

Gas network 2021–26 access arrangement proposal

AER public forum – 4 August 2020

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Today's briefing

- Evoenergy, our customers and network
- What our plan means for customers
- What shaped our plan
- Major components of our plan
- Further planned engagement



<https://www.evoenergy.com.au/about-us/about-our-network/gas-five-year-plan>

Evoenergy network and customers

Evoenergy is the Canberra-based distributor of electricity and gas.

Our gas network charges make up around one quarter of a typical customer's gas bill.

Gas makes up over 40% of the ACT's annual energy demand, and around 60% of demand in winter.

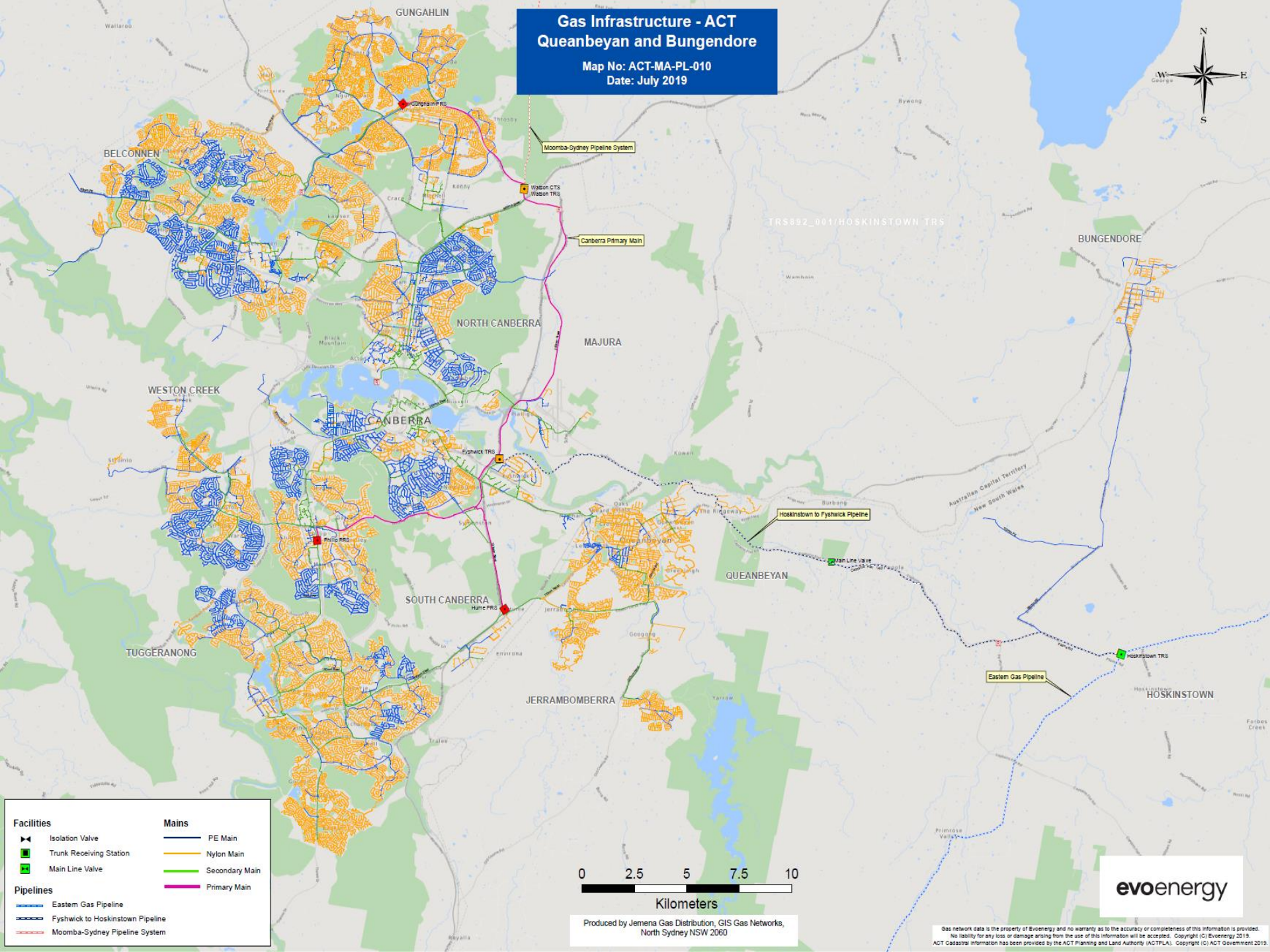
Evoenergy's gas network customer base is 98% residential, with no heavy industrial customers.

