Attachment 1.2

Summary of responses to draft decision components

Revised GN21 Plan

ACT and Queanbeyan-Palerang gas network 2021–26

Submission to the Australian Energy Regulator

January 2021

evoenergy

AER draft decision	Draft decision reference	Evoenergy revised GN21 plan	Revised GN21 plan reference
Operating expenditure (opex)			
Did not accept initial proposed opex of $176.1m ($2020/21), accepted the amended opex of $171.0m. Noted amended proposal of forecast opex meets the opex criteria and the requirements for forecasts and estimates.	Overview, s. 4.5, pp. 42-44	We accept the AER's draft decision on our opex. We have not revised our opex forecast because the AER accepted our amended proposal. We note that while our forecast of category specific costs would have changed to reflect our revised demand forecast if we had updated our opex forecast, these costs are 'trued-up' through the annual tariff variation mechanism.	Chapter 2 – Operating expenditure
Capital expenditure (capex)			
Conforming capex for 2015/16 and the 2016–21 period Approved $66.0 million ($2020–21) of total net capex as conforming for 2015/16 to 2018/19, subject to additional information on network investment in the Ginninderry development and minor capital works. This includes $47.5 million ($2020/21) as conforming capex for the 2016/17 to 2018/19 years. Accepted $77.1 million ($2020/21) as a placeholder for conforming capex for the 2016–21 period, subject to assessment of whether actual capex for 2019/20 is conforming in its 2021–26 final decision and for 2020/21 in the 2026/31 final decision.	Overview, s. 4.4.1, pp.41-42 Attachment 5	We propose net capex for 2016–21 of $76.2 million ($2020/21) following updates for actual 2019/20 capex and estimated 2020/21 capex. Revised GN21 plan includes information on treatment on market expansion capex in the Ginninderry development and historical spending on minor capital works.	Chapter 3 – Capital expenditure
Forecast capex for the 2021–26 period Accepted forecast net capex of $66.3 million for the 2021–26 period as a placeholder for the purposes of the draft decision. Sought additional information on its proposed market expansion capex in brownfield developments, and how this interacts more broadly with ACT Government policy. Sought further information on connections, capacity development, network renewal and non-system capex.	Overview, s. 4.4.2, p. 42 Attachment 5	Our revised net capex forecast for the 2021–26 period 15 per cent below that in our GN21 plan. The decrease is entirely due to a 56 per cent reduction in proposed market expansion capex arising from the recently published intention of the ACT Government to cease new gas connections by 2023.	Chapter 3 – Capital expenditure
Regulatory depreciation			
Determined a regulatory depreciation amount of $44.4 million (nominal) for the 2021–26 period, which is $0.3 million (0.8 per cent) higher than the $44.0 million proposed. The difference is primarily driven by our lower expected inflation rate for the 2021–26 period.	Overview, s. 4.3. pp. 38-39	We accept the draft decision on our depreciation method. We accept the draft decision on asset lives for ACT assets but propose that the shortened asset lives apply to both ACT and NSW assets.	Chapter 4 – Regulatory depreciation and asset lives

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Accepted proposed straight-line method to calculate regulatory depreciation and proposed weighted average method to calculate remaining asset lives on existing assets. Accepted proposed shorter asset lives for regulatory depreciation of new high-pressure mains (80 to 50 years) and medium pressure mains and services (50 to 30 years), for pipeline assets in the ACT region, but not for the NSW region.			
Capital base			
Opening capital base on 1 July 2021 Determined an opening capital base of $381.9 million (nominal) as of 1 July 2021, which is $0.4 million (0.1 per cent) lower than the proposed opening capital base of $382.3 million. This reduction is made because the AER has amended the proposed roll forward model (RFM) to update the actual capex and CPI inputs for 2014–15. *Projected capital base as of 30 June 2026* Determined a projected closing capital base of $405.7 million (nominal) as of 30 June 2026, which is $0.8 million (0.2 per cent) lower than proposed closing capital base of $406.6 million. Draft decision reflects the updated opening capital base as of 1 July 2021, and decisions on the expected inflation rate (and forecast depreciation and forecast capex).	Overview, s. 4.1, pp. 33-34	We accept the draft decision on opening capital base subject to updating for 2019-20 actual capex and new estimate for 2020-21 capex. We accept the draft decision on the capital base methodology and the updated forecast.	Chapter 5 – Capital base
Rate of return			
Applied the current 2018 Rate of Return Instrument and estimated a placeholder allowed rate of return of 4.60 per cent (nominal vanilla), which will be updated for the final decision on the averaging periods. Accepts proposed risk-free rate averaging period and debt averaging periods since they comply with the conditions set out in the Instrument.	Overview, s. 4.2, p. 35	We accept the draft decision rate of return as a placeholder to be updated in the final decision to reflect the confidential nominated averaging window for the risk-free rate and cost of debt.	Chapter 6 – Rate of return
Debt and equity raising costs Accepted proposed methodology for debt raising costs which uses an annual rate of 8.46 basis points per annum (bppa). Updated the estimate of equity raising costs based on the benchmark	Overview, s. 4.2.1, p. 36	As the draft decision accepted proposed equity raising costs in the capex forecast and debt raising costs in the opex forecast, we have not revised our proposal.	Chapter 6 – Rate of return s. 6.2.3

