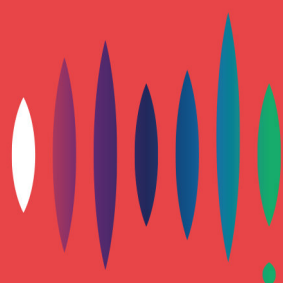


Evoenergy and Australian Gas Networks (SA) Gas access arrangement proposals 2021-26

Submission

August 2020



**ENERGY
CONSUMERS
AUSTRALIA**

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Version history

VERSION	DATE	COMMENTS
1	11 August 2020	Final

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Overview

Consumers have told us that a better energy future is affordable, simple, easy to manage, clean and inclusive.

Transitioning the gas network for the future requires joined-up thinking and whole-of-sector leadership.

Introduction

Energy Consumers Australia is the national voice for residential and small business energy consumers. Established by the former Council of Australian Governments Energy Council in 2015, our objective is to promote the long-term interests of consumers with respect to price, quality, reliability, safety and security of supply.

We appreciate the opportunity to provide the Australian Energy Regulator (AER) with a detailed response in this submission to the gas distribution access arrangement proposals for 2021-26 submitted by Evoenergy for the Australian Capital Territory (ACT, including some parts of NSW); and Australian Gas Networks (AGN SA) for South Australia.

We are separately providing our technical expert's advice on the details of the individual access arrangement proposals.

Summary

In this submission, we focus on the most important issue addressed by both proposals, in relation to the future of gas, including:

- how satisfied consumers are with the current system and their confidence levels about the future;
- what consumers are telling us they want for the future;
- how to put consumers at the centre of a re-imagined energy system; and
- whether the current regulatory framework is designed to contemplate the scenario of complete electrification of energy in a jurisdiction.

In our review of the access arrangement proposals and our one-on-one engagement with Evoenergy and AGN SA, we can see that there is substantial alignment between the distributor proposals and the interest of household and small business gas consumers.

We have also identified several evidence gaps in the proposals which we believe need to be addressed before we can consider the proposals to be capable of acceptance. Both Evoenergy and AGN SA have welcomed discussions and our questions and we will continue to engage with them on the evidence gaps post-submission. These evidence gaps are summarised later in this submission.

Our approach

Energy Consumers Australia welcomes the commitment by Evoenergy and AGN SA to engage with consumers and advocacy groups, and the efforts made so far to find the right balance between affordability and transitioning to the future energy system.

Evoenergy's Citizen's Jury approach identified the following themes that are important to its consumers:

- Environmental sustainability
- Responsible transition
- Safe and reliable service; and
- Affordability and fairness.¹

AGN SA's four-staged engagement program resulted in the following customer workshop findings:

- Price and affordability are the most important issues for customers, and customers welcome the proposed price cut
- 96 per cent of customers support AGN SA's draft plan and investment proposals
- AGN SA is trusted for its delivery of safe, reliable gas and customers support investment levels to maintain these standards
- Customers value current customer service levels but expect digital services to be introduced in a cost-effective way
- Environmental sustainability is a high priority for customers and there is a high level of support for investment in renewable gas to replace unaccounted for gas (UAFG)
- Customers support AGN investment in innovation
- Customers support investment in a Vulnerable Customer Assistance Program (VCAP) and consider this responsible business; and
- Customers consider education is important, but initiatives considered by AGN SA must be accessible and funding models need to be further explored.²

Common to both groups of consumers is a focus on affordability, environmental sustainability and an underlying theme of moving forward in an ordered and well-planned way.

In seeking the right balance of outcomes, our principles are:

- **Affordability** must be a constraint on investment and decisions about energy – an explicit criterion in decision making up and down the supply chain.

¹ Evoenergy, *Overview. Access arrangement information ACT and Queanbeyan-Palerang gas network 2021-26*, page 14. Accessed from <https://www.aer.gov.au/system/files/Evoenergy%20-%202021-26%20-%20Overview%20-%20June%202020.pdf>

² AGN SA, *Five year plan for our South Australian network July 2021-June 2026*, page 35. Accessed from https://www.aer.gov.au/system/files/AGN%20-%20AGIG%20-%20Final%20Plan%20-%20201%20July%202020_0.pdf

- Energy services must be built around individuals to reflect their own use and costs – whether that is consumers who are innovating and engaged; or the majority of consumers who are focused on affordability and costs; or consumers with vulnerabilities.
- Investment in the power system – networks, generation and retail – must be *optimised* together with consumers' investments on their side of the meter.

In reviewing the revenue proposals and network tariffs proposed by Evoenergy and AGN SA, we start with consumers and the decisions they make that have implications for their gas bills.

Energy Consumers Australia undertakes research into the consumer experience in the energy market today, and consumers' expectations about what a future energy market could deliver to them.

What consumers are telling us

Our Energy Consumer Sentiment Survey (ECSS) reports trends over time with a range of consumer metrics, expressed as a percentage reporting positive scores of more than seven out of 10.

Figure 1 shows us the level of satisfaction with gas from residential consumers in the ACT and South Australia. While consumers are satisfied with the level of reliability, there are opportunities to improve satisfaction scores about the value for money.

Figure 2 looks at consumers' confidence in long-term outcomes. While the figures for the July 2020 survey all show improvement in the confidence levels, almost half of consumers are telling us that they are not confident that the energy market will deliver a better outcome for them in the future. This speaks to a question of trust – whether consumers can trust that businesses are making decisions; and policy is being made with their long-term interests at heart.

Figure 1: Residential consumer satisfaction with gas

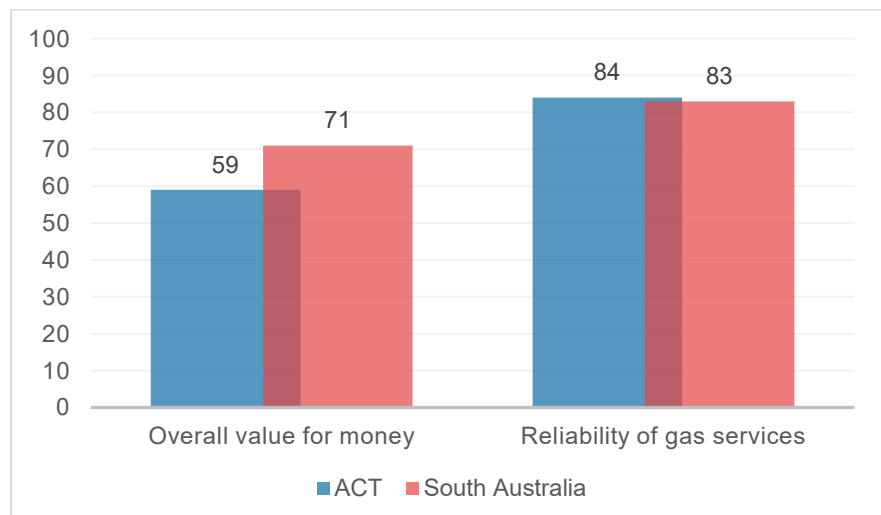
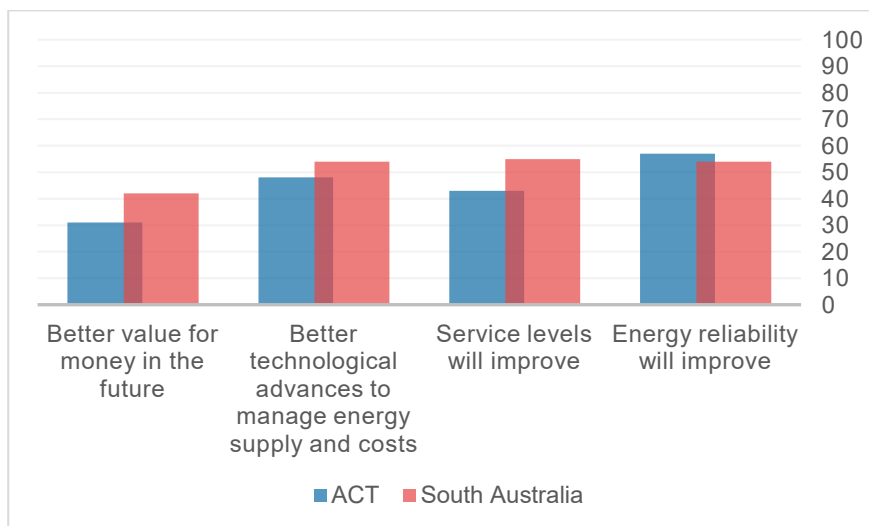