The Evoenergy gas network has more than 150,000 customer connections and is over 4,500 km in length.

The network's penetration rate of 75% within its reticulated area. customer density is 31 connections/km of main (Australian average density is 56).

Gas Infrastructure - ACT Queanbeyan and Bungendore

Map No: ACT-MA-PL-010
Date: July 2019



Facilities	Mains
Isolation Valve	PE Main
Trunk Receiving Station	Nylon Main
Main Line Valve	Secondary Main
Primary Main	
Pipelines	
Eastern Gas Pipeline	
Fyshwick to Hoskinstown Pipeline	
Moomba-Sydney Pipeline System	



Produced by Jemena Gas Distribution, GIS Gas Networks,
North Sydney NSW 2060



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What our plan means for customers

- Continuing safe and reliable gas supply while costs are minimised
- Reduced expenditure, resulting in lower network charges
- Responsible market expansion and gas usage assumptions while we are in transition to net zero emissions
- Time to progress our roadmap for transition to net zero emissions by 2045
- Simplified tariffs
- A declining value of assets – good news for future bills
- Capital and operating expenditure sharing schemes to further promote efficiency

What our plan means for customers – indicative bill impacts

Indicative typical residential gas bill

Based on 28 GJ per year, excluding the impacts of inflation

	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
Residential annual gas bill	1,257	1,243	1,243	1,243	1,243	1,243
Evoenergy component	334	320	320	320	320	320
Residual component	923	923	923	923	923	923
Annual change \$		-14	0	0	0	0
Annual change %		-1.1%	0.0%	0.0%	0.0%	0.0%

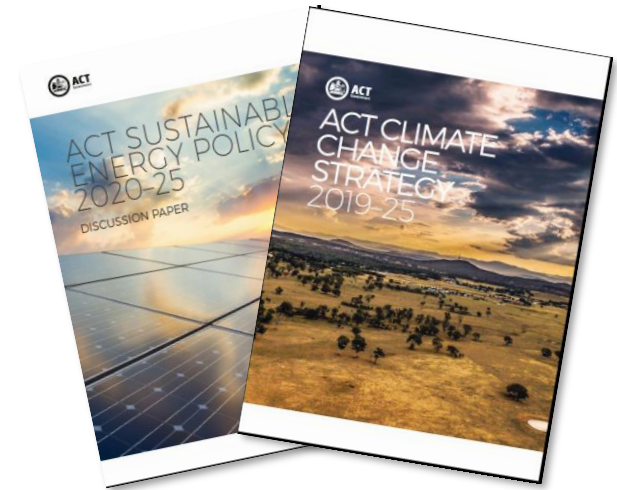
Indicative typical small business gas bill

Based on 469.8GJ per year excluding the impacts of inflation

	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
Small business annual gas bill	13,861	13,730	13,730	13,730	13,730	13,730
Evoenergy component	3,195	3,063	3,063	3,063	3,063	3,063
Residual component	10,667	10,667	10,667	10,667	10,667	10,667
Annual change \$		-131	0	0	0	0
Annual change %		-0.9%	0.0%	0.0%	0.0%	0.0%

