Appendix 1.6

Deep dive B outcomes report

Access arrangement information

ACT and Queanbeyan-Palerang gas network 2021–26

Submission to the Australian Energy Regulator

June 2020

evoenergy

Deep Dive Part B workshop Wednesday March 18th 12:00pm – 1:30pm

On Wednesday 18 March 2020 Evoenergy hosted Part B of a Deep Dive to reflect on and test consumer feedback on key elements of the gas network draft plan for the 2021-26 regulatory period (GN21 draft plan) with a focus on exploring outcomes from the March 12th Deep Dive Part A.

Ahead of Part A, participants received a copy of the GN21 draft plan, a Deep Dive Part A Outcomes Report, and the Deep Dive Part B slide deck as the workshop was delivered remotely.

Attendees

6 attendees participated in the workshop, each a specialist consumer advocate with expertise in the energy sector. Represented organisations included:

- Consumer Challenge Panel 24
- Public Interest Advocacy Centre Ltd.
- ACT Council of Social Service
- Energy Consumers Australia

Background - Evoenergy Deep Dive Part A Outcomes

On Thursday 12 March 2020, Evoenergy hosted a Deep Dive to enable facilitated, detailed discussion on elements of the draft GN21 Draft Plan. 17 attendees representing the Evoenergy's Energy Consumer Reference Council (ECRC), attendees from the GN21 Citizens' Jury, vulnerable community member advocates and representatives from Evoenergy's large customers were all in attendance.

The purpose of the Deep Dive was to gather considered input to inform the final GN21 Plan on two key areas of focus:

1. Identifying risks, unintended consequences or benefits and opportunities Evoenergy may not have considered in framing the draft GN21 Plan; and
2. Establishing a Capital Efficiency Sharing Scheme and performance measures.

EXPLORATION OF THE GN21 DRAFT PLAN

Part A attendees had been asked to identify potential risks in the GN21 draft plan; then to suggest mitigations and unidentified consequences. This feedback was shared with Part B attendees for their consideration and feedback. A summary of questions, concerns and comments is listed below –

Pricing outcomes

Part B participants were curious whether factors like the weighted average cost of capital (WACC) and lower tax allowance are real external pricing influencing factors, and whether consumers should be informed about that in the context of price outcomes.

- Evoenergy presented a waterfall chart of building blocks so consumers could see what factors led to any change in the total revenue requirement
- Evoenergy provided consumers with information on tax expenses versus operating expenditure, and highlighted the change in the revenue requirement

- The GN21 draft plan includes the impact of asset life assumptions on revenue requirement ($700,000 over the coming regulatory period)

The presentations from Part A of the Deep Dive were shared subsequent to Part B.

Loss of choice as a risk

Part A attendees suggested removing gas removes a choice of energy source from Evoenergy consumers, and feared that, as a monopoly market, retailers will have even less incentive for competition.

Part B participants reflected on whether reduction of consumer choice should be considered: the idea was raised that competition is a means to an end, it is not an end goal in itself – consumers are interested in fair pricing. The idea of a goal around fair pricing would be acceptable (to Part B participants) and would be considered acceptable to consumers as well.

Shortened asset lives

This was a point of great interest among Part A attendees, and it raised some perceived risks about increasing costs or unintended future impacts should renewable gas become viable as a distributed energy source.

Evoenergy presented that shortening asset lives (on new assets) does not change the recoverable amount – those costs can only be recovered once - it only impacts the timing over which costs can be recovered. Shortened asset lives increase depreciation.

- There was some contention that it would impact consumer prices because this is impacted by the WACC (higher WACC = higher pricing?).

Because the WACC is applied to the regulated asset base (RAB), over time it reduces the impact on capital. Assets being depreciated more quickly means consumers will likely pay less.

Impact on NSW customers

- There was interest in differences between plans for the ACT network and plans for the NSW network. It was suggested that it appears that the ACT removing mandatory roll out of gas network in new suburbs has brought us (ACT) in line with NSW rather than made us different. NSW has a 2050 target for zero net greenhouse gas emissions; it is just that it is not legislated. So there may not be a real difference / impact.

Evoenergy responded that its experience is that builders in NSW actively choose gas for heating water (within and beyond Queanbeyan-Palerang). It is about efficiency of a building being constructed. Developers ask for this and agree to the commercial pricing and gas network is rolled out.

Despite a clear 2050 target in NSW there is no suggestion that legislation on this matter will be revised.

Feedback was that it might be quite acceptable for customers in NSW to make a decision to install gas hot water etc. *if* they pay something approaching the full cost of that decision, including accepting the true cost of accepting that stranded asset risk, though there is not a separate higher tariff in Queanbeyan.

Disconnection fees discouraging disconnections.

Part A participants flagged that the price of disconnecting from the gas network may dissuade customers from actively disconnecting.

Evoenergy presented that our disconnection fees are cost-based; they are being reviewed as part of the GN21 plan to ensure they remain cost-reflective. Part B participants considered this and did not raise similar concerns.

Risk of AER rejecting accelerated depreciation proposal.