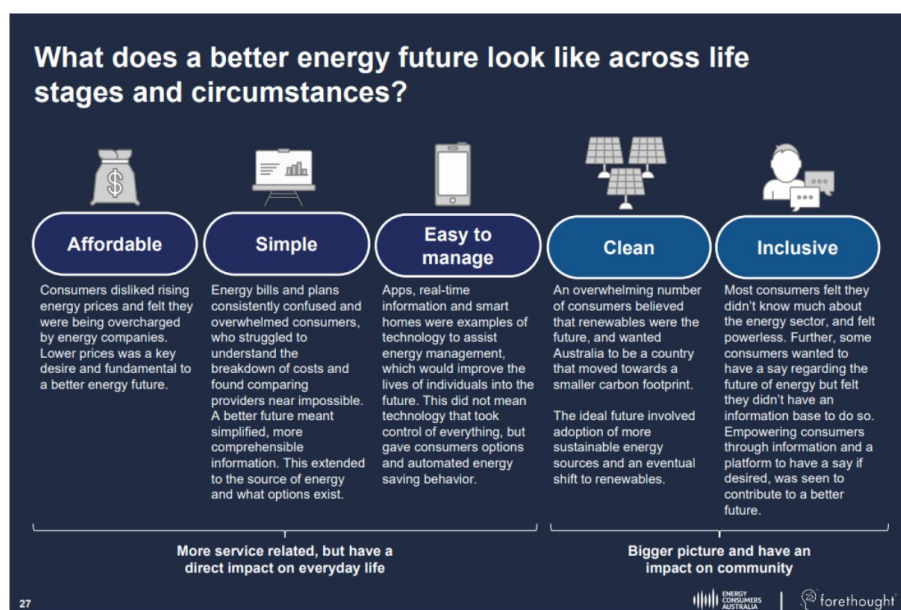
Figure 2: Residential consumer confidence in long-term outcomes



Of particular relevance to the discussion about the future of gas, is whether this future will deliver better value for money. We also recently commissioned Australia-wide consumer expectations research that explored the lives and energy needs of household and small business consumers. Specifically, we asked consumers how energy fits into their lives now, what the future of energy should look like and what Australians want from the sector.

Figure 3 shows that as well as a better service, and a ‘clean’ energy future, consumers also wanted a say in the evolution of the energy market but feel that they lack the information and platform to be heard.

Figure 3: Findings from 2019 consumer expectations research



The future of gas

We have observed that the future of gas often reverts into a discussion about whether or not to accelerate depreciation (that is, the rate of recovery of the capital cost) for new and/or existing assets.

The discussions have failed to consider the technological and policy advancements that can happen within a relatively short period to deliver a planned, joined-up transition program that puts the long-term interests of consumers at its heart.

In thinking about the future of gas, we have had regard to:

- What is the problem to be solved?
- Are there different frameworks for thinking about the problem, that allow consideration of the uncertainty and consumers' needs?

What is the problem to be solved?

While the national policy spotlight is on ensuring the security and safety of the national electricity network, individual jurisdictions are facing significant challenges around the future of gas and the policy framework that should apply to deal with uncertainty.

From a regulated distribution network owner's perspective, this is a problem about ongoing commercial viability. This includes questions around how to ensure businesses continue to have the opportunity of recovering their investment in assets under a scenario that sees the network become redundant; and whether this uncertainty can be mitigated now. We saw in NSW, and we are seeing it with Evoenergy's proposal, that the attempt to mitigate this uncertainty was addressed by shifting the cost to current consumers through the use of accelerated depreciation of new assets in the first instance, with a plan to accelerate depreciation for all assets in subsequent regulatory periods.

From a policy-maker's perspective, this is a problem about delivering on environmental commitments; and creating opportunities for new industry and other value streams for the state.

From a small consumer's perspective, the issue is affordability and how are consumers without alternative options protected from unsustainable increases in costs caused by increased capital recovery and a decreasing customer base from whom to recover these costs?

Frameworks for thinking about the problem

Looking at the above, we can see that this is a multi-faceted complex problem. The answer will depend on how a number of developments outside the control of the business or consumers unfold and this should also lead to further work to explore more specific questions such as:

- What are the options for the future?
- Are the existing National Gas Law and Rules capable of addressing the problem to be solved? And if not, what needs to change within this regulatory framework to allow for other options to be pursued?
- Who will lead this transition? For example, would it be appropriate for the AER to lead this broader review?

We commend both Evoenergy and AGN SA for tackling this complex problem and bringing consumers into the discussion in their respective consumer engagement activities. Each network has used different frameworks for thinking about the problem, which we discuss below.

Evoenergy

Evoenergy took a binary approach to thinking about the future of gas by exploring two alternate futures: one with renewable gas and the other without gas - that is, complete electrification of the energy network in the ACT.

The limitations with this binary approach is that it locks consumers into having to support one or the other. It does not provide for broader options analysis.

We welcomed Evoenergy's invitation to observe a weekend of consultation with its Citizens' Jury prior to the release of its Draft Plan. We noted that consumers did briefly mention the option of other ways to recover the cost of investment under the full electrification option, rather than have consumers pay for this entirely.

This is an important consideration when making decisions now about an uncertain future, particularly when the ACT has a total customer base of 152,000³ most of which are residential and small business customers.

A "back-of-the-envelope" assessment of cost impacts to consumers from dividing Evoenergy's proposed opening capital base of \$326.88 million by the total number of customers would see consumers pay \$2,150 per customer up front for the retirement of the network if consumers were required to pay for the cost.

