Attachment 4.1

Stranded asset risk deep dive workshop outcomes report

Communication Link

Revised GN21 Plan

ACT and Queanbeyan-Palerang gas network 2021–26

Submission to the Australian Energy Regulator

January 2021

evoenergy

Communication Link

Evoenergy stranded asset risk deep dive workshop - September 2020

Outcomes report

16 October 2020

Ask.
Listen.
Understand.
Achieve.

1. Introduction

Evoenergy is currently seeking to respond to the risk of gas network asset stranding arising from the ACT Government's policy decision to phase out gas connections in the ACT and promote electric alternatives to gas. The policy is part of the ACT Climate Change Strategy 2019-25 which seeks to achieve the government's legislated target of net zero greenhouse gas emissions by 2045.

To inform Evoenergy's strategy development, consumer, industry, regulatory, community and government stakeholders were invited to participate in, or attend as observers to, the Evoenergy stranded asset risk workshop on Wednesday 16 September 2020.

1.1 Key purpose

The two key objectives of the deep dive workshop were to:

- provide an opportunity for stakeholders to understand the potential for stranded assets in the gas network
- to receive feedback from stakeholders on Evoenergy's proposal to address the risks associated with stranded assets.

1.2 Participants

A total of 32 external stakeholders attended along with nine Evoenergy participants. Fourteen organisations or groups were represented as either participants or observers. These were:

- the ACT Council of Social Service
- the ACT Environment, Planning and Sustainable Development Directorate
- the Australian Energy Regulator
- the Australian Energy Regulator's Consumer Challenge Panel
- the Australian Energy Market Commission
- the Australian Institute of Sport
- CSIRO
- Evoenergy's Energy Consumer Reference Council
- Energy Consumers Australia
- the Evoenergy Citizens' Jury
- ActewAGL Retail
- Origin Energy
- EnergyAustralia
- the Public Interest Advocacy Centre
- Queanbeyan-Palerang Regional Council

1.3 Event format

The deep dive workshop was undertaken as an online event, with participants and observers listening to presentations and having discussions through Evoenergy's *Get Together* online conferencing platform. The contribution of ideas and opinions was facilitated with *Mural* - a digital workspace for visual collaboration that simulates a physical whiteboard.

The deep dive workshop was held over four hours (from 1pm to 5pm) and was structured into four sessions:

Session 1

- Welcome by Evoenergy CEO, John Knox
- Presentation 1: 'What is a stranded asset?' - Evoenergy Gas Networks Manager, Bruce Hansen
- Quiz: 'What is a stranded asset?'
- Initial Q&A session

- Collaboration exercise 1: Participants asked to identify risks that are presented by stranded assets on the Evoenergy gas network

Session 2

- Presentation 2: 'The gas regulatory regime and stranded asset risk' – Incenta Economic Consulting Managing Director, Jeff Balchin
- Presentation 3: 'Evoenergy's proposed changes to asset lives' – Evoenergy Acting Group Manager Regulatory Reviews, Gillian Symmans
- Q&A group discussion (questions gathered using the 'Get Together' chat feature during the presentation)

Session 3

- Participants invited to provide responses and indicate levels of support on the Mural board to the following collaboration exercise questions:
  - Collaboration exercise 2: Do you think the additional cost per customer, per year, resulting from our proposed change to asset lives, is reasonable?
  - Collaboration exercise 3: Provide feedback on the four asset life scenarios being considered by Evoenergy.
  - Collaboration exercise 4: Would you support Evoenergy changing its proposal to further reduce asset lives for new investment to be fully depreciated by 2045? Why?

Session 4

- Reconvening of group, follow-up group discussion, review of Mural board feedback and closing remarks.

1.4 About this outcomes report

This report discusses the key themes identified or notable feedback raised by participants in each of the four collaboration exercises; provides the general comments and questions raised throughout the deep dive workshop and includes a summary of the deep dive workshop evaluation feedback responses from participants.

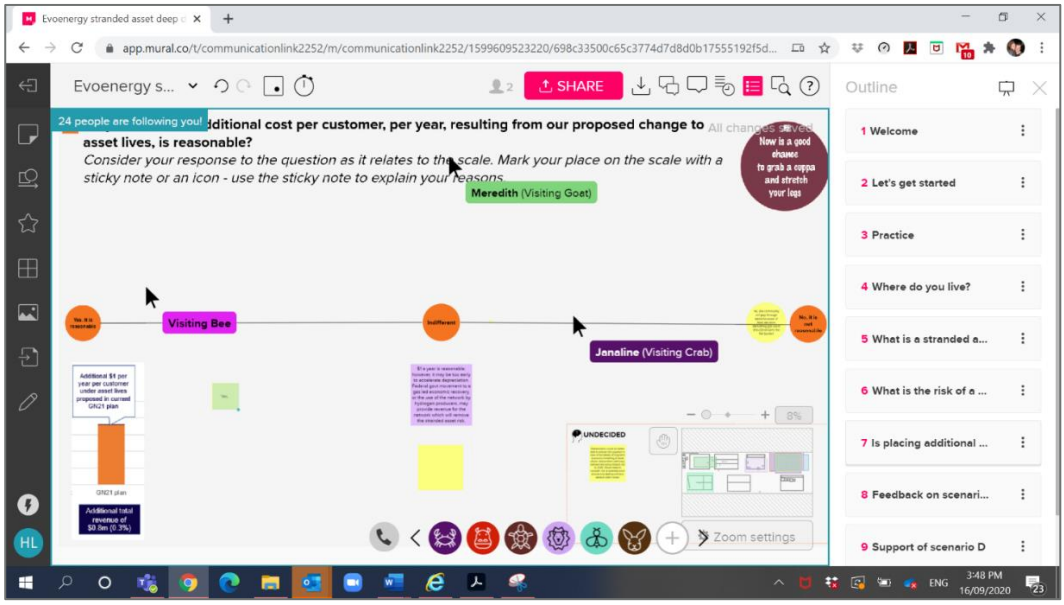

Figure 1. Participants in the deep dive workshop contributed ideas and opinions via Mural - a digital workspace for visual collaboration that simulates a physical whiteboard.