What shaped our plan – climate change policy environment

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



Actions set out in the climate change strategy

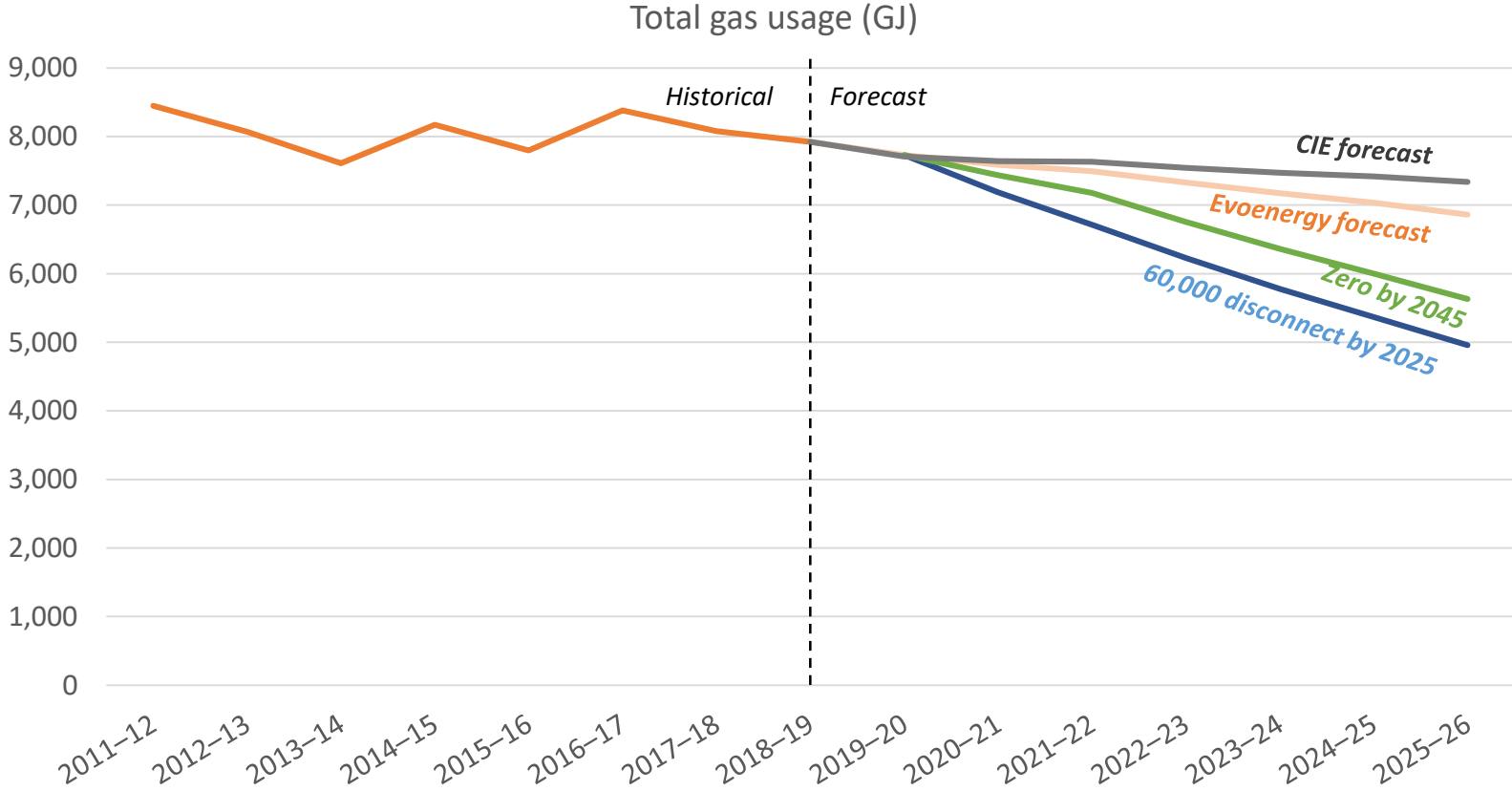
Scenario contemplated in the climate change strategy

Gas

Significant reductions in gas use in the residential sector to 2030, and reduction of commercial gas use in later years towards 2045.