However, this is not the only cost. This does not take into consideration the augmentation costs required for the electricity network to absorb the displaced gas load; and the costs to consumers for home appliance changes. We note that the ACT has the second highest gas usage per customer when compared to Victoria, NSW, Queensland and South Australia; and the second highest electricity consumption per customer in

³ Evoenergy Access Arrangement proposal – Table 7.1 of Attachment 7 – Demand Forecasts. Accessed from <https://www.aer.gov.au/system/files/Evoenergy%20-%20Attachment%207%20-%20Demand%20forecasts%20-%20June%202020.pdf>

the National Electricity Market.⁴ Adding in a potential future that sees greater penetration of distributed energy resources in the ACT (and augmentation costs to ensure security of the low voltage network), the cost impacts for consumers of the two options become more complex.

Evoenergy's proposal tells us that:

- While it investigates options for a responsible transition (including activities around the interaction of hydrogen gas in the Evoenergy network), it will focus on minimising its ongoing costs.⁵ However, it proposes to accelerate depreciation of some assets. In so doing, it is shifting the costs of avoiding stranded assets (that is, the cost of the uncertainty of asset lives) to today's consumers. We maintain that it may well be too premature to take any action but that even if it is not too early, distribution network businesses are best placed to manage this risk.

It is also important to note that consumers are dealing with other risks external to the energy market right now, especially risks around health, income and employment. While it may be too premature to accurately quantify the impact of COVID-19 over the next five-year period, we know that the ACT has not been spared economic impact. One of Evoenergy's largest customers, the Australian National University, has openly communicated the financial impacts on its business, relying on deferrals of pay rises, voluntary separations and a review of the casual and temporary staff to save money in the short and medium term.⁶

Evoenergy would be more likely than a gas network operator in another jurisdiction to know sooner about changes to environmental policy in the ACT. While operational staff may not have been aware, the ACT Treasurer, being the Minister responsible for the *Territory-owned Corporations Act 1990* and therefore a shareholder of Evoenergy, would likely have been aware of pending policy changes that could have an effect on the ongoing viability of the gas distribution network. Given the risk stems from a change in government policy, rather than a change in how consumers use the network, it is inappropriate for ACT (and NSW) gas consumers to carry this risk.

- Evoenergy is working with the ACT Government, industry, researchers and community to develop a road map to net zero emissions from natural gas; and that the access arrangement proposal provides a stable

⁴ Australian Energy Market Commission, *2020 Retail Energy Competition Review*, Tables 6.2 (page 109) and 4.3 (page 53) respectively. Accessed from https://www.aemc.gov.au/sites/default/files/documents/2020_retail_energy_competition_review_-_final_report.pdf

⁵ Evoenergy, *Overview. Access arrangement information ACT and Queanbeyan-Palerang gas network 2021-26*, page 17. Accessed from <https://www.aer.gov.au/system/files/Evoenergy%20-%202021-26%20-%20Overview%20-%20June%202020.pdf>

⁶ See "06-24 Message from VC" and "06-24 Financial Health FAQs". Accessed online at <https://www.anu.edu.au/covid-19-advice/campus-community/financial-health>.

platform from which to consider and progress the road map pending the ACT Government's decision on the future of the gas network by 2024.⁷

We support Evoenergy's goal of developing a responsible transition to the future. A responsible, planned transition will build consumer trust and confidence in the future. However, our concern is that the approach proposed by Evoenergy does not appear to consider options outside the current regulatory framework, or that the current regulatory framework cannot be changed to accommodate other options that do not see consumers bearing the entire cost of the network.

The regulatory framework was not designed to consider the retirement of an entire network, at one time, where consumers pay the cost of the retirement in one regulatory period. Rather, the framework may contemplate the stranding of some assets, but it would be unreasonable to assume that this would extend to an entire network.

It is also unclear why Evoenergy would need to take action now, given it does not know what the ACT Government's roadmap for 2024 will look like. The direct consequence of Evoenergy's proposal is that current consumers may be required to pay more than necessary, given we do not know what the ACT Government's roadmap will look like. This appears to be imposing costs and risks onto today's consumers based on a pre-determined outcome about the future of gas in the ACT. Any deferral for this period in making any decision to change is unlikely to result in a significant adverse impact for the service provider or tomorrow's customers. Moreover, it not only ensures that the price of energy for today's customers remains sustainably affordable, it also allows time for technological and policy advancements to occur to provide greater certainty as to the future of gas and the role of networks in the provision of energy services to consumers. We only have to look at the technological and policy advancements over the last 5-10 years with renewable electricity generation that have resulted in the cost of electricity generated from renewable sources becoming extremely competitive and affordable for consumers.

AGN SA

AGN SA has taken a two-pronged approach to thinking about the future.

Instead of taking action that increases costs for today's consumers, AGN SA is implementing the first of four stages of the Gas Vision 2050: Hydrogen Innovation, Delivering on the Vision developed by Energy Networks Australia, which included AGN. The purpose of this plan is to demonstrate the viability of hydrogen gas technologies and the blending of this gas into networks by the mid-2020s.

⁷ Evoenergy, *Overview. Access arrangement information ACT and Queanbeyan-Palerang gas network 2021-26*, page 16. Accessed from <https://www.aer.gov.au/system/files/Evoenergy%20-%202021-26%20-%20Overview%20-%20June%202020.pdf>

This approach does not assume to know the future, but instead investigates the commercial viability of potential options before committing today's consumers to too much cost. We commend AGN SA for meeting consumers' needs about not spending a dollar more than necessary, a day earlier than needed.

While AGN SA does not have the same legislated goals for emissions reductions actions as Evoenergy does, the South Australian government is keen to explore the role that renewable hydrogen gas could play in a decarbonised energy future.⁸

For the second prong, AGN SA has used its proposal to call for a risk assessment based on a real options framework approach. We support this approach, though the question remains what scenarios should be used in assessing the alternative course of action.

The Oxford Scenario Planning Approach

As part of our Foresighting Forum 2020, we engaged Dr Matt Finch from Mechanical Dolphin to help us identify potential futures for the Australian energy market using the Oxford Scenario Planning Approach (OSPA). These four scenarios and the approach are outlined in our report [Futures of Heat, Light and Power: Scenarios for the Australian Energy Sector in 2050](#).

The OSPA does not try to predict the future or pick a winner. Instead, it provides an alternative framework for thinking about the future during times of uncertainty and enables the development of plausible futures. Box 1 provides a brief explanation of the approach and outcomes of scenario planning activities using the OSPA methodology.

⁸ See information on the Australian Hydrogen Centre and the Hydrogen Action Plan. Respectively accessed respectively from <https://www.premier.sa.gov.au/news/media-releases/news/australian-hydrogen-centre-gets-the-green-light> and <http://www.renewablessa.sa.gov.au/topic/hydrogen#:~:text=The%20Hydrogen%20Action%20plan%20sets,by%20the%20Marshall%20Liberal%20Government.>

Box 1: Summary of OSPA⁹

“Scenario planning does not try to map the entire contextual environment in one go. Instead it analyses a few (typically three or four) cuts through the future system which focuses on a few highly relevant and dominating issues of concern to the strategic planner. The decision of what constitutes such a key issue at the time of analysis is made on the basis of the institutions of the stakeholders involved. Even though the scenario analysis does not cover all possible movements of the ecological system, generally the analysis will come up with one or more new insights based on mappings that have not been seen before, which may provide indications of new ways forward to create novel strategy on which coping behaviour can be based. And if these are not immediately forthcoming, as is common in this work, scenario planning provides for the possibility to add further iterations on the basis of a different cut through the system. The OSPA in fact provides for the possibility to add more iterations until participants feel that reasonable balance has been achieved between the scenarios and the ecological system issues in need of being addressed.”

