also of significant interest, as are a range of ratios such as RAB per customer, opex per customer, cost per connection etc. This information could appropriately be included as an appendix to the Draft Plan.

We also suggest that the following additions to the Draft Plan could be helpful to stakeholders:

- A print friendly version, particularly for groups representing consumer interests who want to be able to download and print a copy of the Draft Plan without the photos and colour associated with an externally printed copy;
- A map or schematic of the gas network coverage and key locations of interest, highlighting the geographical locations referenced in the document;
- CCP24 commends the use of the 'call-outs' to assist customers and stakeholders to focus their feedback to the Draft Plan, and considers that a summary table of 'call-outs' would assist in this process.

4. A net zero emissions future

The impact of ACT Government Climate Policy on the GN21 Draft Plan

Government Policy

The key issue for Evoenergy and its customers in preparing the 2021-26 Access Arrangement proposal is the ACT Government's climate change policy of net zero greenhouse emissions by 2045[1]. This policy has an overall objective of zero net emissions by 2045 with intermediate steps of reducing emissions by 50-60% below 1990 levels by 2025, 65-75% by 2030 and 90-95% by 2040. There are a number of components of the strategy including:

- Electricity - 100% renewable electricity, which was achieved in late 2019
- In energy and buildings - encourage a shift from gas to electricity by removing the mandated requirement for gas connection in new suburbs, supporting gas to electric appliance upgrades and transitioning to all-electric new builds
- Transport initiatives - including higher uptake of public transport, encouraging zero emission vehicles and land use planning to reduce travel times.

The key initiatives regarding gas usage are[2]:

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

Action 4.5 commits the ACT Government to develop a plan for achieving zero emissions from natural gas by 2045. The ACT Government is also expected to publish its Sustainable Energy Policy 2020-25 later this year. In his recent letter to the Evoenergy Citizen's Jury members, the Minister for Climate Change and Sustainability noted that:

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

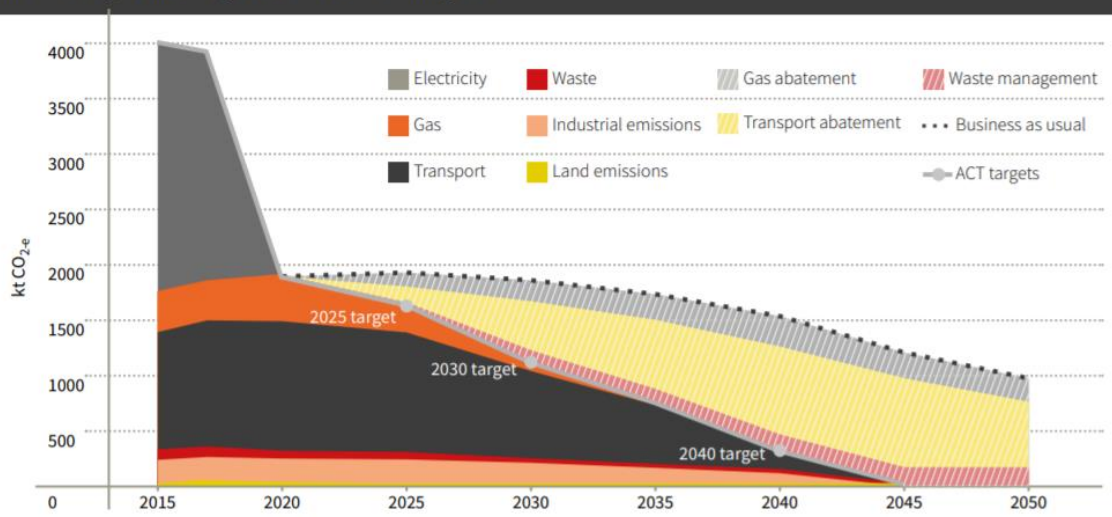
Given the barriers facing reducing transport emissions, the advice from the ACT Environment, Planning and Sustainable Development Directorate is that gas is expected to do some of the early

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

[2] Ibid p.10

stage 'heavy lifting' in emissions reduction. The diagram below presents one scenario in the ACT Government's modelling[3] illustrating the early role of reduced gas emissions.

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



Achieving this gas reduction pathway would mean[4]:

> "Significant reductions in gas use in the residential sector to 2030, and reduction in commercial gas use in later years towards 2045.
>
> - Around 60,000 existing households not connected to gas by 2025, increasing to around 90,000 in 2030 and all houses by 2045.
> - A decline in new houses connecting to gas, with no houses connected to gas by 2045."

The Strategy document shows that the percentage of households using gas for space heating fell from 60% in 2011 to 45% in 2014 and annual consumption of gas per household fell by 22% from 2010 to 2017.[5] The ACT Government is now offering a range of incentives to convert from gas to electricity under the Actsmart programme[6] eg:

- For business - rebate of up to $5,000
- Low income earners – 50% of solar PV cost up to $2,500
- Home battery rebate – $825/kW so a standard household with a 5kW system would receive ~$4,000.

The strategy notes that[7]:

[3] Ibid p.38
[4] Ibid p.39
[5] Ibid p.66
[6] See https://www.actsmart.act.gov.au/
[7] Ibid p. 66

> "Replacing gas household appliances with electric alternatives is a relatively simple solution as electric cooktops and efficient heat pump heating and hot water systems can easily, and affordably, replace gas appliances… All-electric new homes could reduce annual energy bills for residents by up to $450 per year, and up to $1600 per year if combined with installation of solar panels."

The strategy also notes:

> "Avoiding investment in infrastructure and appliances that will lock in emissions from natural gas will be critical for meeting long-term targets"[8],

which can be the case, for example, when new gas connections are built and new gas appliances are installed.

With regard to its own activities, the ACT Government is committed to zero emissions from gas by 2040 and a 33% reduction on 2020 levels by 2025[9]. 26% of current emissions are from gas use in health (13%) and other eg schools and offices (13%). Various policies have been/will be developed to reduce gas use in existing Government buildings and all new buildings, including public housing will be all-electric. The Government's recently announced new hospital for Canberra (Spire project) to be completed by 2024, will be an all-electric hospital.

Advice from the ACT Environment, Planning and Sustainable Development Directorate is that the Government is using the period to 2025 to work out more detail on the preferred pathway to 2045.

<u>Evoenergy response</u>

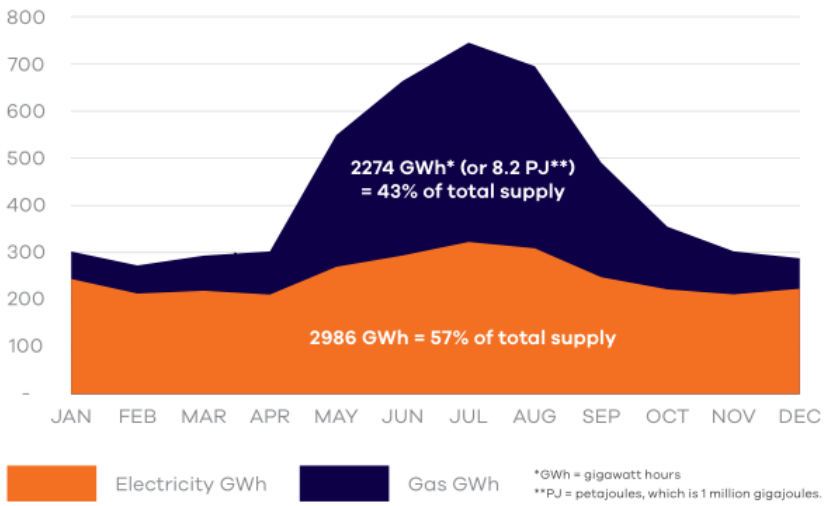
Evoenergy recognises the impact of the policy and proposes three potential pathways (p.18):

(i) a gradual transition away from gas, with all of the region's energy needs being met by renewable electricity by 2045
(ii) continuing to use the gas network with a gradual transition away from carbon- emitting natural gas to renewable gas options, or
(iii) a 'hybrid' of the above two pathways, where renewable electricity becomes the preferred energy source but the existing gas network continues to be utilised to distribute renewable gas, such as hydrogen.

A key consideration in the pace of the move from gas to electricity is the nature of the ACT energy demand profile. Given the high winter heating load, gas provides 55-60% of energy needs in winter (p.18).