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approach using updated inputs. This results in zero equity raising costs.			
Imputation credits Applied a value of imputation credits (gamma) of 0.585, as set out in the 2018 Instrument.	Overview, s. 4.2.2, p.37	We accept the draft decision of 0.585 for the value of imputation credits (gamma).	Chapter 7 – Corporate income tax s. 7.3
Expected inflation Forecast inflation of 2.37% used as a placeholder. Will update inflation in the final decision. Undertook a review of the treatment of inflation in its regulatory framework, including the method likely to result in the best estimate of expected inflation. If the AER considers that a different method should be adopted for estimating expected inflation, it intends to commence the consultation process under the NGR for amending the post-tax revenue model (PTRM).	Overview, s. 4.2.3, p.37	We have applied the draft decision on forecast inflation as a placeholder. We expect the AER to update forecast inflation in the final decision in accordance with its review of inflation final position. We note that this will result in a lower estimate of forecast inflation than the placeholder of 2.37 per cent, which will increase the revenue requirement. We expect the AER to apply amendments to the PTRM (if any) in the final decision.	Chapter 6 – Rate of return s. 6.2.2
Revenue adjustments			
Approved a carryover amount totalling –$1.3 million ($2020–21) from application of the ECM in the 2016–21 period. This is $3.7 million more than the amended proposal of –$5.0 million. Calculated carryover amounts differ from amended carryover amounts because the AER has used audited 2019–20 opex, used different inflation figures to convert amounts into 2020–21 dollars, removed movements in provisions, and included insurance and superannuation costs.	Overview, s. 4.6.1, pp.44-45	We accept the AER's draft decision and our revised proposal includes a carry-over amount of negative $1.3 million.	Chapter 10 – Incentive schemes s. 10.3.1
Corporate income tax			
Accepted proposed approach to calculating its forecast cost of corporate income tax. Evoenergy used the AER's PTRM which implemented the findings from the AER's 2018 tax review. Determined an estimated cost of corporate income tax of $1.4 million (nominal) in the 2021–26 period, which is $0.1 million less than proposed. The difference is primarily driven by the adjustments to the return on capital and regulatory depreciation building blocks, which affect revenues and, in turn, impact the tax calculation. Determined an opening tax asset base (TAB) value of $260.3 million (nominal) as of 1 July 2021. While	Overview, s. 4.4, pp. 45-46	We provide an updated post tax revenue model in which the tax expense revenue building block is updated. Our revised proposal provides an updated roll forward model so the opening tax value has been updated. We accept the changes to 2014/15 capex have reviewed other inputs to ensure no further changes are required.	Chapter 7 – Corporate income tax

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accepting the proposed method to establish the opening TAB, reduced the proposed opening TAB value by $0.2 million due to minor corrections to 2014–15 actual capex inputs in the RFM. Accepted proposed standard tax asset lives for existing asset classes as they are broadly consistent with the tax asset lives prescribed by the Australian Tax Office's taxation ruling 2020/3. Created three new asset classes for pipeline assets located in the NSW region of network. Applied the same standard tax asset life of 20 years to these new asset classes as that of the existing pipeline asset classes for tax depreciation purposes. Accepted proposed weighted average method to calculate the remaining tax asset lives as of 1 July 2021. This method is a continuation of the approved approach used in the 2016–21 period and applies the approach as set out in the RFM.			
Forecast demand			
Accepted the following aspects of the demand forecast for the 2021–26 period, as reasonable: • the base model, derived by CIE and taking into account weather normalisation, price elasticity, historical trends and projections in line with the AEMO's demand forecasting approach • the assumption to exclude four ACT postcodes from connection forecast, on the basis these greenfield development areas are likely to be the first to cease connection to the gas network driven by existing ACT Government policy • proposed demand forecast for volume boundary consumers (Tariff VB) • proposed demand forecast for industrial and large government consumers (Tariff D). Did not accept proposed demand forecast for individual volume consumers (Tariff VI) for the 2021–26 period. Provided an alternative forecast as a placeholder. Did not accept the following pending further information, analysis and updates to the latest source data:	Overview, s. 2.3, pp. 24-25	We accept the draft decision for the volume boundary tariff forecast, noting that we include updates to the CIE forecast to reflect: • the latest billing data. • no infill growth from 2023, consistent with the ACT Government's commitment in the P&G Agreement. We accept the draft decision for the demand tariff forecast, noting that we have included: • an updated forecast by the CIE based on the latest billing data, and reflecting reassignment of customers being between the volume and demand tariffs. • updates by the CIE reflecting lower the usage forecasts for demand customers that have announced their commitment to transition away from natural gas. In developing the revised GN21 plan, we have undertaken a program of work to build a stronger body of evidence for the revised demand forecast and address the major components of the draft decision. This work has included: • updating the demand forecast based on latest available	Chapter 8 – Forecast demand