What we know is that developing scenarios for an uncertain future requires a different way of thinking about the problem compared to the usual planning approach taken for a revenue reset process. Planning should not simply be an economic exercise based on one view of the future, but rather a way to help identify which options should be subject to that economic analysis.

The lack of this type of scenario planning is an evidence gap for both proposals. Before we lock in options that commit today's and tomorrow's consumers to additional costs, this work needs to be undertaken, and this should happen outside the access arrangement reset process, as it would for other significant, structural reviews such as reviews around the rate of return and incentives.

At the AER's public forum on the Evoenergy proposal in August 2020, we asked whether this type of approach to navigating a business through uncertainty had been considered. While the documentation is not public, we were pleased to hear from Evoenergy that they had used a similar approach to the OSPA. For us to be assured about the robustness of this process, we would appreciate this information being made available for our review. Critical to this type of exercise is what actor or question is made the focus of the exercise. We would like to better understand how consumers were considered in this exercise.

We have started thinking about options for how as a sector we could engage on the future of gas issue and are happy to discuss this with the AER as well as the interaction of this work with the current access arrangement proposal processes.

⁹ Excerpt from *Strategic Reframing: the Oxford Scenario Planning Approach*, Ramirez, R and Wilkinson, A, 2018, page xi.

Analysis of the building blocks

Our analysis is informed by advice from the consulting firm TRAC Partners, who we engaged to provide a technical perspective on the proposals. Table 1 summarises TRAC Partners' technical reports at:

- Attachment A: technical report of Evoenergy's proposal
- Attachment B: technical report of AGN SA's proposal.

Table 1: Summary of evidence gaps

BUILDING BLOCK	EVOENERGY	AGN SA
Forecast capital expenditure (capex)	<ul style="list-style-type: none"> • No forecast connection of gas customers in new developments in ACT. • Lower forecast rate of new connection within the existing network. • Level of forecast capex is 28 per cent below allowed capex for 2016-20. • Increased forecast meter replacement capex for end-of-life meters. 	<ul style="list-style-type: none"> • Capex cost allocation methodology should be tested by the AER in light of the Australian Gas Infrastructure Group (AGIG) 2017 merger. • Need for integrity dig-ups if in-line integrity systems are being implemented • 300 per cent increase in "Other capex".
Actual capex between 2016-21		<ul style="list-style-type: none"> • AER to review the adequacy of the capex cost allocation methodology from the AGIG merger, particularly for IT capex. • AER to closely review the connections capex unit rates. • Benchmark the rate of replacement of meters instead of refurbished ones against replacement rates for other networks with similar meters.
Future of gas	<ul style="list-style-type: none"> • Actioning Evoenergy's transition roadmap before the ACT Government's is finalised in 2024. • Accelerated depreciation of new, long-lived assets. • Working with stakeholders to understand the needs of vulnerable customers & assistance measures. 	<ul style="list-style-type: none"> • Cost benefit analysis and risk assessment to inform whether it would be more prudent to continue with the mains replacement program or deferring some/all of the program until more is known in 2022 about hydrogen.

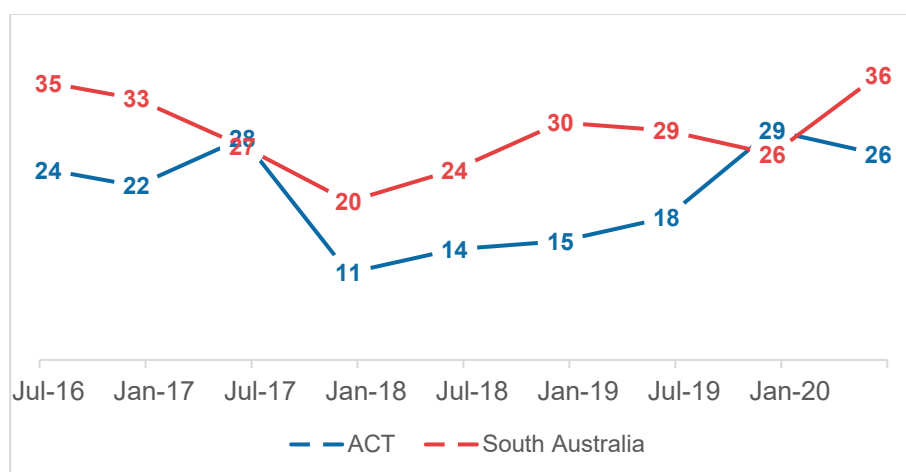
BUILDING BLOCK	EVOENERGY	AGN SA
Operating expenditure (opex)	<ul style="list-style-type: none"> Impact of Jemena's opex savings from its transformation program on Evoenergy's forecast opex and productivity improvements. Is 2019-20 the appropriate base year to adopt in the base-step-trend methodology. Justification for increasing forecast costs for insurance, unaccounted for gas; and derivation of the IT Asset Utilisation Fee. 	<ul style="list-style-type: none"> Forecast opex is around 8 per cent higher than what AGN SA expects to incur in this period. Is it appropriate to source up to 20% of unaccounted for gas from biomethane.
Assisting Vulnerable Customers	<ul style="list-style-type: none"> Further work is required, particularly in light of COVID-19 	<ul style="list-style-type: none"> Are the four initiatives to assist vulnerable customers reduce the financial barriers to greater gas efficiency; and safe and reliable appliances the most effective initiatives.
Inflation	<ul style="list-style-type: none"> Encourage the AER to complete its current consultation process in relation to inflation in time for its position to be adopted in the Draft Decision 	
Demand	<ul style="list-style-type: none"> Customer numbers are forecast to grow by three per cent with a total of 157,300 customers forecast by 2025-26. 	Forecast demand associated with the extension to Mt Barker should be based on the information used in the AER's final decision for this extension, but with modifications to take into account any updates that have occurred since that decision
Depreciation	<ul style="list-style-type: none"> Shorten asset lives for some new investment to ensure fair recovery of costs from consumers. 	
Tariff variation	<ul style="list-style-type: none"> Proposing an intra-year tariff variation mechanism. 	
COVID-19 impacts	<ul style="list-style-type: none"> Forecasts have not been adjusted to address impacts of COVID-19. We note this will be done in response to the Draft Decision. 	

BUILDING BLOCK	EVOENERGY	AGN SA
Incentive mechanisms	<ul style="list-style-type: none"> The introduction of a Capital Expenditure Sharing Scheme (CESS) should match the features of the CESS approved for JGN Plan 	<ul style="list-style-type: none"> The introduction of a Network Innovation Scheme.
Price path and revenue smoothing		<ul style="list-style-type: none"> We would expect the AER to fully test the claims about financeability of the price path and revenue smoothing being proposed, taking into account AGN SA's actual situation with respect to factors such as tax, other revenue earned and actual financing structures.