[8] Ibid p.66
[9] Ibid pp.71-75

Figure 3.1: 2018 ACT energy demand (GWh) showing gas and electricity use over the year, including winter peak demand



Transferring gas customers to electricity, particularly for heating, would require significant investment in the electricity network as well as 'stranding' gas network and customer appliance assets. As the Draft Plan acknowledges (p.5):

> "Decarbonising our gas network is a complex challenge. The gas network currently supplies a large proportion of the region's energy requirements, particularly in the cold winter months. Substituting gas with electricity would require significant expansion of the existing electricity network and leave our investment in the gas network stranded."

Evoenergy seems to advocate option (iii) - a gradual transition to renewable gas which might be hydrogen, bio-methane or some combination.

While Evoenergy did begin work with a consultant on trying to quantify the additional investment required from a move to all-electricity, it appears that the complexity of the modelling task meant that this work has not proceeded.

Citizens' Jury views

The Citizens' Jury, initiated by Evoenergy, was asked to consider these issues, by addressing the question:

"***The ACT Government has legislated for net zero greenhouse gas emission by 2045. Evoenergy is committed to transform the gas network to meeting this target. As part of this transition, what are our consumers expectations of the service provided to them?"***[10]

Part of the introduction to their recommendations included these comments from the Jurors:

"We recognise that what has been legislated in the ACT is unprecedented in Australia and indeed the world. We hope that Evoenergy's leadership on community engagement will be followed by others in the broader decarbonisation of the economy.

[10] Report from the Evoenergy Citizens' Jury, 3 November 2019, published by Evoenergy

As a Citizens' Jury, we have found a great deal of agreement and support for the ACT Government's target of net zero greenhouse gas emissions by 2045. We are encouraged by Evoenergy's commitment to transform the gas network to meet this target."

Pertinent recommendations included recommendation 8 to Evoenergy

***"Recommendation 8:** Continue to maintain infrastructure and value of infrastructure and make a decision on the future of the gas network at the end of the 2021-26 regulatory reporting period. This time period is to provide direction to consumers and the energy market."*

A recommendation to the ACT Government is:

***"Recommendation 1:** Increase Government funding, assistance, subsidies and buy back schemes to encourage, ensure and assist with the transition from natural gas to electricity or from natural gas to other energy sources."*

The Jury made clear recommendations about an ongoing communication plan, including:

***"Recommendation 2:** Evoenergy and the ACT Government will jointly collaborate with other stakeholders to develop a communication plan to inform the ACT and NSW consumers about the transition, to facilitate Evoenergy's messages reaching out to the consumers and broader community."*

Further recommendations provided great detail about elements of a communications plan.

We are seeking your feedback on the assumptions we have made on how ACT Government policy will impact the use of gas in the ACT and surrounds. What are your expectations of how the use of gas will change in the next 5 – 10 years?

CCP24 views

Our first observation is that while the Draft Plan may claim that it is consistent with the Government's Climate Strategy, we remain to be convinced that it is. Here are a couple of examples.

Firstly, on the one hand the Draft Plan says that Evoenergy does not yet know the best pathway to net zero emissions by 2045 but that (p.19):

> "…. we need to first determine the pathway that has the lowest possible cost and impact …This will take time."

This is an approach we can agree with. Yet on the other hand, the Draft Plan then goes on to argue for considerable investment in new connections, which has the risk of increasing the level of stranded assets before the detailed pathway has been determined by Government.

While Evoenergy may favour a transition to using renewable gas, this has yet to be shown to be economically and technically feasible. We comment below on the potential barriers to expanding the use of hydrogen in the ACT.

Secondly, an example we discuss in Section 8 below is the Draft Plan's customer forecast of an *increase* from 150,000 to 164,000 in customer numbers whereas the ACT Climate Strategy scenario discussed above refers to a *reduction* of 60,000 customer connections to assist in achieving the 2025

interim target. While we recognize the barriers to achieving a 60,000 reduction in customer connections (as well as its impact on prices), we consider that the ACT Government's strategy is not consistent with an increase in customer numbers.

CCP24's observations of consumer engagement support the very strong interest in environmental sustainability. As the Draft Plan notes (p.23):

> Supporting environmental sustainability is a key driver for many consumers. This includes some support for halting the expansion of the gas network in new ACT suburbs."

Reticulated gas was first introduced in Canberra in the early 1980s and has expanded quickly to be now connected to ~70% of Canberra. Compared with most other metropolitan gas networks, the network is relatively young with considerable remaining asset life.

Given the explicit ACT Government Climate Strategy, the clear early role for reduced gas consumption in meeting the 2045 target and the advice that the Government will have a detailed implementation plan by 2024, we consider that the appropriate 'no regrets' pathway for 2021-26 is one which does not undertake any new connections capex in the period. We believe that this is the pathway which minimizes the overall risk to Evoenergy's customers of potentially being faced with higher stranded assets costs, as well as customer infrastructure replacement costs in the future, should the renewable gas option fail to eventuate. During the 2021-26 period, we expect there to be more information on the feasibility and potential benefits of moving to a hydrogen/bio-gas world and this will enable better informed discussions on augmentation capex leading into the 2026-31 revenue period.

We agree that the issues around a full conversion to electricity are significant. While modelling this scenario is complex, we encourage Evoenergy to continue with this work to at least assist stakeholders to better understand some broad parameters of the issue. It would be an important role for the ECRC to provide input to the development of scenarios, assumptions and modelling methodology. It would also be very helpful for the narrative supporting the Access Arrangement Proposal to discuss the level of spare capacity in the Evoenergy electricity distribution network and what is being done in the current regulatory period to increase knowledge around this level of spare capacity.[11]

This modelling should also seek to understand the additional costs associated with developing hydrogen – both network and appliances. The relevant metric is the relative costs of different pathways to net zero emissions.

How different is NSW?

NSW climate change policy

In his introduction to NSW's recently released climate policy, the Minister for Energy and Environment noted in his Foreword[12]:

[11] See for example the work AusNet Services is doing in Victoria (for 2021-26 reset period) and SAPN in South Australia (for 2020-25 reset period) as set out in their recent submissions to the AER.

[12] See NSW Department of Planning, Industry and Environment "Net Zero Plan Stage 1: 2020–2030" March 2020 https://www.environment.nsw.gov.au/-/media/OEH/Corporate-Site/Documents/Climate-change/net-zero-plan-2020-2030-200057.pdf?la=en&hash=D65AA226F83B8113382956470EF649A31C74AAA7

> "The NSW Government is committed to taking decisive and responsible action on climate change. That's why we've already set a goal of net zero emissions by 2050 and today, we're releasing this Net Zero Plan Stage 1: 2020–2030 to fast-track emissions reduction over the next decade and prepare the State to take further action in the decades to follow."
>
> …
>
> The Plan is forecast to deliver a 35% emissions reduction in New South Wales by 2030 compared to where we were in 2005, and that is our objective over the next decade."

The strategy does discuss the potential for hydrogen and biogas to be blended with methane and has an 'aspirational target' of up to 10% hydrogen in the gas network by 2030. While there is no explicit mention of following the ACT's approach of removing the obligation to connect new developments to the gas network, it will be impossible to achieve the 2050 goal without the ending of conventional gas use.

Evoenergy response

Evoenergy advance a number of justifications for market expansion in NSW:

(i) To use the gas network in the future for renewable gas
(ii) Gas is preferable to coal-based electricity
(iii) NSW Building Sustainable Index (BASIX) requirements[13] that consider encourage builders to install gas.

The BASIX regulations aim to reduce the greenhouse gas emissions of all new residential dwellings. The energy target is 10-50% reduction from the benchmark of 3,292 kg CO2/year with the reduction dependent on climate zone and building type. For the Queanbeyan postcode, it is 40% for detached houses, 30% for 'low rise', 20% for 'mid-rise' and 10% for 'high rise'.

The NSW Government provided tips for achieving these energy targets and suggest using a gas instantaneous hot water system for houses, semi or terrace houses, townhouses and residential flat buildings[14].

CCP24 Comments

While there is no explicit net zero emissions legislated target in NSW, it is an aspirational target. The ACT experience (and that of many other jurisdictions) is that aspirational targets are being converted to legislated targets. CCP24 remains to be convinced that the NSW situation is different enough from the ACT to justify any new connection capex whether in new developments or new connections in existing suburbs in the 2021-26 period, while research is underway on hydrogen/biogas feasibility. New investment is inconsistent with a 'no regrets' approach as it increases stranded asset risk. Stakeholders will have an opportunity in 2024-26 to assess the then feasibility of hydrogen/biogas to decide if new investment is justified.