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• post-model adjustment to reduce consumption per customer by 10 per cent by 2025–26 due to ACT climate change policy. • post-model adjustment to triple the rate of permanent disconnections (abolishments) by 2025–26		customer numbers and usage data, up to October 2020; • commissioning expert market research consultants Sagacity Research, to undertake a survey of ACT residential customers on their energy fuel preferences, future gas usage intentions, and responsiveness to electrification incentives; • analysis of specific policy targets set out in the P&G agreement to achieve net zero emissions in the ACT by 2045, including the goal of no new gas connections to future infill developments from 2023; and • review of gas demand by major gas customers on Tariff D, including commitments to transition away from natural gas.	
Revenue requirement			
Sets out several amendments to the building block inputs which make up the total revenue requirement proposal of $314.9 million (nominal, smoothed). Based on our assessment of the building block costs, the draft decision determines a lower total revenue requirement of $311.9 million (nominal, smoothed). Requires amendments to the 4.4 per cent reduction in real tariffs proposed for 2021–22. Accepts the proposed tariff path, which provides for constant real tariffs throughout 2022–26.	Overview, s. 3.2, pp. 27-29	We have updated the revenue requirement to reflect the revised plan implications on the building blocks which make up the revenue requirement. We have applied the same approach to smoothing revenue over the period as was adopted in the GN21 plan and the draft decision.	Chapter 9 – Revenue requirement and price path
Incentive schemes to apply for 2021–26			
Efficiency carryover mechanism (ECM) Approved application of an ECM in the 2021–26 period. Made minor amendments to proposed ECM to be consistent with version 2 of the efficiency benefit sharing scheme (EBSS) for electricity service providers and other gas distribution businesses.	Overview, s. 5.1, p.47	We accept the AER's draft decision on the ECM to apply to the 2021–26 period.	Chapter 10 – Incentive schemes s. 10.2.2
Capital Expenditure Sharing Scheme (CESS) Accepted proposal to introduce a CESS, including proposed contingent payment factor range, performance measures, and the exclusion of new connections capex.	Overview, s. 5.2, p.47	We accept the AER's draft decision on the CESS to apply to the 2021–26 period. We propose to amend the performance measurement targets. We propose that, in addition, renewable gas projects be excluded from the CESS.	Chapter 10 – Incentive schemes s. 10.2.3

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Reference tariff setting			
Accepted proposed changes to reference tariff classes, tariff categories and ancillary charges.	Overview, s. 2.2, p.23	We accept the draft decision on reference tariff classes, tariff categories and ancillary charges.	Chapter 11 – Network access and tariffs Table 11.1
Reference tariff variation mechanism			
Accepted most of proposed reference tariff variation mechanism, rejecting elements of the proposal considered inconsistent with the Rules. Did not accept: • proposed amendment to the consumer price index (CPI) measure • proposal to vary reference tariffs during a financial year to apply at a date prior to the start of the next financial year • all proposed pass through event definitions. *Cost pass-through* Updates the cost pass through events to apply in the 2021–26 period. Accepted cost pass through events proposed, with some definitional adjustments.	Overview, s. 2.2, pp.23-24	We accept the draft decision on the reference tariff variation mechanism. We propose to amend Insurance cap event to Insurance coverage event.	Chapter 11 – Network access and tariffs Table 11.1
Non-tariff components			
Accepted RSA except for two minor changes. Encouraged Evoenergy and stakeholders to continue to engage on issues relating to gas quality specification, retailer-requested disconnections and liability and indemnity regime, potentially at an industry working group level. Expects Evoenergy to continue to work with retailers after the final decision, in relation to performance standards applicable to Evoenergy.		The revised proposed RSA: • removes clause 15.9 (c) in the RSA which was inadvertently included and is now redundant given other accepted amendments. • adopts stakeholders' views on disconnection timeframe in clause 12(b)(i). • updates clauses in Annexure 3 (operational balancing gas) While not reflected as a clause in the RSA, we will continue to work with retailers in relation to development of relevant performance standards and similar issues.	Chapter 11 – Network access and tariffs. Tables 11.1 and 11.2