A question was asked about whether (possible) AER rejection of an accelerated depreciation creates risk for Evoenergy. Evoenergy acknowledged that uncertainty about AER future intentions creates a challenge.

A participant referred to Jemena's current situation where there is suggestion that accelerated depreciation would not be accepted; Jemena does not so much bear risk of stranded assets, rather *potential* risk over the next regulatory period. If things change, they may not e.g. should renewables not progress then perhaps the AER may approve accelerated depreciation profile.

Capital Expenditure Sharing Scheme (CESS)

Part A attendees were asked to consider the proposed performance measures themselves, as well as the proposed selection criteria and weighting and measures used for evaluation.

The frequency and duration of unplanned supply interruptions was viewed as most important. There was also suggestion of the importance of other factors including the speed of customer service response- call and wait response. It was also suggested that staff welfare, OHS and interaction between measures needed to be factored into measures as well.

Each group suggested that 'estimated meter reads' was not an appropriate measure for the CESS and should be removed or if left in, it should have a very low weighting. However, feedback noted that this is an extremely important issue, but that it could be dealt with better including creating incentives to smart meters and including better communications to customers on processes around estimations, queries and rectification.

There was much discussion about, and interest in, the service metrics being attached to the CESS, including –

- A recommendation that unplanned supply interruptions duration and frequency should be made specifically about our network (what we can control) and exclude 'upstream' issues. Evoenergy confirmed this was the approach taken e.g. third party hits would be excluded from outage frequency, though it may be considered under duration which goes to our response to, and rectification of, network issues.
- Major event days (MED) should be excluded too.
- There was agreement that connections capex should be excluded (which participants recalled was aligned with NSW approach).
- Participants wanted to understand the benefit of this approach (CESS) with current situation (acknowledging that part of that depends on how the CESS would be structured, and

depends also on what benchmarks against which any performance indicators would be measured).

Evoenergy responded that the CESS provides an additional incentive to reduce capex and undertake efficient capex programs, resulting in a reduced RAB over time which amounts to reduced customer prices. Also that the current arrangement is associated with the timing of capex spend (incentivising to underspend at the start of a regulatory period) but this would incentivise equally across the entire period. Secondly that levels would be set against performance in the previous regulatory period, and if performance falls below those levels any payment would be reduced.

- There was interest in whether any of these proposed measures are being standardised with any networks across the country; in proposals or current thinking in general.
- Participants asked how targets would be set for the forthcoming period, and whether historically there has been any improvement in (service) performance; whether there are differences in what is achieved currently at all.

Evoenergy committed to share historical performance measures.

- It was also noted by one participant that the measures are asymmetric i.e. if Evoenergy exceeds the (service) measures there is no direct and increasing benefit, but if performance deteriorates then there is a penalty. It's a 'hurdle'.
- There was discussion about potential changes to NSW legislation resetting the capex spend again proposed and artificially resetting the capex value nominated – though Evoenergy has made explicit that new connections would be excluded, so this ultimately seemed reasonable.
- A risk is that it incentivises deferral of capex, whether or not any arrangement exists to incentivise that now.
- Counter to this suggestion was the idea that there may not be an incentive to defer at the moment given capex spend would go onto the RAB (which some would argue is an incentive to spend).
- Participants were not surprised by the weighting attributed to the measures by Part A participants. One Part B participant remarked that they could see and understand what Part A participants have done, and – happy to be challenged by co-participants – thought it looked closer to what consumers *say* they want. Felt there might be some room for working around them but that overall they seemed to be good.
- There was agreement "They look about right" and 30% weighting was reasonable where attributed to interruption measures.
- One participant observed they were a little bit surprised by 60% being weighted essentially to unplanned supply interruptions.
- Confirmation was sought that maintaining the design in the network means our reliability should remain consistent, but if we 'take shortcuts' and cut capex extremely there might be an increase in outages.
- Further to this it was remarked that given they're similar to measures used in Vic and NSW, it would be good to have access to any information to help interested parties understand historical performance and comparisons.

- There was agreement with these thoughts, and another comment that, from a general consumer point of view, it's hard to understand which of those measures reflect the relationship between capex and service quality. But we know it's useful to draw on what consumer expectations are. People are curious about what current performance is, and also that relationship between capex expenditure and service quality. This helps them make a decision about where priorities should lie.

Evoenergy asked whether providing additional examples of the link between capex and service quality would be helpful and there was agreement; especially interest in examples at the more extreme end of the spectrum.

Tariff structure

- A question was asked about the declining block approach to tariff structure and whether it creates a disadvantage to lower income households who might be using less.

Evoenergy responded that the majority of gas consumers reach the second block and so benefit from this declining cost structure. What is also seen is that there is very little variation between low and high income groups in terms of gas usage. There does not appear to be a strong potential equity impact in this instance as most customers benefit from that block charge.

NEXT STEPS

Evoenergy committed to provide further information to participants on a number of discussion points, and committed to incorporate this feedback into the development of the plan to be submitted to the AER in June 2020.