2. Q&A discussion topics raised by participants

Participants raised a number of questions and areas for discussion during the deep dive workshop. These are presented below:

- How are current costs factored into customer billing? Are customers already paying for upgrades and depreciation? And, to what extent are customers paying for that expenditure and depreciation over the next five years? Does this add to the customer cost?
- To what extent has Evoenergy discussed what parties, other than consumers, should pay?
- If there was a deferral of accelerated depreciation, can we look at rule changes?
- Shareholders earn a return on the investment in assets they have made through the profits they receive. How much of this return on capital have the shareholders already received?
- Has the ACT Government thought about the impact of this on Evoenergy's business value? Governments always make decisions that affect asset value and asset base values.
- My recollection is that there is no difference in approach to depreciation between the ACT component of the network assets and the NSW component. Given the change in approach to depreciation is driven by the ACT Government's policy/legislative changes and are not the NSW Government's position, if accelerated depreciation should be accepted, should it apply uniformly across all assets in NSW and the ACT?
- If asset lives extend beyond 2045 for depreciation purposes, how would that unrecovered cost be dealt with?
- Is Evoenergy exploring these issues in other jurisdictions? Are there other examples out there? Noting that this will not resolve the issue of residual asset values at the end of 2045.
- Would a change in ACT Government change any of this or would Evoenergy continue to pursue the no net emissions by 2045?
- There needs to be another party involved.
- We have learnt a lot from the Government's response to COVID-19 with regards to stimulating the economy, that can be applied to this scenario to encourage the use of alternative energy sources with the existing infrastructure.
- As Bungendore's gas supply takes a separate feed from the main ACT gas network and is largely separate from the ACT, can it be treated differently with regards to phasing out the network?

Responses to these comments and questions were made by presenters and during general discussion.

3. Collaboration exercises

Four collaboration exercises were held to extract and explore stakeholder feedback and opinions on:

- what participants believed were the risks presented by stranded assets to the gas network (see Collaboration exercise 1 - Section 3.1)
- Participant views in relation to Evoenergy's four alternative asset-life scenarios presented by Gillian Symmans from Evoenergy (see figure 4), relating to:
  - general stakeholder appetite for cost impacts associated with changing asset lives for depreciation (see Collaboration exercise 2 – Section 3.2)
  - stakeholders' thoughts on each of the four scenarios presented (see Collaboration exercise 3 – Section 3.3)
  - stakeholders' opinions on the option to further reduce asset lives for new investment to allow the assets to be fully depreciated by 2045 (see Collaboration exercise 4 – Section 3.4).

3.1 Collaboration exercise 1: What risks are presented by stranded assets on the Evoenergy gas network?

Participants were asked to answer on the Mural board what they saw were the risks to the gas network presented by stranded assets. They were asked to particularly consider risks from the perspectives of the stakeholders or consumers they represent.

3.1.1 Feedback trends

The recurring risk themes from the variety of responses are listed below:

3.1.1.1 Concern about the cost recovery

- The few remaining customers on the gas network in the final years leading up to 2045 would have to meet the costs of covering stranded assets.
- Taxpayers may, in the absence of a large gas customer base, be forced to cover the costs of maintaining and decommissioning stranded assets.

3.1.1.2 Concerns about the ability of the electricity network to cope

- The existing electricity network may not cope with the gas customers transitioning to electricity-only power.

3.1.1.3 Impact on alternative options

- Alternative uses of the existing gas network will not be realised or the network won't be sold to someone who can use it for other purposes.

3.1.1.4 A range of general risks were also identified but were not strong themes.

- Environmental impacts of assets left behind
- Lack of consumer education
- Workforce redundancy

Figure 2 shows the Mural board with all feedback received for this exercise.

Figure 2. Contributions from participants outlining the risks they perceive that stranded assets pose to the Evoenergy gas network.

3.2 Collaboration exercise 2: Do you think the additional cost per customer, per year, resulting from our proposed change to asset lives, is reasonable?

Participants were asked to demonstrate their level of support for Evoenergy applying an additional cost per customer, per year to address the costs associated with shortening existing asset lives. For this exercise, participants were asked to consider scenario B - see figure 2 (estimated at $1/customer/year) as it currently features in the Evoenergy's Access Arrangement Proposal. Participants were asked to place a (virtual) sticky note along a scale of options on the Mural board and contribute feedback to explain why they placed the sticky note in their chosen location.

3.2.1 Feedback trends

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

Whilst support was fairly evenly spread along the scale, there was a slight skew towards support for the proposal. Feedback from those that indicated support for the proposal included:

- Applying $1 per year, per customer was reasonable.
- Requesting Evoenergy continue to explore ways of using the existing gas network for alternative fuels even after it commits to shortening asset lives.
- Educating the public about why the additional charges are required.

Of the responses in the 'indifferent' section of the scale, there was a trend of support for pursing hydrogen gas as an alternative fuel source.

Of the responses that indicated that they were not supportive of the proposal, more than half provided commentary suggesting government and the broader tax-paying population should cover the costs, noting that the proposal to reduce asset lives was born out of government policy to eliminate gas usage.

The scale also included an 'undecided' section. There was a similar amount of feedback to that in other categories placed here. This feedback focused on requests for more information before decisions could be made. The types of information participants asked for included:

- How costs/risks are to be distributed
- The estimated cost to customers if there was no accelerated depreciation between 2021-2026, but applied to all assets to 2045 in the 2026-2031 period
- Details of long-term scenario modelling of asset values, depreciation pathways, demand and price impacts
- Regulatory framework considerations about Evoenergy's position
- Waiting for a government roadmap for a gas exit plan.

Figure 3 shows the Mural board with all feedback received for this exercise.