Conclusion

Since we began the ECSS in 2016, consumers in the ACT and South Australia have continually reported low confidence that the energy market is working in the long-term interests of consumers. Figure 4 shows us the volatility in confidence levels, with positive confidence scores never reaching greater than 36 per cent in South Australia and 29 per cent in the ACT.

Figure 4: Confidence that the energy market is working in the long-term interests of consumers



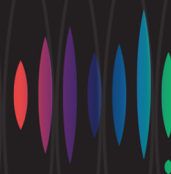
It is unreasonable that consumers should have to incur additional costs from actions like accelerated depreciation when there are proven methodologies for planning during times of uncertainty which could be utilised for the purpose of this round of access arrangement proposals.

This limited consideration of the issues does not appear to be in the long-term interests of consumers. Rather, the implications for consumers in the longer-term could be higher costs, lack of choice of fuel, being forced to change how they “home” and how they “work”. Constraining thinking about how to deal with the uncertain future of gas within the confines of the current regulatory framework is not in the long-term interests of consumers.

To discuss the issues raised in this submission, please contact [REDACTED]
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ECA RESPONSE TO EVOENERGY'S 2021-26 ACCESS ARRANGEMENT PROPOSAL



EXECUTIVE SUMMARY

OVERARCHING OBJECTIVES THAT SHOULD FRAME EVO'S 2021 PLAN

- We have approached our review of Evoenergy's 2021 Plan by focusing on the following objectives, as they are all relevant to the long-term interests of consumers with respect to price, reliability, quality and security of supply:
 - Network tariffs must be **affordable**, a function of **individualised** services and provided within an **optimised** system.
 - Gas prices must be kept as low as possible for today's household and small business consumers.
 - Current and future consumers should be paying no more than they need to for the quality of service they require - "Not one dollar more is spent than necessary; Not one day earlier than needed".
 - There should be sufficient information made available to substantiate that the proposal promotes the long-term interests of customers.
 - There has been meaningful consumer engagement in developing key aspects of the proposal.
- Achieving these objectives will:
 - help keep network prices as competitive as possible;
 - maximise the incentive for consumers to continue usage of the network for the foreseeable future; and
 - align very closely with the interests of network investors to give them the best chance that they will be able to recover their investment and earn a return on that investment.
- This is in the long term interest of today's and tomorrow's consumers and investors in infrastructure.



KEY FEATURES OF EVO'S PLAN THAT ALIGN WITH OBJECTIVES

There is substantial alignment between Evoenergy's Plan and the interests of household and small business energy consumers.









2021 Plan Feature	Relevant Objective
<ul style="list-style-type: none">• Network costs (\$294m) 10% per cent lower in total (13% lower per customer) compared to the current (2016–21) period	Long term consumer interest with respect to price
<ul style="list-style-type: none">• ~4% real reduction in network tariffs in 2021, with stable prices in real terms over the remainder of the Plan period	Long term consumer interest with respect to price
<ul style="list-style-type: none">• Sharing of tariff reductions across all customer classes	Long term consumer interest with respect to price
<ul style="list-style-type: none">• Opex and Capex forecasts allow for spending on safety and reliability while Evoenergy considers the future of the network	Long term consumer interest with respect to reliability and security of supply
<ul style="list-style-type: none">• Continuation of the current opex efficiency carryover mechanism and inclusion of a proposed capital expenditure sharing scheme (CESS) to promote further efficiencies	Long term consumer interest with respect to price

However, in our view there are outstanding features of the Plan where there are areas for improvement or aspects which we believe requires further investigation by the AER, before the Plan could be considered capable of acceptance by the AER.








The following slides comment on each of the aspects of Evoenergy's 2021 Plan:

-  - consistent with key objectives
-  - further work or analysis required before ECA should accept that it is consistent with key objectives and capable of acceptance by AER









EVOENERGY'S 2021 PLAN FEATURES

Focus Area	Evoenergy's Proposal	Our Position
Forecast Capital expenditure	• No forecast connection of gas customers in new ACT developments	 (slides 9, 14 & 20)
	• Lower forecast rate of new gas connections within the existing network	 (slides 9 & 24)
	• Level of forecast capex (\$63.3m) is significantly below allowed capex for 2016-20 (28%)	 (slides 19 & 20)
	• Increase forecast meter replacement capex by \$6.2m to \$23.6m - attributable to meters coming to end of life	 (slide 20)
Begin Now the Transition Roadmap to Net Zero Emissions by 2045	• Commencing Evoenergy's transition roadmap in 2021 (at least in part) notwithstanding the ACT Government's roadmap not being outlined until 2024	 (slides 13-17)
	• Accelerated depreciation of new, long-lived assets	 (slides 13-17)
Operating expenditure	• Expense pigging costs previously capitalised	
	• The extent to which Jemena's opex savings from its transformation program impacts on Evoenergy's forecast opex and productivity improvements	 (slides 21)

EVOENERGY'S 2021 PLAN FEATURES

Focus Area	Evoenergy's Proposal	Our Position
Operating Expenditure	<ul style="list-style-type: none"> Propose to use 2019-20 opex levels in the base-step-trend methodology 	 (slide 21)
	<ul style="list-style-type: none"> Insurance costs forecast to increase Unaccounted for Gas forecast to increase Derivation of the IT Asset Utilisation Fee 	 (slides 21 & 22)
Vulnerable Customers	<ul style="list-style-type: none"> Will work with stakeholders to understand and consider the needs of vulnerable customers and what it can do to help as it develops its transition roadmap. 	 (slides 21 & 29)
Inflation	<ul style="list-style-type: none"> Use of CPI all groups index for 8 capital cities for the December quarter over the December quarter for the previous year, published by the ABS 	 (slide 25)
Rate of return	<ul style="list-style-type: none"> Accept AER's approach in guidelines 	
Tax (and gamma)	<ul style="list-style-type: none"> Calculated in line with the AER's final tax decision and rate of return instrument 	
Demand	<ul style="list-style-type: none"> Customer numbers are forecast to grow by 3 per cent (~ 5,000), with a total of 157,300 customers forecast by 2025-26. 	 (slide 24)

EVOENERGY'S 2021 PLAN FEATURES

Focus Area	Evoenergy's Proposal	Our Position
Innovation	<ul style="list-style-type: none"> Continue sustainability initiatives, such as the Hydrogen Test Facility 	
Depreciation	<ul style="list-style-type: none"> Shorten asset lives for some new investment to ensure fair recovery of costs from customers 	 (slides 14-17 & 23)
	<ul style="list-style-type: none"> Accelerate depreciation of in line inspections 	
Total Revenue	<ul style="list-style-type: none"> Proposing a \$32m (or 10%) reduction in the 5 yr total revenue allowance compared to what the AER allowed in 2016-20 (\$326m) 	
Pricing and service levels	<ul style="list-style-type: none"> ~4% real reduction in network tariffs in 2021, with stable prices in real terms over the remainder of the Plan period 	
Tariff Variation	<ul style="list-style-type: none"> Proposing an intra-year tariff variation mechanism 	 (slide 29)
COVID Impacts	<ul style="list-style-type: none"> Forecasts haven't been adjusted to address impacts of COVID. This will be done in response to the Draft Decision 	 (slides 22 & 30)
Incentive Mechanisms	<ul style="list-style-type: none"> Introduce a CESS 	