We have commented on (i) elsewhere. While the NSW electricity system is predominately coal fired now, almost all coal fired generation is expected to close in NSW in the next 15-20 years, much earlier than the asset life of any new network assets.

While the BASIX tips talk about instantaneous gas hot water, they go on to say:

[13] See https://basix.nsw.gov.au/iframe/?id=98
[14] See https://basix.nsw.gov.au/iframe/?id=244

"If no reticulated gas is available at the location, consider an air-sourced electric heat pump.

The BASIX advice does not appear to provide a justification for new gas connections. It is a justification for using gas hot water if reticulated gas is already available.

Renewable gas - hydrogen

Draft Plan

On page 8 above we noted the three options that are identified by Evoenergy as their "potential future pathways for achieving net zero emissions."

Both the second and the third of the options proposed mention the possibility of "renewable gas" providing potential for continuation of gas supply in a zero-carbon future. It is recognised that one of these renewable gas options is "hydrogen." We are aware from discussions with Evoenergy, and indeed with other gas businesses as well as broader community debate, that considerable attention is being given to the potential for hydrogen, produced from renewable electricity using electrolysis.

Australia's National Hydrogen Strategy[15] was released in November 2019 and summarises its role as: *"Australia's National Hydrogen Strategy sets a vision for a clean, innovative, safe and competitive hydrogen industry that benefits all Australians. It aims to position our industry as a major player by 2030.*

The strategy outlines an adaptive approach that equips Australia to scale up quickly as the hydrogen market grows. It includes a set of nationally coordinated actions involving governments, industry and the community."

CCP24 Comments

We are somewhat surprised that the Draft Plan does not give more consideration to the potential of a hydrogen future, particularly noting that the National Hydrogen Strategy now exists and that trials in aspects of the production and distribution of hydrogen are underway.

CCP24 recognises that uncertainty abounds about the potential future use of hydrogen but this will reduce as we see the results of research and trials currently underway. We suggest that Evoenergy could give some further narrative about their hydrogen thinking in the Access Arrangement Proposal.

Discussions with the ACT Environment, Planning and Sustainable Development Directorate suggest that the pathway for hydrogen might be difficult:

- The two transmission pipelines into the ACT system (from the north through a lateral to the Moomba – Sydney pipeline and from the east through the Eastern Gas Pipeline from Victoria) are both steel and hence may have technical risks related to transporting high percentage levels of hydrogen[16];
- This suggests that hydrogen generation may have to occur near to Canberra, and;

[15] https://www.industry.gov.au/data-and-publications/australias-national-hydrogen-strategy

[16] For example, see the discussion on embrittlement in high pressure transmission pipelines at p.51 in the December 2019 report to COAG Energy Ministers http://www.coagenergycouncil.gov.au/sites/prod.energycouncil/files/publications/documents/nhs-hydrogen-in-the-gas-distribution-networks-report-2019_0.pdf

- This would require a substantial expansion of renewable generation and the local electricity network.

Nevertheless, it would be helpful to hear Evoenergy's views.

5. Consumer Engagement

The consumer engagement undertaken and responses made is discussed in section 4 of the Draft Plan

Evoenergy has undertaken one of its most comprehensive engagement processes in the lead up to the publication of the Draft Plan. The stakeholder engagement program is summarised in the following table.

Table 4.2: Summary of stakeholder groups engaged and engagement tools used

CITIZENS' ENGAGEMENT ACTIVITIES	Household consumers	Small to medium business consumers	Vulnerable consumers	Major customers	ACT Government
Citizens' Jury	○	○	○		○
ECRC meetings	●	●	●	●	
GN21 web page and social media	○	○	○	○	○
ACTCOSS partnership	●	●	●		
Energy Matters Gas 2019				○	
Actsmart Business Expo	●	●			
Surveys	○	○	○	○	

Source Evoenergy 2021 Draft Plan, February 2020

Between the CCP24 subpanel members, we have observed the first 4 of the engagement activities in reasonable detail, are aware of the surveys, and have observed local 'Drop-in' sessions. We specifically observed these sessions in action at the Gungahlin Library and Queanbeyan. The following considers the major elements of Evoenergy's consumer engagement.

Energy Consumer Reference Council (ECRC)

Regarding the ECRC, Evoenergy says: *"The ECRC is an independent forum made up of representatives of the ACT community that provides considered input into the operations and long-term planning of Evoenergy. The ECRC members also play an ambassadorial role distributing information and promoting participation in Evoenergy engagement activities to their representative communities and sectors. During 2019, the ECRC spent more than 10 hours over four meetings considering information about the GN21 plan and providing their feedback to Evoenergy."*

The ECRC is a significant forum for Evoenergy, providing much of the focus of their ongoing consumer engagement and providing a vehicle for a diversity of consumer perspectives to be presented and

discussed. We note that CCP10, in considering Evoenergy's electricity distribution regulatory proposal, also had a good relationship with the ECRC and valued their contribution. We observed that Evoenergy received some good advice and perspective regarding this gas Access Arrangement proposal from the ECRC. For example, in meeting 31, October 16th 2019, there was discussion about Capex expenditure in the current period and implications for GN21. ECRC members questions included asking why current period actual capex spending is below the regulatory allowance?

Energy Consumer Advocacy Workshop

Evoenergy said this about the workshop. *"The ACT Council of Social Service (ACTCOSS) was commissioned by Evoenergy to run an Energy Consumer Advocacy Workshop as part of ensuring that energy consumers in the ACT and Queanbeyan-Palerang region who are on low incomes, experiencing disadvantage, or at risk of hardship can actively contribute to the GN21 process. The workshop provided an initial opportunity to learn about the GN21 process and gain insights from experts with extensive experience as energy consumer advocates, including experience in engaging in other energy network planning processes."*

CCP24 members attended this workshop and had discussions with ACTCOSS before and after the workshop and observed that it provided valuable input to Evoenergy and helped garner a range of consumer views to support that input.

Web page and social media / Online survey

Evoenergy describes this process as *"a dedicated web page for the GN21 plan was created on the Evoenergy website. This webpage contained information on the various ways people could provide their feedback and provided further information on the transition to a net zero emissions gas network."*

We also note that the online survey that was active between September and November 2019, attracted 118 responses. We consider this to be a good result, noting that 10% of respondents identified as having a disability or being low income earners and so provided an additional means for Evoenergy to hear from these important perspectives.

Energy Matters 2019 and Actsmart Business Expo

We recognise that Evoenergy regards Energy Matters as their *"flagship event for our major customers and allows us to consult on a range of topics."* We also understand that the Actsmart Business Expo, which is run by the ACT Government, also provided a useful forum for engagement with the business sector, including small and medium-sized businesses.

While we did not observe these events directly, we have spoken with representatives of the businesses that Evoenergy engaged with, including through these processes.

CCP24 Comments

Citizens' Jury

To the best of our knowledge, this is the first time that a citizens' jury model has been applied directly to a regulatory proposal by an energy network business in Australia, noting that we believe that SA Power Networks (SAPN) was the first to apply the approach to inform their engagement approaches.

The methodology has been used in Australia by water businesses, health services and for many other topics, including the somewhat controversial[17] South Australian Nuclear Fuel Cycle Royal Commission.

Evoenergy said in their Draft Plan: *"The centrepiece of our engagement program was our Citizens' Jury which provided advice to us on consumer views and expectations on the future of gas network. Representatives of our local community were randomly selected through an independent recruitment process to create a Jury that reflected the diversity in our community.*

The Jury ran over two weekends in October and November 2019, totalling more than 750 hours of deliberation by Jury members."

Since the Citizens' Jury has been newly applied to an energy distribution regulatory process, we consider there to be merit in reviewing some of the background to and application of Citizens' Juries, and so provide significantly more comment on this process than would usually be the case for a CCP subpanel overview of an engagement activity.

Please refer to the *Appendix – What is a citizens' jury?* for a fuller explanation of the Citizens' Jury Engagement Model.

Evoenergy application of Citizens' Jury methodology.

We consider it appropriate for CCP to make observations about both the appropriateness of applying a Citizens' Jury methodology to Evoenergy's circumstances and if so, to consider the extent to which Evoenergy has applied the methodology.

Appropriateness of applying Citizens' Jury methodology

We observe elsewhere in this paper that a substantial factor influencing the development of this Access Arrangement Proposal for Evoenergy's gas distribution business is the ACT Government's Climate Change Policy, and the associated debate about the future of gas in supplying the energy needs of business and households in the ACT, and near-border New South Wales. Indeed, we suggest that the policy positions impacting the future of gas are possibly more pressing than any single 'question' experienced by any Australian energy network previously, in developing a regulatory proposal.