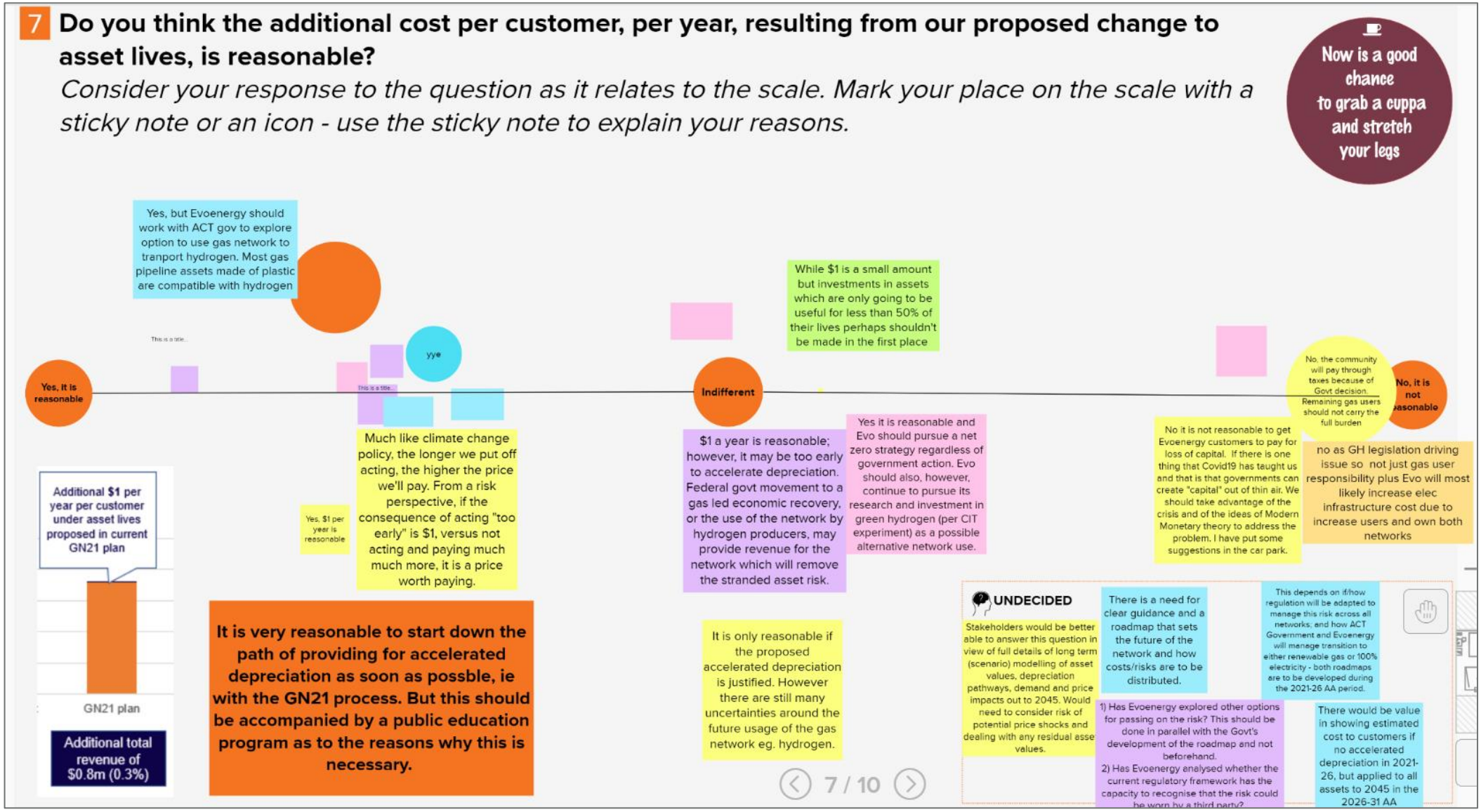

Figure 3. Screen capture of participants' level of support for Evoenergy's proposal to apply additional costs to each customer, per year to address the costs associated with changing the asset lives.

3.3 Collaboration exercise 3: Provide feedback on each of the four asset life scenarios

Participants were asked to provide their thoughts on each of the four scenarios, as presented in figure 4. In this exercise, not all participants provided feedback on every scenario and some chose to simply place a sticky note against their preferred option. It should also be noted that the feedback received for this Collaboration exercise and Collaboration exercise 4 (see Section 3.4) was skewed by that fact that a number of participants preferred none of the scenarios provided.

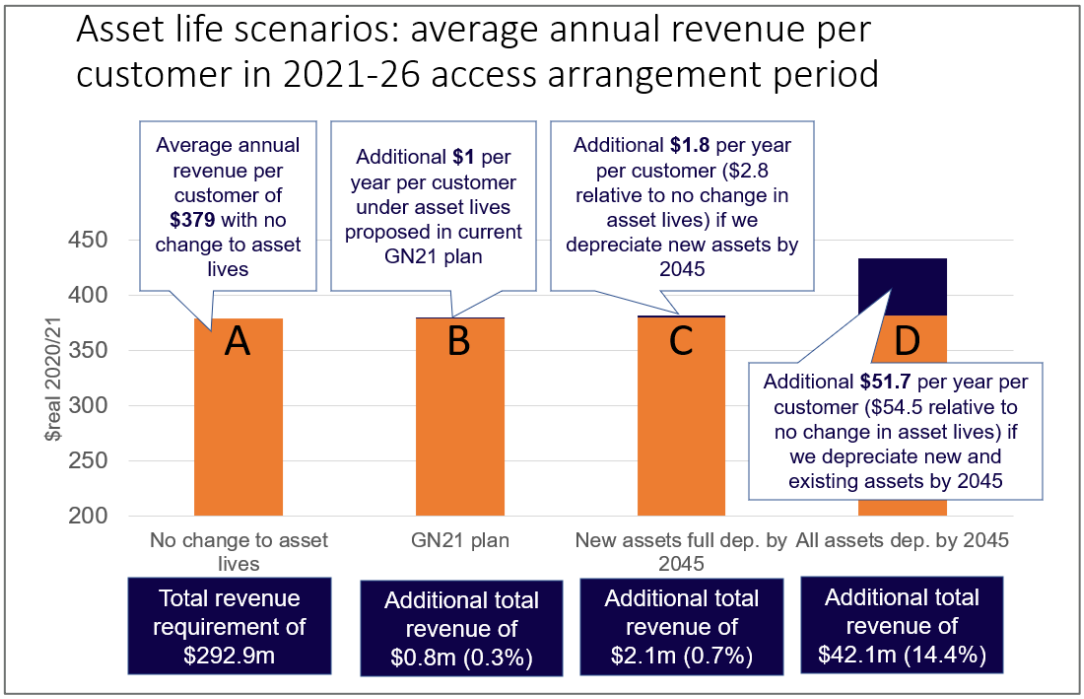

Figure 4. Asset life scenarios presented by Evoenergy to the deep dive workshop participants.

3.3.1 Feedback trends

From the feedback, three minor themes emerged:

- Government and taxpayers should contribute to the burden of covering costs of stranded assets, given it is government policy causing them to be stranded. It was noted by one contribution that lessons can be learnt from the Government's response to COVID-19 on how to address significant increase in social costs.
- Utilising existing infrastructure for alternative fuels such as hydrogen should not be ruled out.
- Scenario D was not favoured, with only one contribution indicating outright support for this scenario.