EVOENERGY'S KEY FACTORS DRIVING ITS 2021 PLAN



CONSUMER ENGAGEMENT SHAPING EVOENERGY'S 2021 PLAN

- Evoenergy states that the findings of engagement with energy consumers on the gas network and how it should operate was one of two key factors that have shaped the development of its 2021 Plan.
- Gas is still a fuel of choice in the Network area as there is only a 75 per cent average penetration rate among end use customers and a connection rate (per km of mains) of only 31 which is below the national average density.
- Engagement with customers was extensive:
 - Citizen's Jury held to consider and make recommendations on the future of Evoenergy's gas network based on information from a variety of viewpoints.
 - Publication of draft plan in February 2020 and call for submissions.
 - community roadshow conducted following release of draft plan where community responses were recorded.
 - Deep dive sessions held in March 2020.
- Having said this:
 - Survey questions were high level in nature and should not, of themselves, be relied upon to substantiate the position Evoenergy has taken on a particular topic in its 2021 Plan.
 - Engagement on some key topics was high level and based more on principles rather than a detailed analysis of the proposal.

KEY FACTORS SHAPING EVOENERGY'S 2021 PLAN

- Two factors have primarily shaped the development of Evoenergy's 2021 Plan:
 - the ACT Government's climate change policy - to achieve net zero greenhouse gas emissions across all sectors (including gas) by 2045, with several interim targets (Factor #1); and
 - the findings of Evoenergy's consumer engagement process on how the network should operate (Factor #2).
- Evoenergy has proposed a number of initiatives in its 2021 Plan that it claims are aimed at addressing these factors, as shown on next slide (**Initiatives**). Our response to each Initiative is shown on the following slide.
- All Initiatives should be focused on ensuring affordability for customers and cost competitiveness - to ensure that "Not one dollar more is spent than necessary; Not one day earlier than needed".

Evoenergy Initiative	Factor #1	Factor #2
Excluding expansion of network in new ACT suburbs in its forecasts, but including necessary replacement and growth of the network in areas where the network already exists	✓	✓
Demand forecasts to show a decline in usage volumes per customer (but increase in customers)	✓	✓
Accelerate the recovery of new investment in long-lived assets so as to manage stranded asset risk	✓	✓
Minimalist capex program but sufficient for safe and reliable network as we develop a transition roadmap	✓	✓
Continue sustainability initiatives, such as the Hydrogen Test Facility	✓	✓
Opex & Capex forecasts to be limited but will still allow Evoenergy to continue to maintain the level of safety and integrity of the network and reliability of service consumers value and expect	✓	✓
Opex forecast includes a reduction in the base year and a reduction in the proposed growth rate, including a 0.5 per cent year on year improvement in productivity		✓
Reduction in network prices of ~4% in 2021/20 with stable network prices for the remainder of the Plan		✓
Marketing program to be included in base opex - assists gas customers who need or choose to use gas to upgrade to more energy efficient gas appliances & retains customers		✓
Retention of the efficiency carryover mechanism		✓
Introduction of a CESS to provide more balanced incentives for efficient expenditure with performance measures and weightings based on consumer feedback		✓
No change to the current declining block tariff structure. No separate tariff for NSW customers		✓

Evoenergy Initiative	Comment
Excluding expansion of network in new ACT suburbs in its forecasts, but including necessary replacement and growth of the network in areas where the network already exists	Slides 13-17
Demand forecasts to show a decline in usage volumes per customer (but increase in customers)	Slide 24
Accelerate the recovery of new investment in long-lived assets so as to manage stranded asset risk	Slides 13-17
Minimalist capex program but sufficient for safe and reliable network as we develop a transition roadmap	Slides 13-17
Continue sustainability initiatives, such as the Hydrogen Test Facility	
Opex & Capex forecasts to be limited but will still allow Evoenergy to continue to maintain the level of safety and integrity of the network and reliability of service consumers value and expect	Slides 20-22
Opex forecast includes a reduction in the base year and a reduction in the proposed growth rate, including a 0.5 per cent year on year improvement in productivity	Slides 21 & 22
Reduction in network prices of ~4% in 2021/20 with stable network prices for the remainder of the Plan	
Marketing program to be included in base opex - assists gas customers who need or choose to use gas to upgrade to more energy efficient gas appliances & retains customers	Slide 21
Retention of the efficiency carryover mechanism	
Introduction of a CESS to provide more balanced incentives for efficient expenditure with performance measures and weightings based on consumer feedback	
No change to the current declining block tariff structure. No separate tariff for NSW customers	

INITIATIVES TO ADDRESS IMPACT OF ACT'S CLIMATE CHANGE STRATEGY

- Evoenergy claims that one of the key impacts of the ACT Government's Climate Change Strategy is stranded asset risk for the network.
- Evoenergy has proposed to manage this risk in its Plan by shortening the asset lives of some new, long-lived assets.
- While Attachments 4 & 4.3 of Evoenergy's 2021 Plan contains more information to support JGN's approach to shorten asset lives, we are still to be convinced that:
 - The likelihood of stranded asset risk has increased over the last 5 years;
 - Stranded asset risk requires different action to be taken in this current Plan;
 - Even if it does require action to be taken, that shortening asset lives is the correct action to be taken; and
 - The proposed shortened asset lives are appropriate.

IS THERE AN INCREASED RISK OF ASSET STRANDING?

Factors that make the risk more likely	Factors that suggest the risk hasn't increased
<ul style="list-style-type: none"> • Average usage rate for natural gas consumption is declining 	<ul style="list-style-type: none"> • New connections growth forecast to continue during the Plan period (albeit at a lower rate than in the current period – 5,000 new customers)
<ul style="list-style-type: none"> • ACT's policy is legislated and requires net zero emissions from gas sector 	<ul style="list-style-type: none"> • Evoenergy's own survey of customers indicates that almost 60% per cent expect to use the same or more gas over the next 5-10 years
<ul style="list-style-type: none"> • Rate of disconnections is forecast to be three times higher than modelled 	<ul style="list-style-type: none"> • Hydrogen may displace natural gas in networks. • Hydrogen is being successfully trialled in other jurisdictions (eg UK and Japan)
	<ul style="list-style-type: none"> • Disconnection rates haven't declined • Federal Government's Technology Investment Roadmap promotes the continued use of gas
	<ul style="list-style-type: none"> • Hydrogen Strategy completed • Other strategies should be considered – eg carbon capture & storage, implementing offsetting programs

IS NOW THE RIGHT TIME TO ADDRESS RISK OF ASSET STRANDING?