This central question of the future of gas in the ACT is complex and relevant information is changing fairly rapidly. It is also a question that impacts significantly on present and future ACT and NSW households and businesses, both those who are currently paying gas bills and those who may be paying for gas in the future.

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

We observe that a Citizens' Jury model is absolutely appropriate for Evoenergy to be utilising as they develop their Access Arrangement proposal under the spectre of uncertainty about the future of gas.

[17] "controversial" because the Citizens' Jury associated with this Royal Commission achieved considerable media coverage, without perhaps the reporters having a full understanding of the processes and independence of the Citizens' Jury.

Extent to which methodologies been applied.

We have summarised the descriptions from New Democracy Foundation and Involve UK, to the following key aspects of a successful Citizens' Jury process.

1. Clear focus for question to be considered
2. Random / representative selection of participants
3. Independent decision making, ie no attempt by the commissioning body to influence the outcome
4. Independent facilitation
5. Time: to listen, challenge and deliberate
6. Information available and 'without prejudice'
7. Upfront authority, ie commitment from the commissioning body that the advice provided will be taken seriously and will have impact
8. Focus on agreed outcome

Having observed the Citizens' Jury process, in detail, over two weekends we observe that all of the aspects of a Citizens' Jury methodology have been applied in the Citizens' Jury process that Evoenergy has called the "centrepiece of our engagement program."

We also commend Evoenergy for having the courage to apply this methodology, which we agree was the right one for the circumstances that they confront.

Other Observations about Evoenergy's Consumer Engagement

In general, the engagement activities that we observed were well-managed and well-facilitated. In activating its program, Evoenergy has sought to broaden engagement beyond levels previously undertaken, and we welcome this broader perspective. Evoenergy's efforts, particularly with ACTCOSS, to facilitate input from low income and disadvantaged customer perspectives is laudable. CCP24 participated in the Energy Consumer Advocacy Workshop for representatives of energy consumers who are on low incomes, experiencing disadvantage, or at risk of hardship. We suggest that this group, under the leadership of ACTCOSS, provides Evoenergy with an opportunity to obtain direct input from this cohort of hard-to-reach consumers. There is possibly an opportunity for more targeted engagement with this group to provide a low income/disadvantage perspective on the Access Arrangement Proposal.

Recognising the significant effort associated with the Citizens' Jury, we would certainly expect that the Access Arrangement proposal will draw heavily on the observations and advice provided by the Citizens' Jury, as has been the case with the Draft Plan. We also note that there were a number of proposals that were documented in the report of the Citizens' Jury and recognise that not all of these can be implemented by Evoenergy. However, Evoenergy can be part of responding to every proposal and are encouraged to provide a progress report on the actions they have taken in the Access Arrangement proposal.

ECRC members have been well informed regarding the progress of Evoenergy's Draft Plan development. CCP24 observed that the ECRC received briefings on the Draft Plan's drivers, progress and main building block elements during its previous four meetings. Presentations on proposed gas network tariff arrangements and potential CESS application were also provided. These presentations in particular generated significant interest and questioning by ECRC members. We encourage

Evoenergy to demonstrate how this feedback has informed the Access Arrangement Proposal. In the Draft Plan, Evoenergy is also seeking feedback on issues such as accelerated depreciation, productivity and customer and demand forecasting. To date, the ECRC has not been engaged on these matters.

Apart from their representatives' participation in the ECRC, CCP24 did not observe Evoenergy's engagement activities with small and medium business customers, or with commercial and industrial customers. We would expect the Access Arrangement Proposal when lodged, to provide some further detail about input from business customers. Nor did we observe engagement with retailers regarding the Access Arrangement and tariffs. This may be another area where further details will be available in the Access Arrangement Proposal.

The final aspect of consumer engagement that we would expect to see further documented in the Access Arrangement proposal relates to plans for ongoing engagement with customers and stakeholders, beyond lodgement of the Access Arrangement Proposal. This is particularly pertinent because of the very dynamic policy debates and changing policy settings that apply in the ACT that impact on the future of gas services throughout the Territory.

Do these themes reflect your views and priorities as we plan for the 2021–26 access arrangement period and beyond?

The themes around environmental sustainability and transition reflect the views CCP24 heard expressed by Evoenergy's customers and stakeholders, and are well represented in the Draft Plan.

Less well-represented are the customer views around affordability. CCP24 notes the comments in the Draft Plan:

- 'costs are too high making gas unaffordable for low usage households'
- 'Over 50 per cent of survey respondents felt the current price of gas was not reasonable'
- '20 per cent felt reducing network charges should be a prime focus'; and
- 'Our plan proposes to reduce network charges while maintaining quality, safety, reliability and security of supply' – GN21 website.

Affordability is a concern across all customer groups. CCP24 encourages Evoenergy to demonstrate how these concerns are reflected in the Draft Plan and Access Arrangement proposed network prices. We question whether 'stable' network prices are a sufficient response to these affordability concerns.

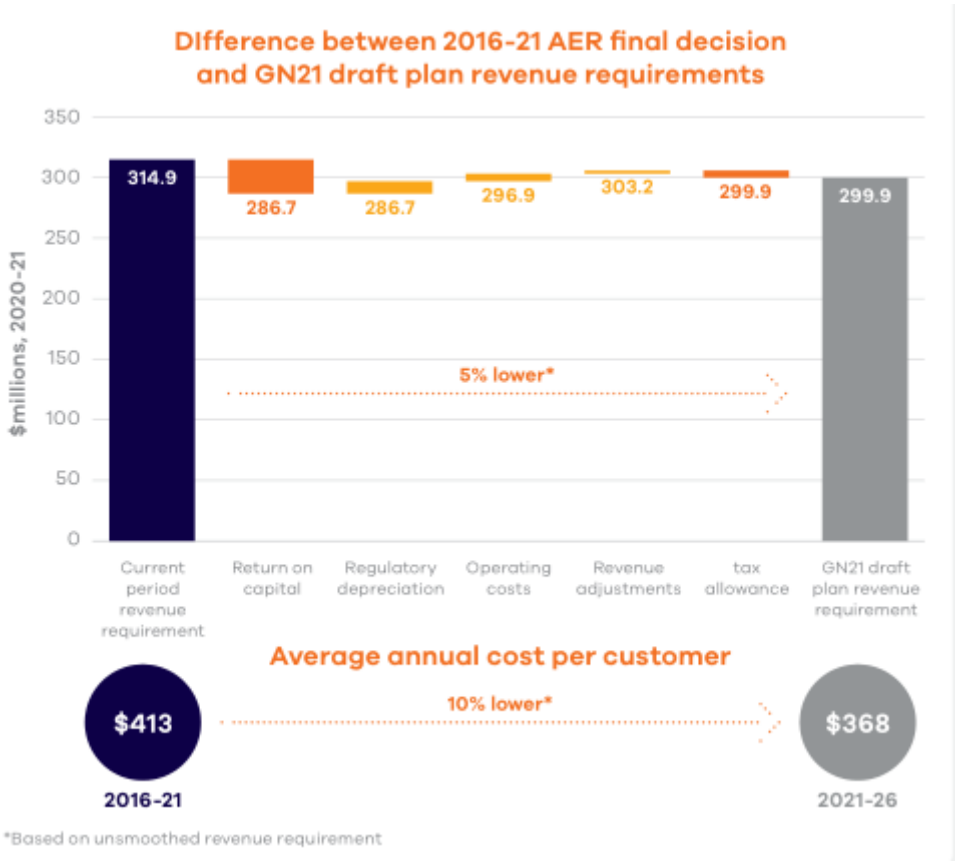
6. Network prices and revenue requirement

Draft Plan

To respond to the concern from consumers about affordability and a desire for price stability and certainty, the Draft Plan proposes an approach that (p.37):

> "…involves minimising expenditure where possible to deliver stable network prices over the five-year plan period."

Total revenue proposed for 2021-26 is $15m lower than the AER Final Decision for the existing period. The "average annual cost per customer" (assuming all other bill components remain unchanged) will fall 10%.



In real terms there will be a slight (0.4%) fall in typical residential bills in year 1 and then prices are constant in real terms (assuming all other bill components remain unchanged).