Figure 5 shows the Mural board with all feedback received for this exercise.

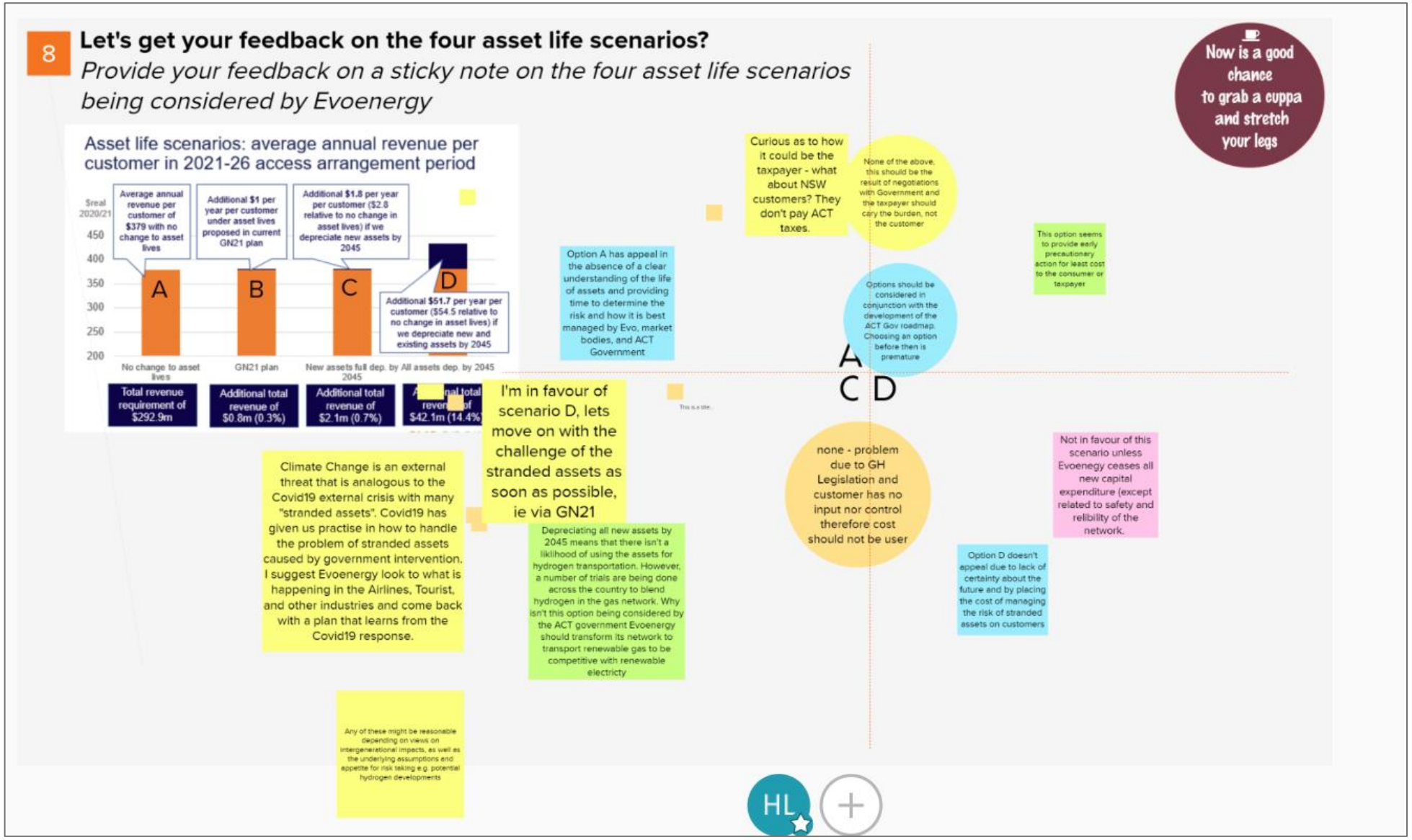

Figure 5. Participant feedback for each of the four asset life scenarios.

3.4 Collaboration exercise 4: Would you support Evoenergy changing its proposal to further reduce asset lives for new investment to be fully depreciated by 2045 (scenario C)? Why?

For the final collaborative exercise, participants were asked to indicate their support for asset life scenario C as presented in figure 4. This exercise asked them to either agree or disagree and to provide feedback to support their position. The majority of contributors to this exercise placed their sticky note in the 'no' section. One participant indicated they were neither for or against and placed their sticky note in between the two categories.

3.4.1 Feedback trends

For those that placed their sticky notes in the 'no' category or were undecided, there was a strong theme that indicated pursuing government intervention/support or obtaining clearer direction from government should be prioritised before considering how to manage the cost implications to reducing asset lives.

Figure 6 shows the Mural board with all feedback received for this exercise.