- We would have expected a more detailed cost/benefit analysis to assess the impact on today's and tomorrow's customers of the following scenarios:
 - Accelerating depreciation of existing and new long lived assets from 2021 onwards
 - Accelerating depreciation of long lived assets from 2026 onwards
 - Accelerating depreciation of new assets from 2021 onwards and for existing assets from 2026 onwards
- Even if there is an increased risk of asset stranding, now does not appear to be the time to act to address it because:
 - We do not know the ACT Government's timeline for its transition roadmap – this will come in 2024 – and so it may be best to wait until 2026 Plan.
 - Given what we believe should be the overarching objective in the setting of the 2021 Plan, retaining the current asset lives for future investments will result in a reduction in the total revenue of \$0.65m during the 5-year Plan period.
 - Because gas is a fuel of choice, ensuring gas is as affordable as possible today maximises the incentives for continued asset utilisation . This maximises the likelihood of continued use of the network and minimises the risk that the asset may become stranded in the future.
- Furthermore, keeping prices as low as possible during the 2021 Plan period and waiting to re-assess the position on asset lives until the next re-set of 2026 will have other benefits:
 - It will give time to provide further clarity around alternatives to natural gas for the use of the network – if hydrogen can be commercialised and has a role to play in the network, any risk of asset stranding diminishes significantly and so there should be no need to make a change to asset lives at that point in time;
 - Any additional cost to “tomorrow's” consumers (ie those in the next 2026 Plan) will not be significant.

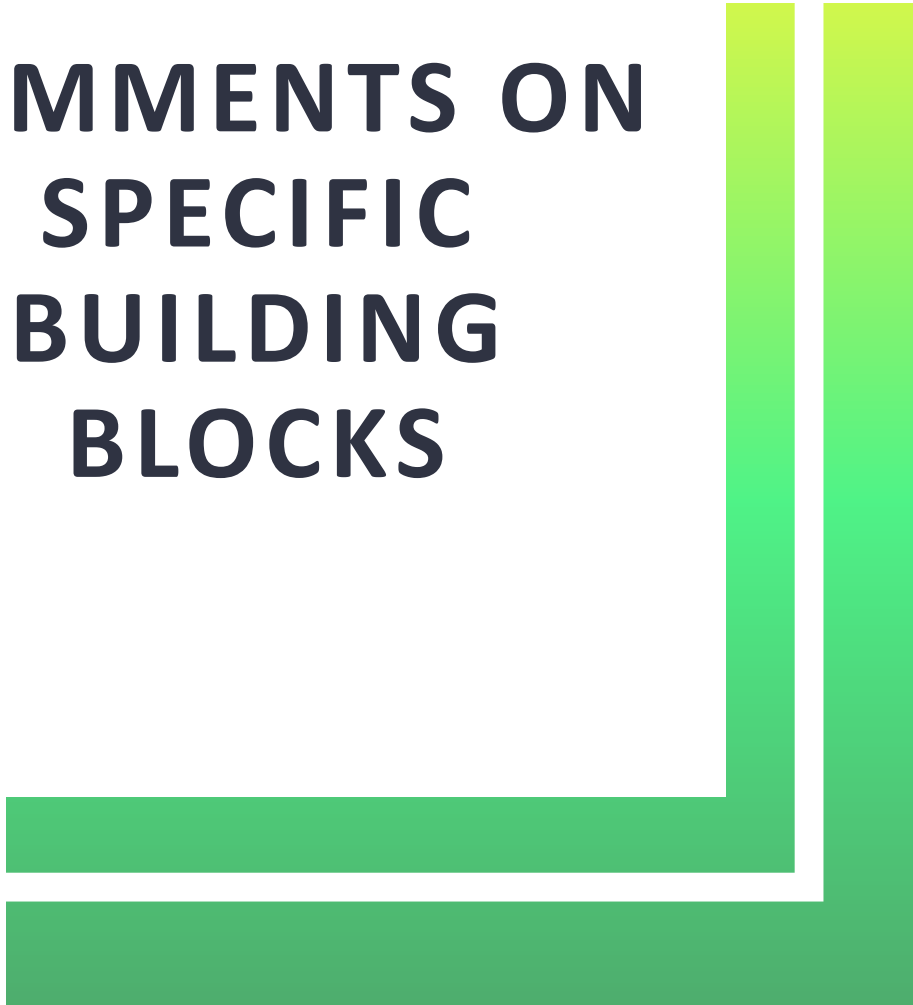
EVEN IF THERE IS AN INCREASED RISK OF ASSET STRANDING

- It's not clear whether some of the pathway options being considered by Evoenergy in its Plan (section 2.1.1 of Overview) are appropriate options, including the option of an electricity only network. This is so for a number of reasons:
 - Reliance on one single energy source exposes consumers to significant additional risk, particularly in light of recent issues with respect to the integrity of the NEM during summer months and the fact that ACT consumers have the second highest rate of gas consumption in the NEM.
 - We would expect to have seen a more detailed cost/benefit analysis of each option. Even Evoenergy's own analysis shows that there would not only be significant cost involved but that these costs may be difficult for certain community members to bear.
 - The cost/benefit analysis that has been provided doesn't appear to identify the amount (and cost) of additional infrastructure that would be required to be invested in the electricity network (both generation capacity and poles and wires) given the role that gas currently plays in meeting energy demand in peak times.

ARE THE INITIAL ACTIONS IN THE PLAN TO ADDRESS ASSET STRANDING RISK APPROPRIATE?

- While there is a forecast reduction in average usage, Evoenergy is forecasting increasing number of customers (3%) by 2026. This was a critical issue relied on by the AER in the JGN reset for why shortening of asset lives was not allowed.
- We would have expected a cost benefit analysis to have been undertaken to show the price impacts of deferring a decision on accelerated depreciation on new assets versus taking the action in this AA plan. Also, increasing prices for today's customers has a bigger impact now with the impact of COVID-19 on vulnerable customers.
- There are other options which don't appear to have been considered in the documentation reviewed to date – such as:
 - Subsidies by government to the business to fully or partly address the impact; or
 - Creating a notional account so that the amount that would otherwise be included in the total revenue (by accelerating depreciation) is placed in it and so that it accrues interest over time. Should a viable renewable gas option be developed, the amount in the account gets added to the total revenue in subsequent years until the account is depleted.

COMMENTS ON SPECIFIC BUILDING BLOCKS








ROLL FORWARD OF RAB

- While total actual/estimated capex between 2016-21 is well below the AER approved total (by 12.6%), there are significant divergences in most line items.

Capex Category	Actual 16-21 Expenditure (\$m)	Variance from AER approved forecast (%)
Market expansion	45.9	↓7.6%
Capacity Development	7.2	↑1.4%
SIB – network renewal	8.2	↓51.8%
SIB – meter renewal	17.4	↓4.4%
Non-system	0.0	↓100%



- Evoenergy has however, provided detailed information in support of its actual expenditure which is of a level we would expect.
- These divergences however, raise an issue the AER should consider in more detail - how reliable are past capex levels as a guide for assessing the prudence and efficiency of Evoenergy's forecast capex in the 2021 Plan?