- Around 60,000 existing households not connected to gas by 2025, increasing to around 90,000 in 2030 and all houses by 2045.
- A decline in new houses connecting to gas, with no houses connected to gas by 2045

We have taken a conservative approach to demand forecasts



What shaped our plan – broad and innovative engagement

Citizens' Jury – an Australian first for the energy sector

Energy Consumer Reference Council – informed consumers

Partnership with ACTCOSS – needs of vulnerable customers

Business events – Energy Matters, ACTsmart Business Expo

Online survey

Engagement with ACT Government and Queanbeyan-Palerang Regional Council

Evoenergy draft plan 2021-26 – published February 2020

Community roadshow

Deep dives on key issues

Key themes of feedback



Environmental sustainability



Responsible transition



Safe and reliable service



Affordability and fairness

Key themes of feedback

Environmental sustainability

- Support for environmental sustainability and for this to be a key driver for Evoenergy's GN21 plan development
- General support for ACT climate change strategy

Key themes of feedback

Responsible transition

- Most expected minimal (or no) network expansion while the future transition roadmap is determined
- Some questioned whether our assumptions are consistent with ACT climate change strategy
- Mixed feedback on proposal to accelerate depreciation
- Support for minimising capital investment
- Consumers want us to continue to research and consult on options and costs for transition pathways
- Consumers are concerned about transition impacts, particularly for vulnerable consumers

Key themes of feedback

Safe and
reliable
service

- Consumers value a safe and reliable gas supply and expect us to continue to prioritise reliability and safety
- Consumers want us to continue to maintain infrastructure while we consider the future of the gas network.

Key themes of feedback

Affordability and fairness

- Consumers are concerned about affordability and are seeking reduced network charges
- Some consumers expressed concern that the declining block tariff is not progressive and may not equally benefit low-income households who have lower gas usage per quarter
- Consumers support simplification of our tariffs
- Consumers expect us to continue to operate efficiently and look for opportunities to drive further efficiency.
- They support the proposed operating and capital efficiency schemes

Principles for transition roadmap to net zero emissions from gas

Keep communications open

Gather and share information on options

Investigate all options, don't pick winners

Respond to uncertainty by minimising investment and shortening asset lives on new investment

Maintain safety and reliability of network

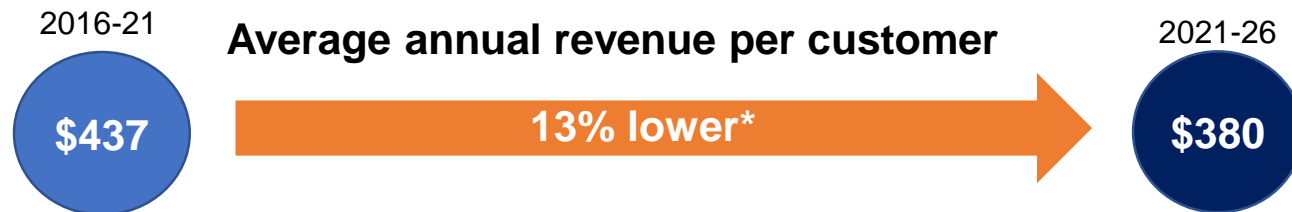
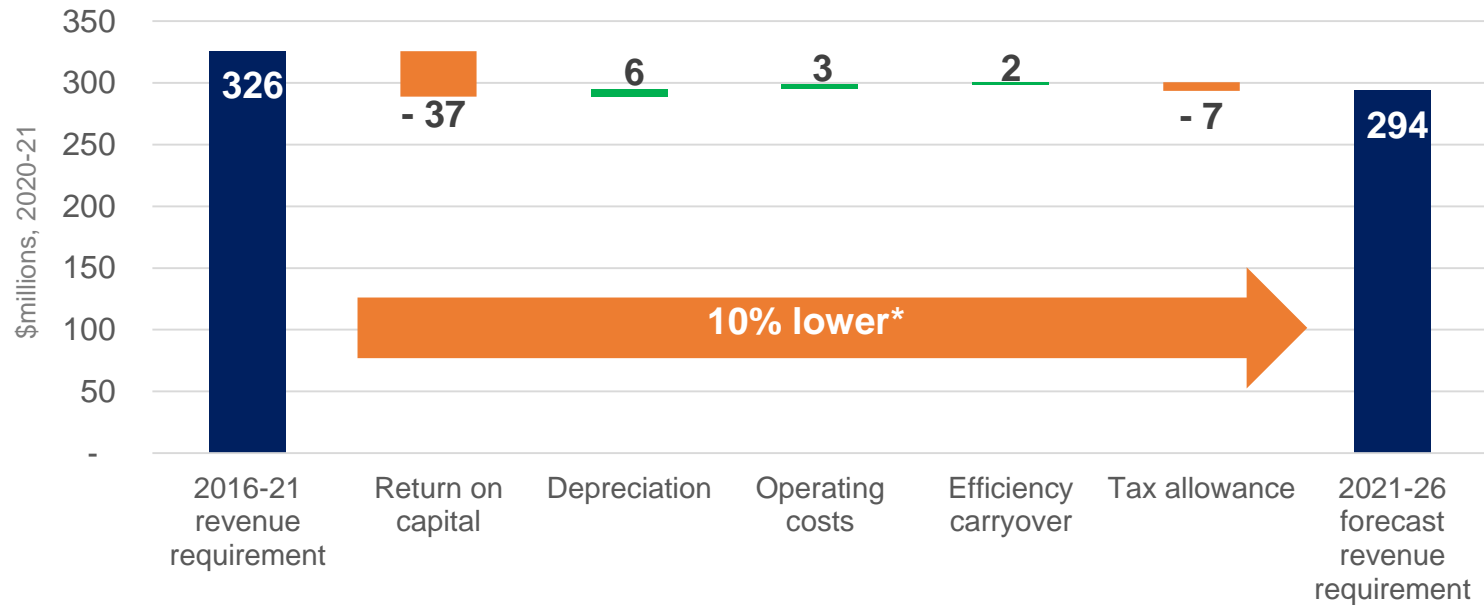
Connect new customers when requested, where economic