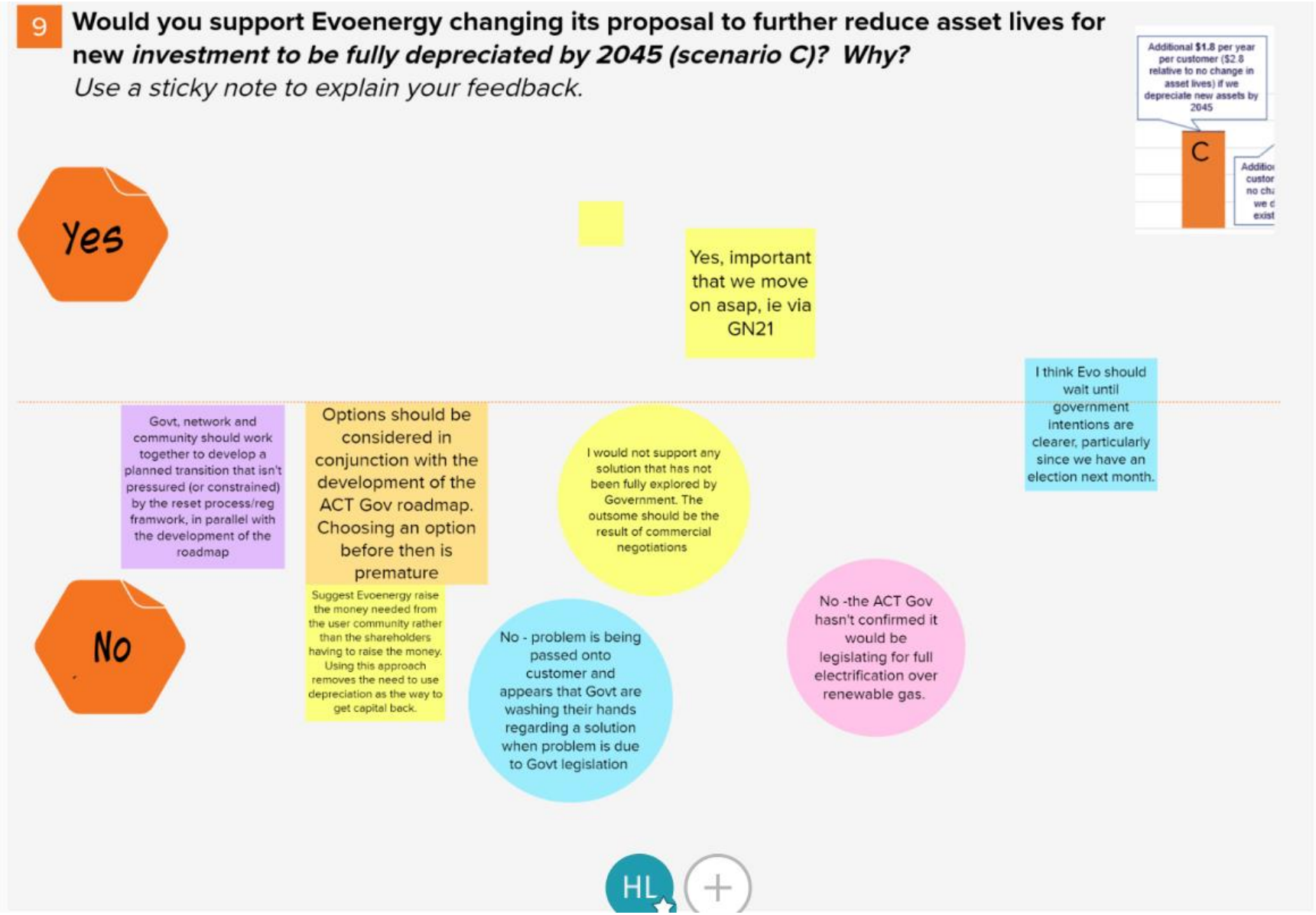

Figure 6. Feedback provided by participants indicating their position in supporting Scenario C' asset life scenario presented by Evoenergy.

4. General comments and questions ‘parking lot’

Participants were encouraged to leave questions and comments in the ‘parking lot’ - a small section on the Mural board for informal or ‘out of session’ thoughts and ideas.

A common theme in the parking lot, consistent throughout all the exercises, was the desire to pursue alternative fuel sources for use in the existing network in conjunction with, or in lieu of, reducing the asset lives. Another minor theme identified was the suggestion of investigating low or zero interest loans to cover the cost of maintaining the existing gas network or building up the electricity network and then handing these back to Evoenergy as compensation for the stranded assets.

The parking lot also held a link to the participant evaluation survey for the workshop.

Figure 7 below is a screenshot with the questions and comments from participants.

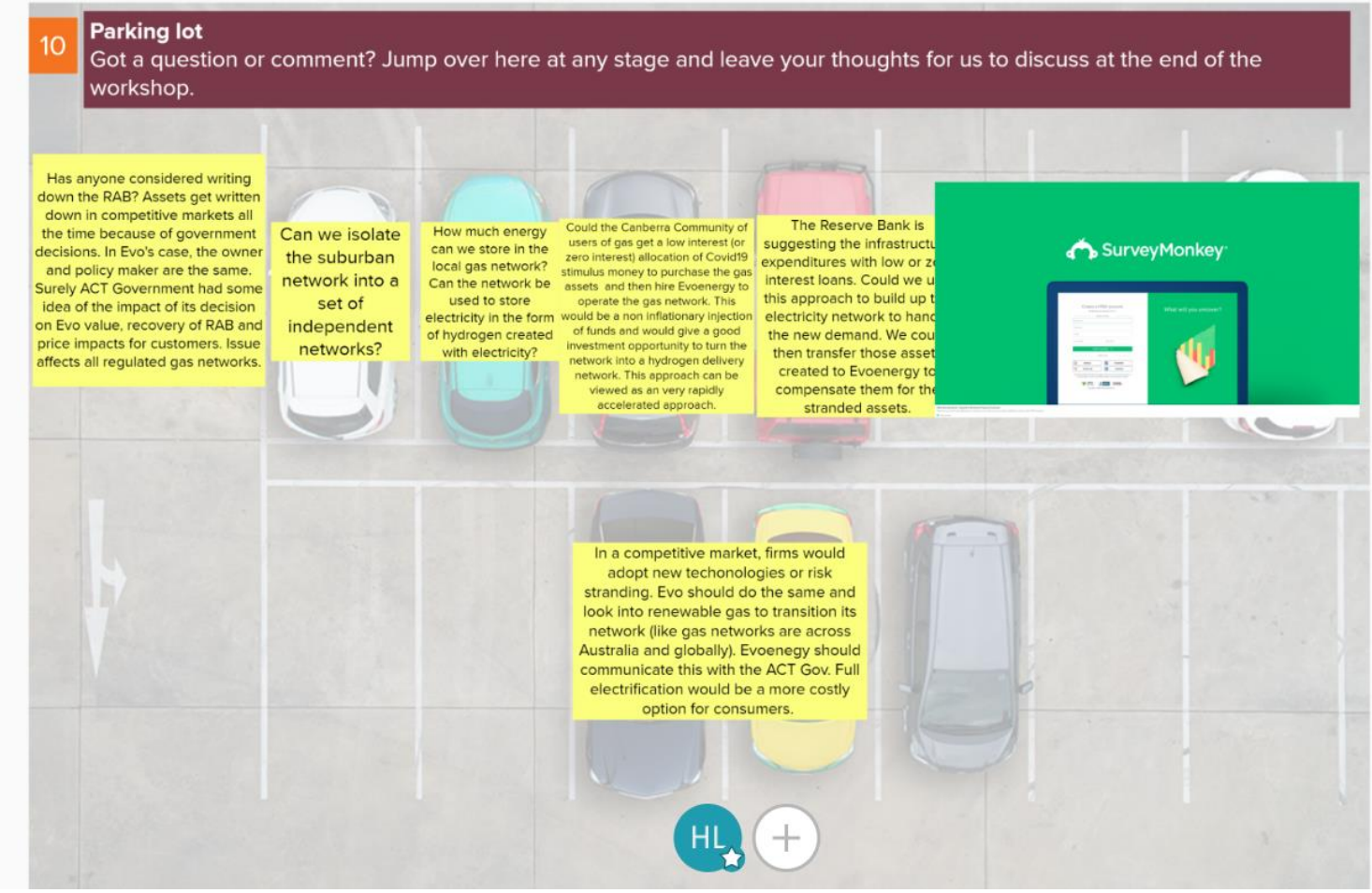

Figure 7. General comments or questions left by participants in the Mural board ‘parking lot’.