FORECAST CAPEX ISSUES







Forecast Capex Issue		Our Comments
Assume no expansion of network in the ACT suburbs because of removal of the mandate for gas connections		A mechanism should be considered to be included which adjusts tariffs on an annual basis for any new connections that do occur within the year. Including this will ensure that the benefits of new connections are shared between consumers and the service provider.
Inclusion of allowances for capex associated with researching new technologies (eg Hydrogen)		It is noted that neither the JGN or AGN SA Plans included allowances for this sort of capital expenditure. To the extent that an allowance should be included, it should not be for research work that is already underway by other businesses.
\$1.5m reduction in medium/high rise expansion capex is being forecast		Further information should be provided by Evoenergy over and above what is in section 3.4.2 of Attachment 3 to explain this reduction when this type of customer isn't forecast to decline in demand.
Different expansion rates for the ACT part of the network and the NSW part of the network		While table 3.6 of Attachment 3 breaks down the forecast expansion capex between the two jurisdictions, we would expect more information to have been provided to compare actuals and forecasts under each category of capex in each jurisdiction.
\$6.2m increase spend on meter replacement capex from \$17.4m (actuals) to \$23.6m forecast.		It is not clear how the justification for the expenditure – to replace meters coming to end of life - reconciles with the statement that “It is expected that these meters will be approved for a five-year life extension with the additional opportunity to include testing to attain a subsequent life extension at 20 years”

OPERATING EXPENDITURE ISSUES

- Evoenergy doesn't perform as well from a benchmarking perspective than the other gas distribution businesses in some key measures (eg efficiency score) and has proposed a 10% increase compared with actuals for 16-21.
- While the proposed methodology for setting the forecast opex for the Plan is largely consistent with the AER's methodology adopted in current plan, we have some comments:

Step		Our Comments
Establish an efficient base year		<p>The AER should test whether its appropriate to use 2019/20 as the base year because:</p> <ul style="list-style-type: none"> - there has been a step increase in opex between 2018/19 to 2019/20 (see table 2.1 in Attachment2), even after discounting the increase attributable to increases in the UNFTax (\$0.46m); - Some of the increases are in categories which appear to be within Evo's control; - Its not clear the extent to which any of the benefits of Jemena's transformation program have flowed onto Evoenergy under its asset management arrangement.
Marketing costs		<p>While we support programs that deliver measurable outcomes of improved efficiency in use of appliances, it's not clear how this fits into the transformation roadmap that Evoenergy is promoting. Further information is required to justify its inclusion in opex forecast. Also, consideration could be given to assisting by amortising the purchase costs of efficient appliances for more vulnerable consumers.</p>

OPERATING EXPENDITURE ISSUES (CONT'D)

Step		Our Comments
Trending base year forward		Rate of change approach is consistent with regulatory precedent, although in light of COVID-19, wages increase assumption needs to be tested further
Developing specific forecasts		<ul style="list-style-type: none"> We would expect more information to substantiate an increase in insurance premiums but note that this is a cost pass through While UAG allowance methodology is consistent with approved AER methodology, the AER should explore why UAG volumes are higher at a time when consumption has reduced.
Forecast of step change items		No step changes being proposed.
Expensing pigging costs		This is consistent with recent regulatory practice and doesn't result in overall increase in prices for customers
Unaccounted for Gas (UAG)		We would expect the AER to require further information on how UAG is calculated (above the information referred to in section 2.8.3 of Attachment 2). Particularly, the basis for which the unit cost estimate for replacement gas is derived, given that it is supplied by a related party (Jemena).
IT Asset Utilisation Fee		The formula to calculate the fee includes an internal cost of capital. It is not clear why this should be included in an opex forecast or if it should be, why it should be a rate of 2.6%

DEPRECIATION & ASSET LIVES

- Evoenergy proposes to change the standard asset lives for new investments in long lived asset classes as follows. This change will increase Evoenergy's revenue in the 2021 Plan by \$0.65m (compared to retaining the current standard lives).
- We have previously commented on the appropriateness of this proposal.
- However, even if the principle of shortening asset lives were supported (which it is not), the proposed changes to asset lives is not supported by regulatory precedent:

Asset class	Evoenergy (proposed)	JGN	AGN SA	MNG	Ausnet	AGN Vic
HP mains	80 down to 50	80	60	50	60	60
MP mains	50 down to 30	50	60	50	60	60
MP Services	50 down to 30	50	60	50	60	60

FORECAST DEMAND

- While Evoenergy is forecasting a reduction in the average usage per average customer, it is forecasting a 3% increase in the number of customers.
- Forecast of demand doesn't seem to address the following relevant matters which may signal an increase in demand:
 - Federal Government's Technology Investment Roadmap promotes the continued use of gas;
 - The potential for additional supplies of gas into NSW and the resultant impact that this could have in reducing the wholesale price of gas; and
 - The success of hydrogen trials throughout other jurisdictions.
- While we support the engagement of an expert to develop an independent and detailed forecast of demand and customer numbers, we question the appropriateness of making a set of post model adjustments to the demand forecast to reflect a conservative expectation of decreasing gas usage and a higher number of disconnections over the 2021–26 period as a result of the ACT Government's campaign.

OTHER BUILDING BLOCK ISSUES

- Forecast inflation – we encourage the AER to complete its current consultation process in relation to inflation in time for its position to be adopted in the Draft Decision

RESPONSE TO INCENTIVE SCHEMES







INCENTIVE MECHANISMS

- It is noted that Evoenergy is proposing to continue the ECM for opex but with some minor modifications. We would support these modifications if they aligned with the modifications required by the AER in the JGN Plan for 2020.
- The proposed introduction of a Capital Expenditure Sharing Scheme should match the features of the scheme approved by the AER for JGN. It is not clear what differences (if any) are being proposed.
- We do not believe that at this stage, the case has been made for the inclusion of other incentive mechanisms (eg similar to that being proposed by AGN SA).

OTHER ISSUES RAISED BY EVOENERGY'S 2021 PLAN



OTHER ISSUES RAISED IN EVOENERGY'S 2021 PLAN

Issue	Our Comments
Assisting Vulnerable customers	 - we believe further work is required, particularly in light of COVID-19
Charges for ancillary services	 - we support these charges being more cost reflective
Service levels – disconnection processes and arrangements	 - we support these charges being made to protect the interests of vulnerable customers
Tariff variation mechanism to be intra-year	 - we would expect the AER to seek further justification for moving to an intra-year variation mechanism.

COVID 19 IMPACTS

- Evoenergy notes that forecasts haven't been able to be adjusted to assess the impacts caused by COVID and that therefore they will incorporate any COVID related adjustments into their revised proposals that they will submit in response to the Draft Decision.
- This raises a potential procedural fairness issue for consumers, particularly if the COVID related adjustments are substantive in nature.
- It means that while consumers will be able to make submissions on the revised proposals that the businesses submit, they will not have an opportunity to make submissions on the AER's thinking on the COVID related adjustments because this will only be outlined in the Final Decision. But the process under the NGR does not prescribe for consultation in response to the AER's final decision.
- AER should give consideration to how procedural fairness is afforded to consumers – options include:
 - Option 1 - the AER could require any COVID related adjustments to be submitted by the businesses prior to the Draft Decision and open up a round of mini consultation on these adjustments before the draft decision is issued. Then the AER's draft decision can take into account both the COVID related adjustments and any submissions consumers make in response.
 - Option 2 – the AER could maintain the status quo until after submissions have been received in response to the revised proposal submitted in response to the Draft Decision. The AER could then issue a preliminary position paper on the COVID related adjustments and request submissions from consumers on its position. Following consideration of these submissions, the AER would then make its final decision.