Major components of our proposal

Parameter	Proposal
Revenue requirement	\$294m (\$2020/21) (unsmoothed), 10% real below 2016 final decision
Real network prices	4% real decline in 2021/22, zero in later years
Net capex	\$63.3m (\$2020/21), 18% below actual and 28% lower allowed capex for 2016–21 period
Opex	\$175m (\$20/21), \$5m or 3% higher than 2016–21 allowance
Total gas use	13% fall overall (2019/20–2025/26), 16% fall in annual gas usage/customer, 3% rise in customer numbers.
Rate of return	4.68% (nominal vanilla WACC) in 2021/22 (average 5.95% over 2016–21)
Capital base	\$369m (\$2020/21) at end of 2021–26, down 4% in real terms (6% per customer) relative to the end of 2016–21.

Major components – revenue requirement

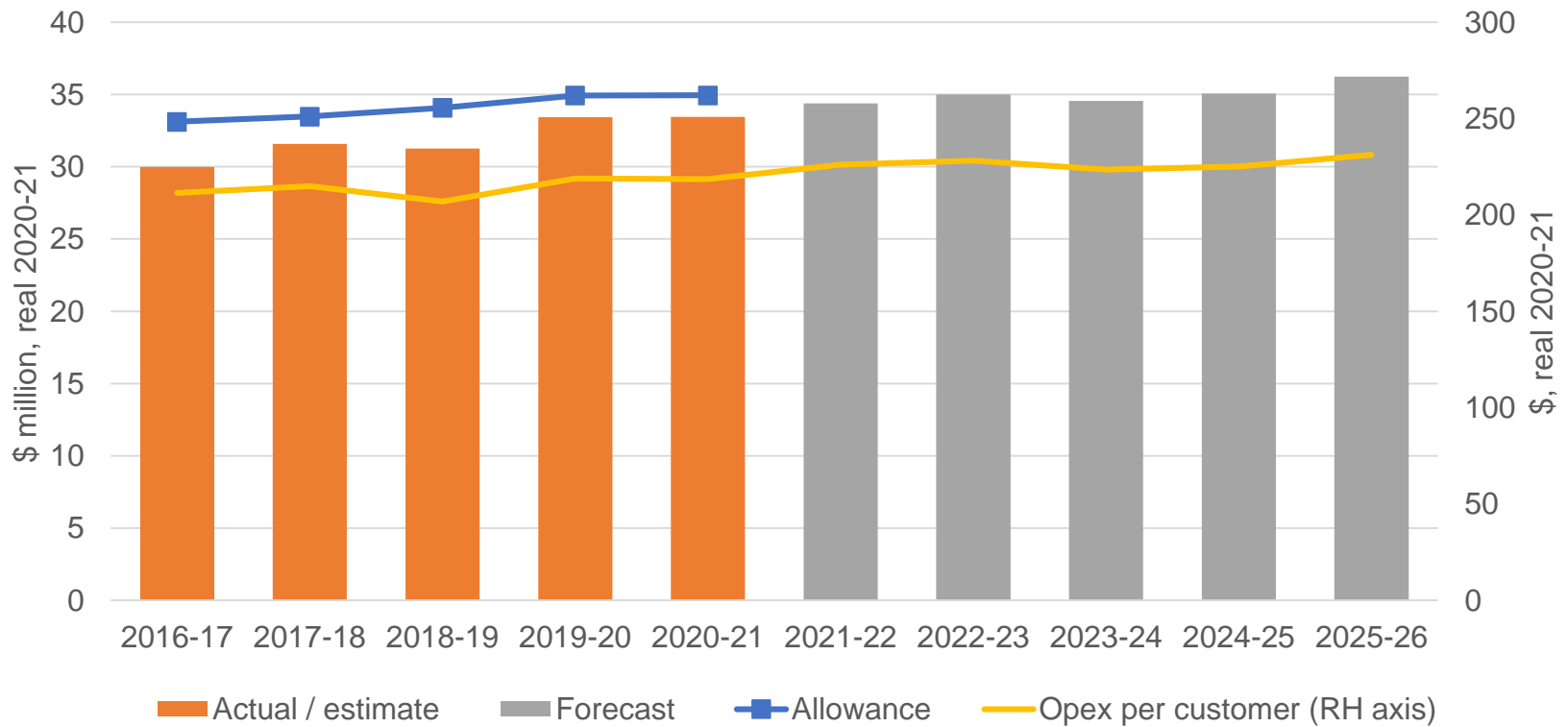
Our plan delivers lower network costs for the business and customers