5. Conclusion and summary

In summary, the deep dive workshop participants agreed that stranded assets do pose a significant risk and that Evoenergy should be taking early proactive steps in addressing the issue of stranded asset cost implications.

However, in addressing the issue of stranded assets, two recurring themes in the feedback were identified that fell outside the direct scope of the deep dive workshop and should be considered:

- Evoenergy should seek to negotiate with the ACT Government to determine a financial solution to stranded assets that doesn't see the costs passed directly on to gas customers.
- Alternative fuels, in particular hydrogen, should be considered as a way of reducing the stranded asset risk for the existing gas network and helping the ACT achieve zero emissions from natural gas.

6. Deep dive workshop evaluation

Participants were invited to evaluate their experience of the deep dive workshop via a short survey. Figures 8 to 13 show responses to the six evaluation questions. General deep dive workshop feedback comments are also provided below.

The feedback was supportive of the use of the new technology for the purposes of this deep dive workshop and didn't indicate any reduced ability to participate as a result of the online delivery.

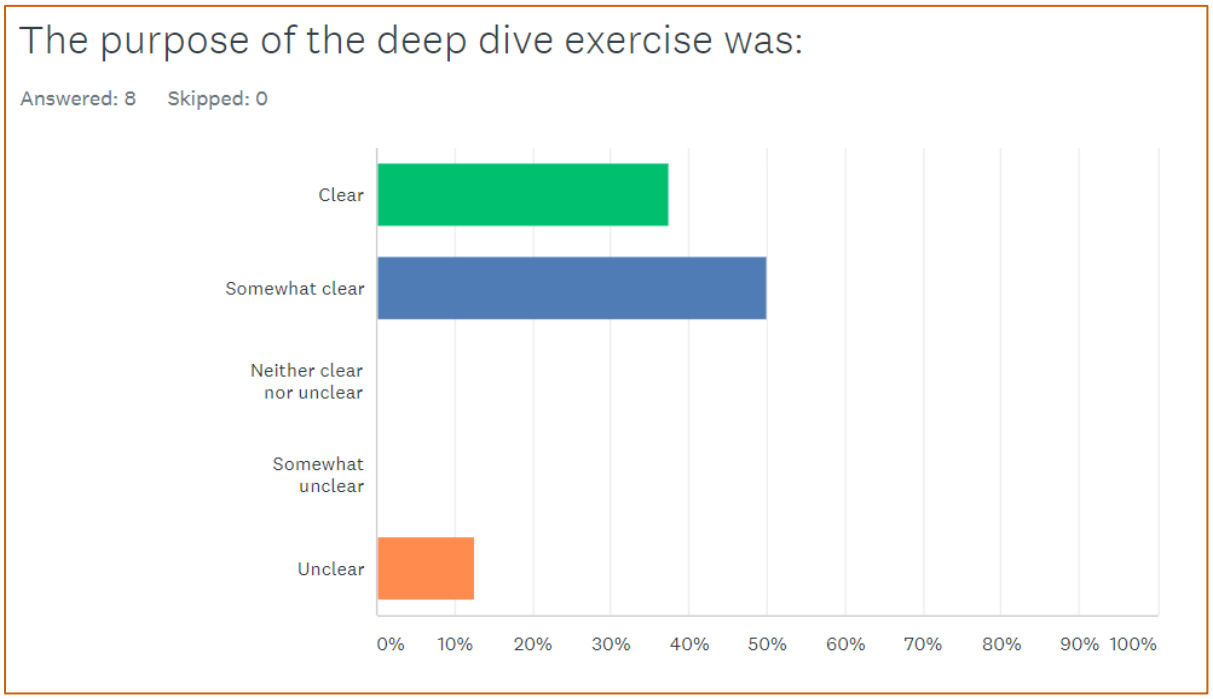

Figure 8. Participants' understanding of the purpose of the deep dive workshop.