Table 5.1: Real indicative bill impacts for residential customers

$ (real 2021–22)	2020–21	2021–22	2022–23	2023–24	2024–25	2025–26
Typical annual residential gas bill	1,554	1,548	1,548	1,548	1,548	1,548
Distribution component	398	393	393	393	393	393
Residual component	1,155	1,155	1,155	1,155	1,155	1,155
Annual change $		-5	0	0	0	0
Annual change %		-0.4%	0.0%	0.0%	0.0%	0.0%

CCP24 comments

The major drivers for the reduction in total revenue are the lower weighted average cost of capital (WACC) and tax allowance as a result of recent AER decisions – both matters outside of Evoenergy's control. It is these factors that are allowing prices to be 'stable'. Without these factors, prices would

have risen because of higher capex/depreciation and opex, which is within Evoenergy's control. The Draft Plan assumes a WACC of 4.88% but this may well be lower in the Access Arrangement Proposal given COVID-19 impacts on the risk-free rate leading to larger price fall in year 1.

The use of the term "average annual cost per customer" can be confusing and lead consumers to think they are getting a 10% price reduction which is far from the case. It should be more accurately described as "average annual revenue per customer". It is falling because of the assumption of a significant growth in customer numbers (see section 8 below). However, the much smaller reduction in the average bill is because the increase in capex and opex offsets around half of the beneficial impact of falling WACC and tax allowance. One approach to lessen this confusion is to focus on the price/average bill pathway at the start of the Draft Plan and leave the revenue pathway to later.

Depreciation

Draft Plan

Regulatory depreciation is forecast to be $10.2m higher than the current period. This is driven by the forecast expenditure on meters combined with an asset life of only 15 years.

	2021-26
Renew/upgrade existing meters	$21.7m
New connection meters	$8.7m

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

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

This is meant to reflect the uncertainty around future demand for gas given the ACT Climate Change policy – and the risk of stranded assets in 2045. Given the relatively low level of new investment in these categories, the impact is very small – increasing the revenue requirement by $0.7m out of a total of $300m.

We would welcome your views on our proposed approach to calculating depreciation.

CCP 24 comments

A major factor in the increased depreciation is the increase in forecast customer numbers. We have commented on this forecast in Section 8 of this report, arguing that it does not seem to accord with ACT Government policy.

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

While the impact is very small in the 2021-26 period, the issue itself is very important across all gas networks. In the absence of significant progress on reducing the costs of hydrogen and biogas over the next regulatory period, it looms as a much larger issue for 2026-31 period.

Given ACT Government policy, in the absence of hydrogen/biogas being economic, Evoenergy will not be able to invest in new capex without accelerated depreciation at some stage in the next 5-10 years.

Accelerated depreciation can have large distributional impacts. It acts contrary to the affordability concerns expressed by customers. It increases prices today which impacts low income earners and provides an incentive for consumers who can afford to move to electricity to do so. This leaves a greater burden on those who cannot, even with Government subsidies, move to electricity.

The AER's Draft Decision on Jemena NSW gas network did not support Jemena's submission on accelerated depreciation for new capex[18] and Jemena's revised proposal has provided additional argument to support its case[19]. So, we await the AER's Final Decision in April.

AGN is taking a different approach in its Draft Plan for its South Australian gas network[20]:

- "… we have continued to apply the asset lives that were approved by the AER for the current AA period.
- While we recognize that there is some uncertainty around future energy models, we see a future for our gas distribution business through advances and investment in renewable gases, in particular hydrogen. Therefore, at this time we do not consider any changes to the depreciation profile is required in order to transition to a low carbon economy."

At this stage we support the AGN approach and suggest that this issue is best left to be reviewed in the context of the revenue reset for the following revenue period 2026-31. There is no evidence of detailed Evoenergy consumer engagement on accelerated depreciation, however the Citizens' Jury report includes this recommendation - "**Recommendation 7:** In the context of either decommissioning or alternative uses of the network, Evoenergy to negotiate with ACT Government to arrive at a fair and equitable outcome for the ACT and NSW community." While not directly dealing with accelerated depreciation, this recommendation is evidence of consideration of the suite of issues associated with the future of the gas network in the event that it is decommissioned while still having economic life. We look forward to further engagement with consumers, potentially including Citizens' Jury participants, on their views about Evoenergy's accelerated depreciation proposals.

Incentive Schemes

Capital Expenditure Sharing Scheme (CESS)

Draft Plan

Evoenergy is intending to propose introduction of a Capital Expenditure Sharing Scheme (CESS) as part of the GN21 plan. The scheme is intended to incentivise Evoenergy to find efficiencies in capital expenditure while addressing concerns that this might encourage the business to reduce investment at the expense of service standards. An important aspect of a CESS is to identify ways in which

[18] See the discussion on pp 37ff https://www.aer.gov.au/system/files/AER%20-%20Draft%20Decision%20-%20JGN%20access%20arrangement%202020-25%20-%20Overview%20-%20November%202019.pdf
[19] See the discussion on pp34ff https://www.aer.gov.au/system/files/JGN%20-%20Revised%202020%20Plan%20-%20January%202020.pdf
[20] AGN Draft Plan p. 54 https://gasmatters.agig.com.au/SA

network health can be measured. It is recognised that these are likely to vary depending on the circumstances of each distribution network.

Given the policy uncertainty over the future of gas in the ACT, Evoenergy is proposing that any capital expenditure associated with new connections should be excluded from the operation of the scheme. This means that $31.4m of the proposed $66.2m capex would be subject to CESS.

Evoenergy proposes to engage with stakeholders through a deep dive workshop in March, and through feedback to the Draft Plan questions to identify the factors to be taken into account when applying such a scheme to the ACT.

What are your views on our proposal to adopt a CESS? What factors should we take into account in applying the scheme to the ACT?

CCP24 comments

CCP sub-panels are generally supportive of Capital Expenditure Sharing Schemes for all network businesses, primarily to encourage efficient capex programs and also to balance the incentives between opex and capex expenditure. In this case, CCP24 expresses two main concerns:

- While ECRC and members of the Citizens' Jury were consulted on the potential network health measures that could be adopted for a CESS, it is not clear that they saw clear benefits in introducing a CESS at this time; and
- If capital expenditure for all new connections is excluded from the scheme for 2021-26, there may be limited residual capital expenditure proposed for the period, and consequently limited consumer benefit to be gained from adoption of a CESS in this timeframe.

Efficiency Carryover Mechanism (ECM)

Draft Plan

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

CCP24 comments

We support continuation of the ECM. However, given that Evoenergy proposes to exclude capex associated with new connections, we think it would be consistent to exclude opex associated with new connections from ECM. The Draft Plan suggests it might be $3m:

> "We have included an adjustment for an increase in the scale of our network. To account for this growth, our forecast includes an additional allowance of $3 million over the period."

Tariffs

The existing structure of fixed + variable + ancillary charges where applicable is retained. It is proposed that the variable component will continue to be a declining block tariff for volume customers (residential and small business) and a capacity tariffs for demand customers (small

number of large customers). Volume customer tariffs will be simplified by removing tariffs that have few customers. Demand customers will have the opportunity to reset their chargeable demand levels over 1 July 2020 to 30 June 2021 according to a range of measures and again simplify tariffs.

We are seeking your views on our proposed approach to simplifying tariffs.

CCP24 comments

The only engagement we are aware of in relation to gas network tariffs was a presentation to the ECRC in October 2019. As discussed earlier, this presentation generated significant discussion and questions. CCP24 observed general support for the removal of tariffs with low rates of take up. Subsequent CCP24 discussions with residential consumer advocates have highlighted a number of concerns:

- Equity impacts –There remains a concern that the declining block is not progressive and may not reflect the reality for low-income households. Low-income households may miss out on the cost advantages of the declining block tariff due to consuming less gas.
- Sustainability outcomes – A declining block tariff appears to work contrary to ACT Government policy objectives in relation to reducing greenhouse gas emissions. A tariff structure where the unit price of gas is reduced as consumption increases appears to incentivise higher consumption levels and hence emissions.

We look forward to tariff impact studies occurring prior to submission of the proposal in June.

As noted above, there may be merit is examining a separate tariff for NSW customers given the proposal for continued expansion there. CCP24 has not observed customer engagement around the different approaches for the ACT and NSW components of the Evoenergy gas network. The risk for NSW customers is that significant reductions in connections under the ACT Government's policy will leave NSW customers carrying significant stranded asset risk for ACT assets. This suggests there is merit in considering a change from the current uniform tariff policy to one that sees gradually differentiated tariffs between the ACT and NSW.