*Based on unsmoothed revenue requirement

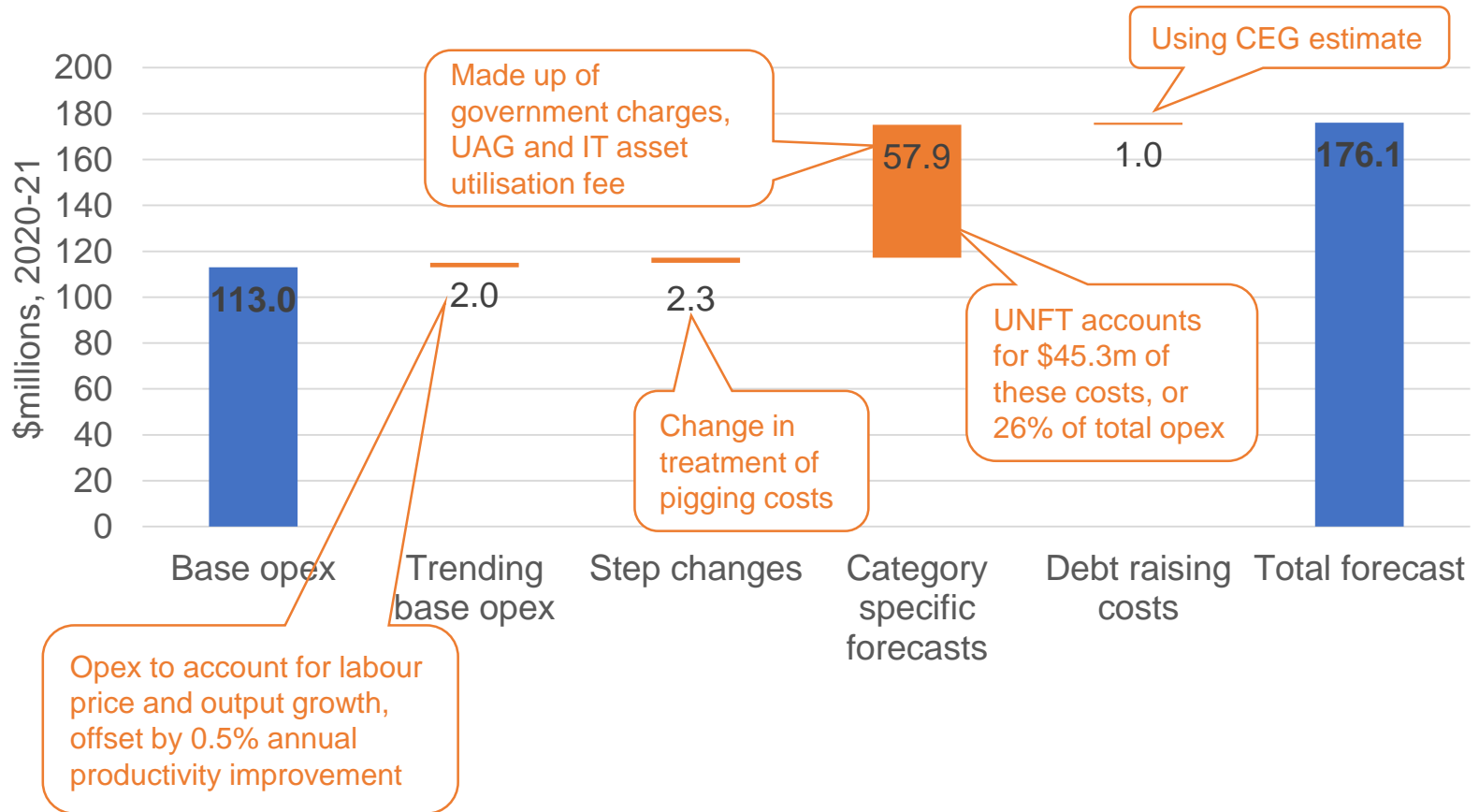
Major elements of our plan – opex

Actual and forecast total opex and opex per customer
2016-17 to 2025-26

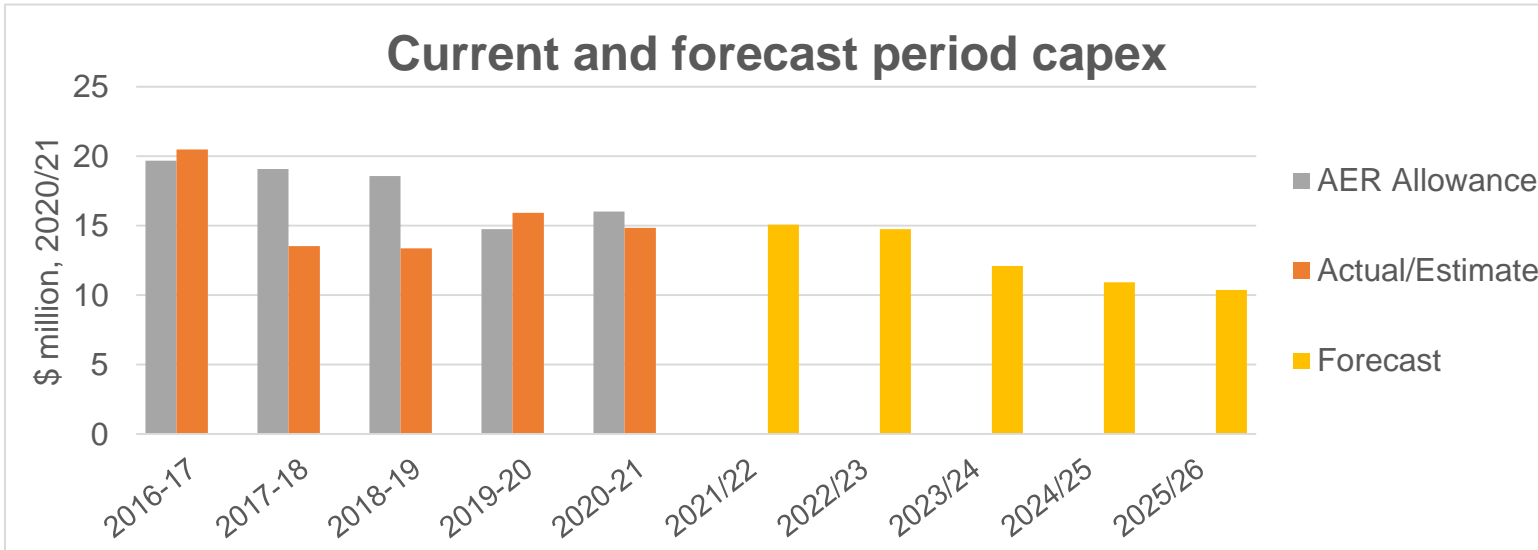


Major components – opex

2021-26 opex forecast build up



Major components – capex

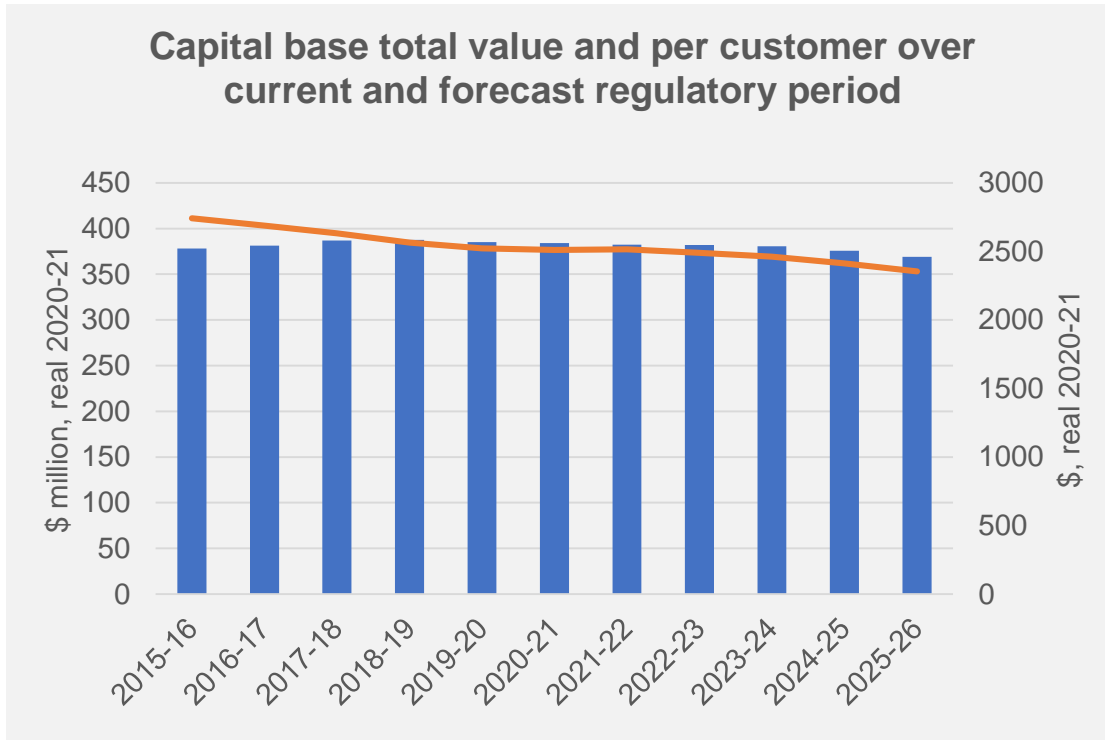


\$ million (2020/21)	AER allowance 2016-21	Actuals 2016-21	Forecast 2021-26
Market expansion	49.7	45.9	26.3
Capacity development	7.1	7.2	0.9
Stay-in-business - network renewal	17.0	8.2	12.9
Stay-in-business - meter renewal	18.2	17.4	23.6
Non-system	0.6	0.0	0.0
Gross capex	92.6	78.7	63.8
less capital contributions	4.5	1.7	0.5
Net capex	88.1	77.0	63.3

28% lower than current period allowance

Major components

- capital base and depreciation



RAB value will decrease by 4% over the 2021-26 period, or 7% on a per customer basis

Our plan proposes to shorten the asset lives of three asset categories for new investment:

- High pressure mains from 80 years to 50 years;
- Medium pressure mains from 50 to 30 years; and
- Medium pressure services from 50 to 30 years

Next steps – further engagement

- We have already held Q&A sessions with key consumer representative groups in July
- We are planning further engagement (deep dive workshops) on asset stranding