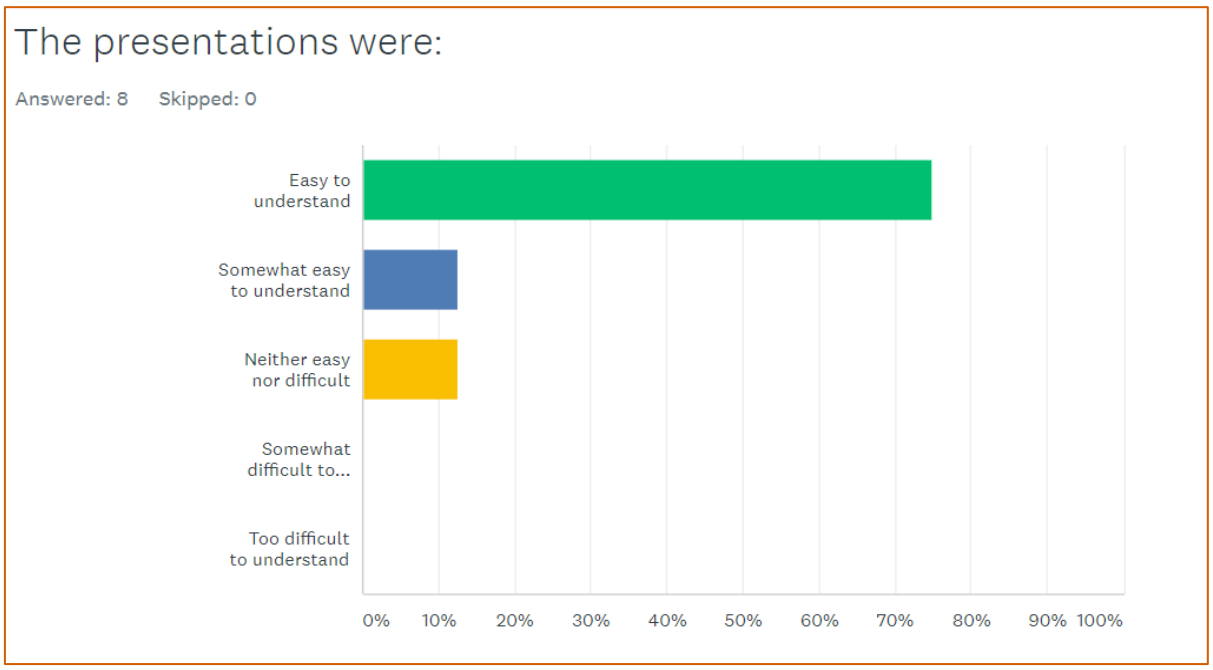

Figure 9. Participants' feedback on presentations

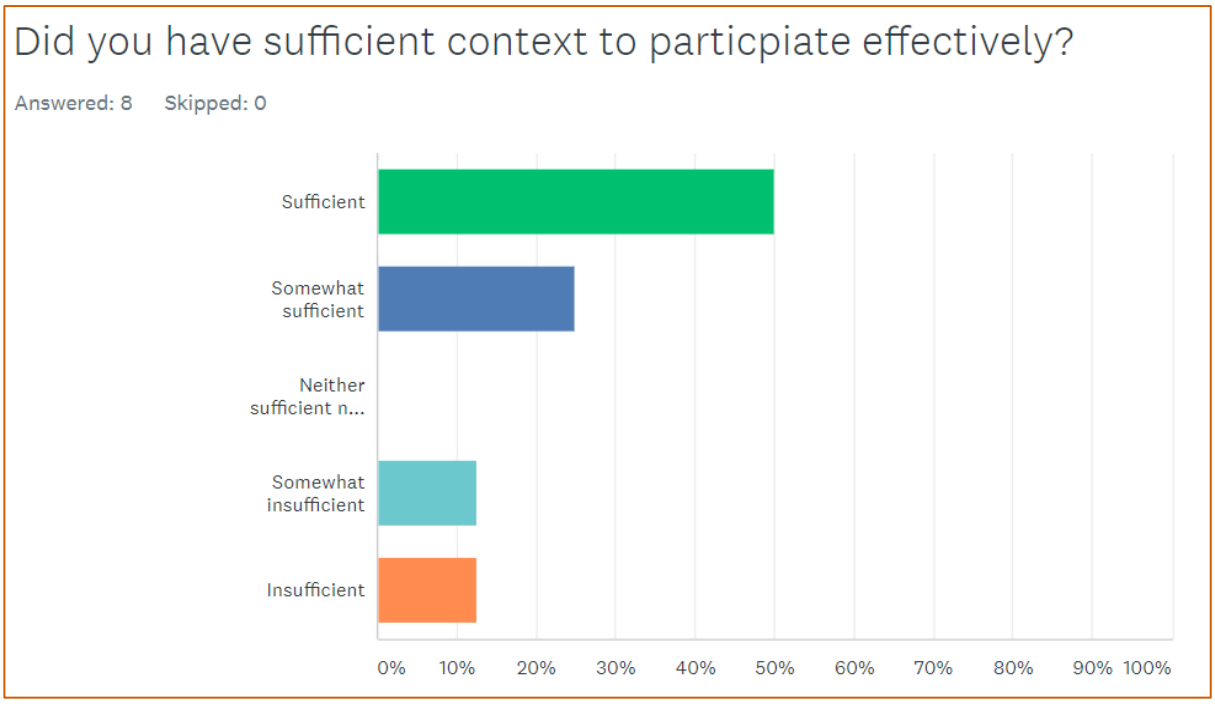

Figure 10. Level of context provided to participants to enable participation in the deep dive workshop.

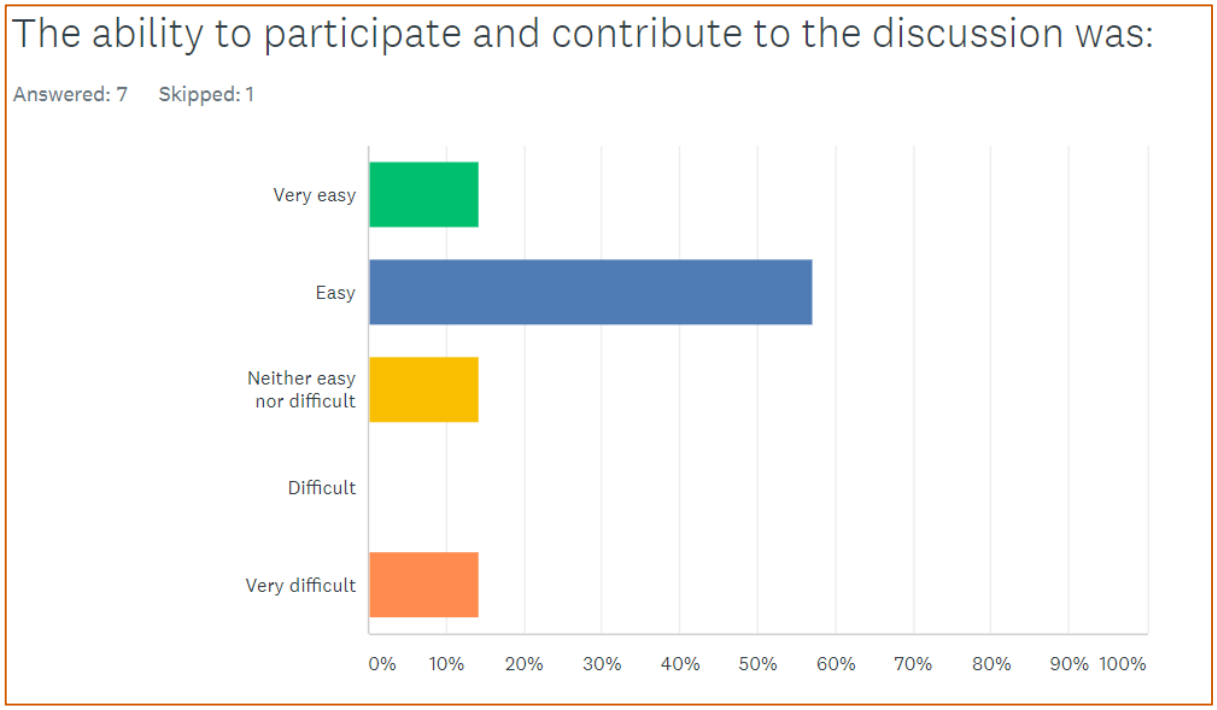

Figure 11. Feedback on participants' ability to contribute to the deep dive workshop.