7. Capital Expenditure Program

Draft Plan

The net capex (net of customer contributions) is shown in the table:

2016-21		2021-26 Forecast
AER Allowance	Forecast	
$88.1m	$78.2m	$66.2m

Evoenergy have advised that the underspend in the current period is due to the[21]:

> "rapidly changing conditions and policy environment surrounding the ACT gas market. This was not anticipated at the time of the 2016-21 access arrangement review"

[21] Email correspondence with CCP 24, 1st April

In particular the West Belconnen Secondary Main was substantially reduced in size given the decision by the Government to approve Ginninderry as a 'no gas' estate, delays in timing of upgrades and the removal of the need to undertake integrity digs.

The Draft Plan shows the following capex:

	$m
Market expansion - ACT (multi unit $7.1; housing/small business $16.3) - NSW (multi unit $1.7; housing/small business $1.9) - Total	 23.4 11.4 34.8
Capacity development	0.8
Network renewal	8.8
Meter renewal	21.7
Non-system	0
Total	66.2

Over half of total proposed capex is market expansion. In the 'market expansion' category the ACT capex includes only infill to suburbs where gas reticulation already exists covering both households and new multi-unit developments. Adding expansion in new connections in new suburbs would add $23.5m. The corresponding category for NSW includes both infill and new connections in new suburbs.

Stay-in-business capex relate to maintaining reliability and safety.

Do you have any feedback about our proposed capex program? Does our approach seem reasonable? Are there any specific elements you would like to know more about?

CCP24 Comments

We agree with the sentiment expressed in the Draft Plan:

> "Given the current degree of uncertainty regarding the future of the gas network, we believe it is in the best interest of customers to limit the amount of capital investment added to the asset base." (p.56)

Evoenergy's interpretation of this is that the only area where a limit should apply is to market expansion capex in new suburbs in the ACT, reflecting the recent removal of mandating of reticulated gas in new suburbs. It should be noted that Evoenergy is still able to negotiate with a developer to put gas into a new development. In recent years there has been the example of the Ginninderry development in Belconnen. Here the developers, wanting to develop an all-electric suburb, were successful in getting the Government to grant an exemption to the requirement to provide reticulated gas. Nevertheless, Evoenergy built gas mains to the suburb and marketed gas. We understand that this was occurring even though home owners in the new development would lose a bond if they connected to gas.

The ACT Climate Strategy is clear on the Government's desire to reduce new connections:

Action	Comment
3.3 - Plan for a compact and efficient city with improved access to sustainable transport options by delivering up to 70%	• This will lead to increased multi-unit developments in existing suburbs. Retrofitting multi-unit developments to

of new housing within our existing town and group centres and along key transit corridors.	accommodate an alternative fuel source is likely to be problematic.
4.5 - Develop a plan for achieving zero emissions from gas use by 2045, including setting timelines with appropriate transition periods for phasing out new and existing gas connections.	• Why support investment in gas connections to new multi-unit developments when the Government policy is to phase out new connections? • The proposed timetable for this is 2024, though we understand some consumer advocates are seeking to bring this timeframe forward so that it is explicitly part of the GN21 Draft Plan • Even if it is not resolved until after completion of the GN21 process in 2020, it does not seem consistent with the policy to have new connections when the change will definitely occur in the 2021-26 period
4.10 - Ensure all newly constructed public housing properties are all-electric (fitted with efficient electric appliances) from 2019.	• That is one past source of new connections that will not occur in the future

Given this, we do not see a case for any market expansion capex in the ACT as it appears to be inconsistent with Evoenergy's plan to limit the amount of capital investment added to the asset base in the 2021-2016 period and has a reasonable chance of not being a 'no-regrets' decision.

In the case of NSW customers, while there is not the explicit Government policy as there is in the ACT, NSW may simply be a few years behind ACT in its legislation. In the absence of developments that enable hydrogen and/or biogas to be economically feasible and assuming a continuation of the uniform tariff policy for all Evoenergy customers, there are still risks to all Evoenergy customers from further new connections in NSW.

The usual test for allowing new customers is if the additional revenue offsets the additional costs. Additional customers provide the opportunity to spread existing fixed costs over a broader customer base and this results in a lower price for all customers – the denominator increase offsets numerator increase. However, we think it would be useful for Evoenergy to provide, and engage on, a simplified example about how this equation might change in the case of large accelerated depreciation in the future increases the numerator when the denominator is falling as users convert to electricity.

8. Operating costs

Draft Plan

Evoenergy is proposing to use the standard base, step trend approach for forecasting opex with 2019/20 as the efficient base year. The table summarises the total expenditure in the current and forecast periods:

2016-21		2021-26 Forecast
AER Allowance	Forecast	
$171m	$159m	$173.5m

Significant aspects of the forecast are – real labour price growth adding $2m, additional opex due to network/customer growth adding $3m, a step change of $2.5m with pigging activities being

reclassified as opex and a $3.5m increase in Government charges and levies to a total of $47.6m. This growth is offset by productivity gains of 0.74%/year totaling $2.5m. Average annual opex per customer will increase slightly because of a lower rate of growth in customer numbers.

The Draft Plan refers to a study by Economic Insights that supports the view that:

> "…our costs are efficient relative to other gas businesses in Australia" (p.57)

and argues that its opex must be efficient because current period costs are lower (driven by the efficiency carryover incentive) than the AER allowance that was approved as efficient.

The level of Unaccounted for Gas (UAG) is ~1.5-2% which is lower than other networks, reflecting the relatively young age of the Evoenergy network.

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

We are interested in your views on our proposed operating costs. Does our approach seem reasonable? Are there any specific elements you would like to know more about?

CCP24 Comment

As is usual in a Draft Plan, the level of detail provided is relatively limited. We look forward to reviewing the additional detail to be provided in the Access Arrangement Proposal eg

- *The Economic Insights report on benchmarking costs* - we note here that the tools available to the AER to assess the efficiency of opex for gas distribution networks are considerably less than what it has for electricity distribution networks given the relatively long history of benchmarking data for the latter.
- *The evidence supporting the real increase in labour costs* – we expect that Evoenergy will present that same approach used by other electricity and gas networks which is the average of the AER consultant (Deloitte Access Economics) and network consultant (BIS Oxford Economics) forecasts. This averaging approach has been rejected by the AER in recent draft decisions on Jemena gas in NSW and SAPN and EQ electricity distribution. Other CCPs have supported the AER's approach. The AER's final decision in these resets will be published prior to Evoenergy making its GN21 submission to the AER in June.
- *How the measure of productivity improvement was set*
- *The reasons for shifting pigging costs to opex* – we note that the AER recently accepted this move in its Draft Decision on Jemena's NSW network
- *IT support payments* – given that IT is provided by Jemena under a service agreement on a fee for service basis
- *Unaccounted for gas* – it would be good to see more information on:
    - Evoenergy benchmarks against other gas networks in the volume of UAG (and how previous capex/opex has been successful in reducing the level, and
    - the level of competition that is possible to source this gas given Evoenergy has two connection points with the gas transmission system.

An issue for possible consideration is whether the supply of UAG might include a component hydrogen and/or biogas. AGN is currently seeking stakeholder feedback on using from 20-100% of renewable gas to meet UAG requirements.

Given our view on expansion capex above, removing expansion capex would also remove 'expansion' opex.

The justification for a continuation of marketing costs seems inconsistent with ACT Government policy. The ACT Government explicitly ended subsidies for gas efficiency upgrades because it wanted consumers to move from gas to electricity ie it explicitly does not want consumers to have the choice Evoenergy wishes to retain and charge consumers for.

Given the political context discussed above where the ACT Government is also mounting a

> "...campaign to encourage a transition from gas to electric options…" (p.61)

we consider that marketing costs should be subject to a negative step change.

Benchmarking

Unlike electricity distribution and transmission, there is no NEM-wide benchmarking data published by the AER for gas networks and no annual RIN data. All consumers currently have is the data provided as part of the 5-year resets. Annual RIN and benchmarking data is very important to help consumers understand relative efficiency and how network performance is improving (or not) over time. It is a crucial input in their advocacy activities.

We welcome the recently announced AER review of electricity and gas network reporting[22] and look forward to much additional data on gas being available in the near future. We understand that some gas benchmarking data is currently being prepared by Energy Networks Australia and we look forward to its publication. We note the Economic Insights work for Evoenergy on benchmarking opex and look forward to its publication as part of the Access Arrangement Proposal.