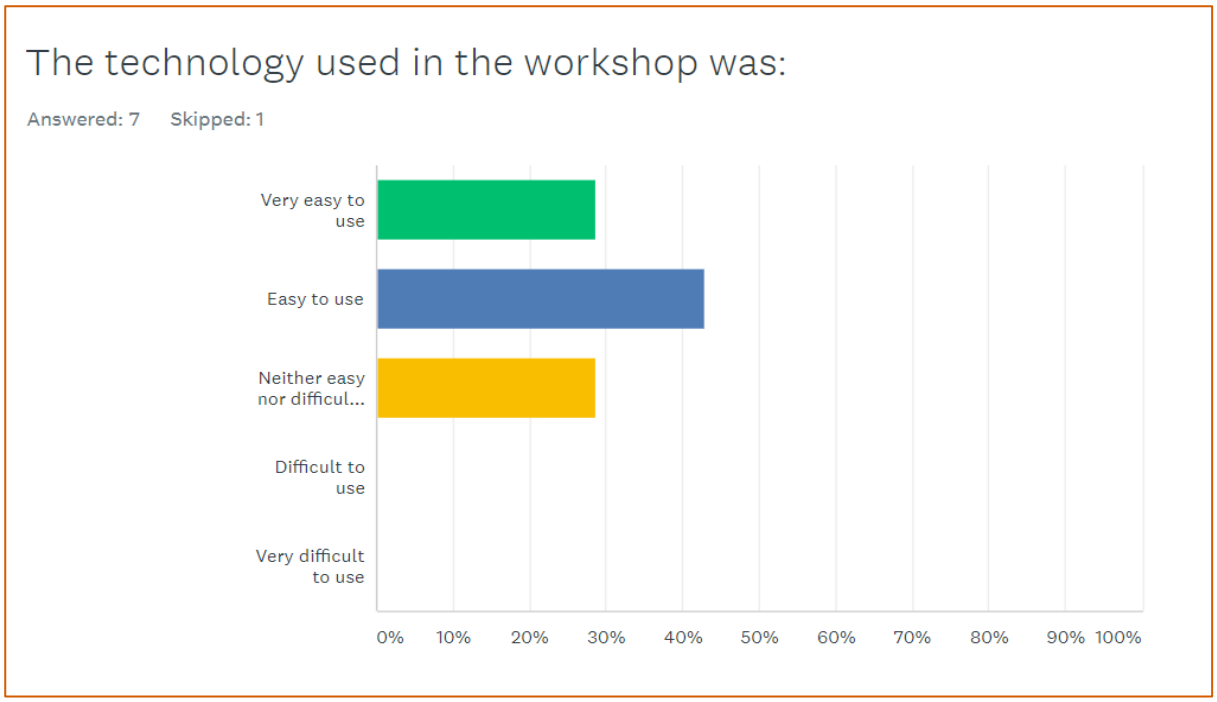

Figure 12. Participants' feedback on the technology used in the deep dive workshop.

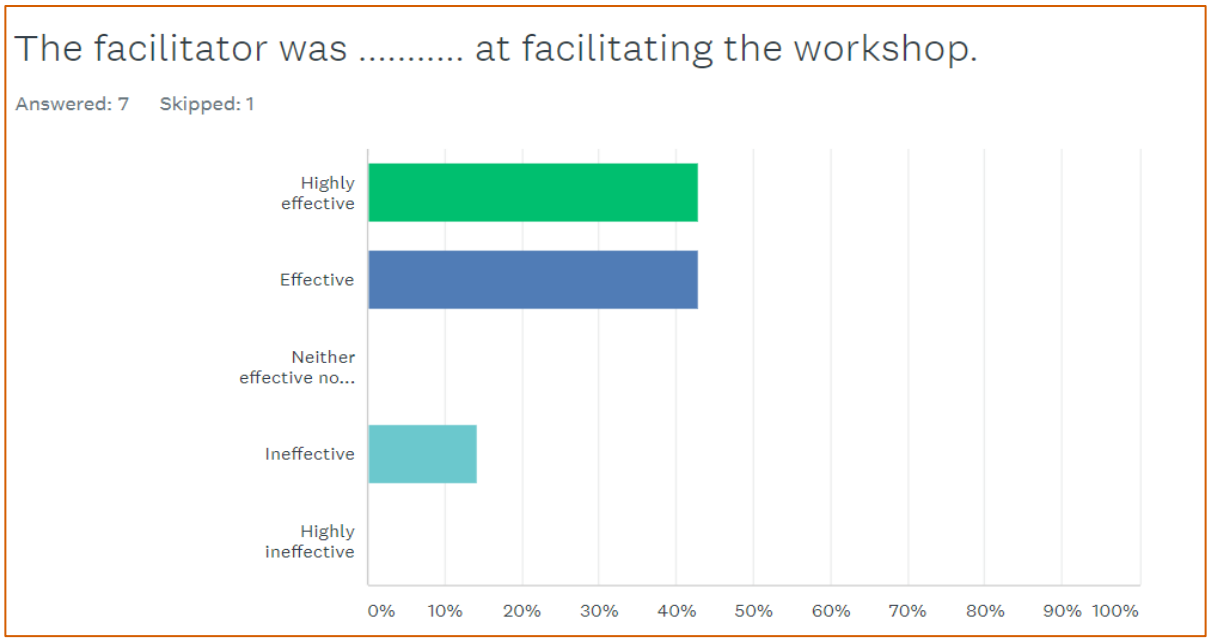

Figure 13. Participants' feedback on the deep dive workshop facilitator.

General deep dive workshop evaluation comments:

- *In terms of content, I was hoping for new information, rather than the very similar information that in the proposal. For example, addressing some questions raised in submissions.*
- *Great use of new technology.*
- *I found it frustrating that almost 20 minutes was spent at the start of the workshop on the tech briefing. I understand it is important for everyone to be familiar with the tools but I feel like there may be a better way of doing this. I also found that the workshop was pitched at a too lower-level for my particular interests. This may be hard to avoid. Having a clearer sense of the agenda and conversation beforehand would have made it easier to decide on the value proposition in attending, or to identify specific questions I wanted to engage with.*
- *The workshop structure made the four hours seem like two.*
- *Appreciate the opportunity.*