9. Customer numbers and volume forecasts

Draft Plan

The forecasting approach for volume customers is in two stages:

(i) very conventional - customer forecast * usage per customer forecast = total gas usage with forecasts based on historical trends, then

(ii) application of a set of post model adjustments to reflect that (i) is not a good indicator of the future when there is significant external influence through changing ACT Government policy. These adjustments were based on a scenario where there are:

- no new connections to new ACT suburbs
- usage per customer 10% lower by 2025-26 - as determined by (i)
- rate of disconnections three times higher than in (i)

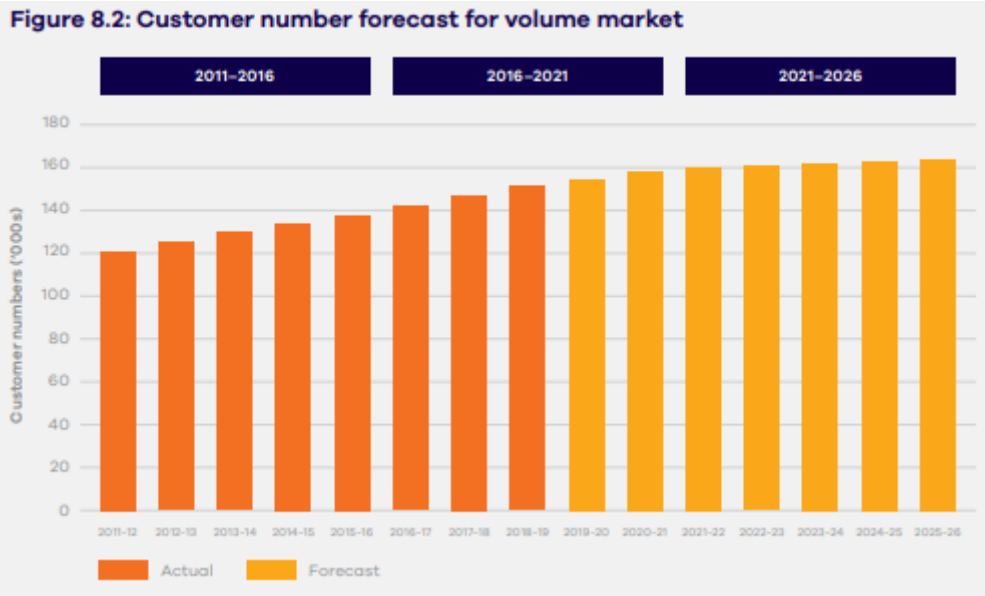
[22] See https://www.aer.gov.au/networks-pipelines/guidelines-schemes-models-reviews/priorities-and-objectives-for-reporting-on-regulated-electricity-and-gas-network-performance

The end result was:

	2016-21	2021-26
Customer numbers ('volume')[a]	150,000	164,000
Usage per customer GJ	44[b]	35

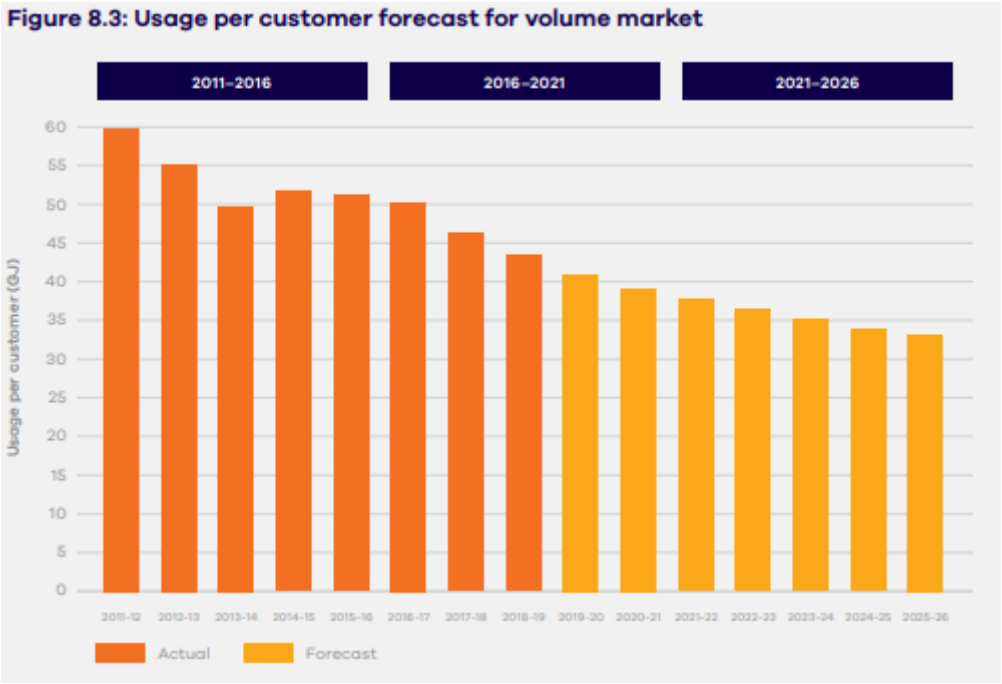
a. Estimated from Figure 8.2 p. 62
b. Estimated from Figure 8.3 p. 62

The very useful charts given in Figures 8.2 and 8.3 of the Draft Plan (p.62) show projections for volume customers – numbers in Figure 8.2 and then the usage per customer in Figure 8.3.



The customer number actual and forecasts suggest an almost linear upward trend from 2011-12 through to 2021-22, with a tapering off of the number of new customers for subsequent years.

Figure 8.3: Usage per customer forecast for volume market



The usage per customer forecasts in Figure 8.3 show a downward trend that is much more dramatic than the more conservative forecast for customer number increases. The actual and projected numbers suggest an almost linear decrease in annual usage from about 52 GJ per customer in 2014-15 to about 34 GJ in 2025-26.

The number of 'demand' customers ie those that consume over 10TJ/year has been ~40 for many years. This is expected to increase slightly over 2021-26 as a couple of customers increase their consumption to over 10TJ. The same post model adjustments were made to demand customers as discussed above for volume customers.

We are interested in your views on our proposed customer number and volume forecasts. Does our approach seem reasonable in light of the ACT Government's Climate Change Strategy and commitment to explore alternatives to natural gas?

CCP24 Comments

Again, the detail provided in the Draft Plan is limited and we look forward to more substantive analysis behind the forecasts being provided (including the Centre for International Economics report) in the Access Arrangement Proposal and why it is an appropriate central case.

As noted above, the scenario discussed in the ACT Climate Change Strategy document envisages a reduction of ~60,000 existing ACT customers connected to gas by 2025. The above forecasts show an increase of 14,000 after the post model adjustments.

While these estimates are not unreasonable, they perhaps infer a degree of precision that cannot currently exist. Consequently, we would expect that in the Access Arrangement Proposal that is lodged, a range for both projections will be provided with some commentary about choices for the projections chosen as well as commentary about implications of high and low aspects of the ranges

actually occurring. We suggest that this better recognises the uncertainty of policy settings, weather and customer behavior.

We think that the policy circumstances Evoenergy faces may require a more complex forecasting approach than the conventional approach used. For example:

- how was the ACT Government's commitment for all new public housing to be fully electric incorporated into the stage 1 econometric analysis?
- What is the impact of the commitment of what we understand are the two biggest gas users to reduce their use:
    - ACT Health and the Government policy to move to have a zero emissions public health sector by 2040[23]
    - ANU Acton campus and its Acton Campus Energy Strategy to move to 100% renewables[24]

It was not clear how the scenario chosen to set the post model adjustments related to the two scenarios discussed:

> "1) a scenario which assumes a continuation of existing ACT Government policy
>
> 2) a scenario which assumes no new gas connections in new ACT suburbs as part of the ACT climate change strategy." (p.61)

and then why the particular adjustment factors were chosen. Given our comments above, we suggest that a scenario involving no new gas connections anywhere in the network should be considered. In correspondence with CCP24, Evoenergy has responded that[25]:

> "We also note that, at this time, the ACT Government has not provided detail on the transition plan, other than noting the 2024 timeframe for the plan to be developed. That said, we also recognise that our draft plan cannot simply reflect 'business as usual' and the announcements that the ACT Government has made to date will impact gas usage and disconnection rates."

We would make two comments in response:

- The only difference between the Draft Plan and a 'business as usual' plan is the absence of connections in new ACT suburbs.
- The existence of the 2045 target plus the ACT Government's commitment to have a detailed plan by 2024, plus the Strategy's serious discussion of a pathway that has 60,000 fewer customers in 2025 than today strongly suggests the possibility of a very different forecast to that presented in the Draft Plan and a very different overall proposal.

It would also be helpful to separate the ACT and NSW forecasts – both in terms of the CIE modelling and the application of the post model adjustments.

[23] See ACT Climate Change Strategy p.75
[24] See http://imagedepot.anu.edu.au/scapa/ANUACEnergyManagementStrategy.pdf
[25] Email correspondence with CCP24, 1 April 2020

Appendix

What is a citizens' jury?

Probably the most common version of the origin of citizens' juries is the version that attributes the Jefferson Center[26] as the initiator and we note that they hold the "trade mark" for citizens' juries in the USA.

The Internet based Participedia[27] states "*The Citizens' Jury model came into use in the 1970s. It was introduced in the United States by Ned Crosby of the Jefferson Centre and in Germany by Peter Dienel of the Research Institute for Citizen Participation at the University of Wuppertal*."

Much of the promotion and implementation of citizen juries in Australia has been undertaken by the New Democracy Foundation[28] who describe a citizens' jury process as follows:

"A Citizens' Jury is an innovative means of involving everyday people in the process of government decision-making. These projects are genuinely pioneering and each one expands the critical mass of knowledge and understanding around how citizens can best influence the decisions their governments make."

The success of the jury model is based on the premise that if the public know that 40-60, or more, of their fellow citizens have reached consensus around a decision, they immediately have more trust in the decision than if it were made solely by someone in elected office or the public service.

Citizens' Juries work because they can convey to the wider community that citizens like them are being given complete access to information, are studying detailed evidence and hearing from subject-matter experts of their own choosing. In a murder trial, public trust is placed in a jury's verdict, without looking at each piece of evidence, because a trusted group of citizens was given sufficient time and access to information – and was free from outside influences (or even the perception of such influences). There is ample research evidence that supports that this same model can be applied to public decisions in general. In fact, more than 1,100 case studies globally have shown that, by giving a representative panel time and information upon which to deliberate, stronger public engagement is achieved – as well as higher quality decisions."

How does a Citizens' Jury work?

Again, we quote from the New Democracy Foundation, but could just as readily have quoted the Jefferson Center.

Summary 1

"While each project we operate is unique, there are a number of central tenets to the approach we take.

[26] https://jefferson-center.org/about-us/how-we-work/
[27] https://participedia.net/method/155
[28] https://www.newdemocracy.com.au/

Random Selection:

Governments inevitably hear from the noisiest voices who insist on being heard. In contrast, society trusts 12 randomly-selected people on a criminal jury to assess evidence, discuss their views and reach a consensus recommendation because random selection generates "people like us". Our process gets beyond the enraged and the articulate because the public would perceive them as having a bias.

Time:

Most policy problems which warrant the investment in a jury will be complex topics, so we need to allow people the time to educate and immerse themselves in the topic. Faced with a clear remit and a worthwhile level of authority citizens will invest the time. We generally take around six months to deliver the process from beginning to end – as a guide, citizens need at least 40 hours in person, meeting five to six times to meaningfully deliberate and find common ground without feeling (or being!) pushed toward a pre-ordained outcome.

Information:

Neutrality of information is a core principle, and we are careful to alert all juries that all writers have their own bias and perspective and they need to critically analyse this. To counter the view that "you can find an expert to say anything" we focus the start of a process on asking "what do you need to know… and who would you trust to inform you" – and use this as a way of selecting the speakers and input for subsequent jury meetings.

Clear remit:

A plain English question, phrased neutrally is essential. This is the most time-consuming aspect in finding agreement with a sponsoring government body. Everyday people (not impassioned activists) need to instantly understand the problem to care enough to get involved.

Upfront authority:

To get everyday people in the room making a considerable time commitment, they need to know that the recommendations they reach mean something and won't be consumed within the bureaucracy.

Operation:

By their nature Citizens' Juries, will tend to reach consensus (or group consent) positions on the questions they are asked to address."

Skilled facilitators, experienced with deliberative methods are crucial to the successful implementation of a citizens' jury."

Summary 2

A comparable organisation to the Australian New Democracy Foundation in the United Kingdom is Involve UK[29]. They summarise citizens' juries as follows

"AT A GLANCE

POLICY STAGE: Policy development

LEVEL OF INVOLVEMENT: Involve (on IAP2 spectrum)

[29] https://www.involve.org.uk/

COST: *Medium*

LENGTH OF PROCESS: *2 - 7 days*

NUMBER OF PARTICIPANTS: *12-24*

PARTICIPANT SELECTION: *Representative sample*

A Citizens' Jury is a method of deliberation developed by the Jefferson Center where a small group of people (between 12 and 24), representative of the demographics of a given area, come together to deliberate on an issue (generally one clearly framed question), over the period of 2 to 7 days.

Description

A Citizens' Jury is generally composed of around 12-24 randomly selected citizens (through stratified random sampling) representative of the demographics of the area, who come together to deliberate on a given issue. According to the Jefferson Center, which designed the method, a citizens' jury should take place over 4-7 days.

The first meeting of the jury is dedicated to understanding the process that they are about to embark upon. Jurors receive a brief overview of the issue and get comfortable with each other. The next 3 or 4 days are dedicated to hear from the 'expert' witnesses. These should include 'neutral' experts, stakeholders and advocates representing all sides, so that the jury can receive a balanced and complete picture of the issue. There is time allotted for the jurors to ask question of the witnesses and also time for them to deliberate. After all the hearings have been completed the rest of the time is set aside for the jurors to have final deliberations on the issue and answer the crucial charge question(s). The final decision is reached by either consensus or voting.

Used for

A Citizens' Jury can be used on different policy issues and it's particularly effective on value-laden and controversial questions, where knowledge is contested and there might be important ethical and social repercussions. Normally citizens deliberate over a clearly framed question(s). They will reach a decision following deliberation on the issue, either by consensus or voting.

Participants

12 to 24 citizens are selected through stratified random sampling, according to a number of criteria, including gender, age, socio-economic background, and ethnicity. Given the small sample, using too many criteria can prove methodologically problematic.

Participants can be divided into four main groups depending on their role.

1 The randomly selected jurors

- *Critically engage with witnesses*
- *Question witnesses directly/ can request other witnesses*
- *Scrutinise evidence*
- *Deliberate with each other*
- *Work in small groups*
- *Contribute to the decision/ recommendations*

2 The Experts/ Witnesses

- *Explain issues*
- *Summarise existing evidence*
- *Can provide their viewpoint/experience and advocate a position*
- *Respond to questions*

3 The facilitator(s)

- *Support the citizens and lead them through the process*
- *Moderate discussions and participation*
- *Ensure fairness*
- *Guide group deliberations*
- *Support the questioning of the experts*
- *Help frame decisions/recommendations*

4 The Citizens Friends

Can provide a source of evidence and objective expertise to aid understanding of complex issues presented by experts

The Commissioning Body (generally policy makers/ institutions)

- *Theoretically has no involvement in the process but will have driven the research question and the framework*
- *Makes some commitment to responding to the outcomes*
- *Makes decisions on costs*

Approximate time expense

Most Citizens' Juries will take place over two days, mainly because of time and costs constraints. The Jefferson Center, however, recommends 4 to 7 days. A Jury could meet over two consecutive weekends, or there could be a break in between meetings to allow jurors time to reflect on the information they received and discuss the issue with friends and family."

Strengths and Weaknesses

We derive the following summary about the strengths and weaknesses of a citizens' jury methodology, recognising that there are many variations to the central model, but we think these summary observations hold true, across all variations of citizens' jury approaches.

Strengths:

The citizens' jury model has many strengths including the following:

- direct, informed input from citizens
- representative of the range of perspectives within the relevant community / society
- focus on a particular, complex issue / question
- impartiality from the jury as a group, recognising that the individual members will have their own perspectives and objective decisions
- expert evidence and input, with questioning of expert evidence providers
- independent facilitation

- extended deliberation and highly focused discussion
- objective decisions
- highly specified outcome delivered through a verdict

Weaknesses:

- specificity / narrowness of the question
- top-down framing of the question
- imposed criteria for assessment, probably from the facilitator, in concert with the topic host.
- time taken
- intensity. The process is normally quite exhausting for all involved - not necessarily a bad thing, but it can be regarded by some as a weakness.
- cost. The cost is higher than for other shorter and less intense processes