

evoenergy

Community forum

Session 4
27 July 2024



The image features a vibrant Indigenous art pattern. The top and bottom borders are filled with a dense array of small, multi-colored dots (yellow, green, blue, red, and orange) on a black background. Interspersed among these dots are larger, stylized concentric circles in yellow, green, and blue, some with red centers. Wavy, flowing lines in shades of blue and green meander across the composition, creating a sense of movement and connection. The central portion of the image is a solid dark blue rectangle, which serves as a backdrop for the text.

Acknowledgement of Country

Evoenergy acknowledges the Traditional Custodians of the lands on which we live and work. We pay respect to the Elders, past and present and celebrate all First Peoples' continuing connections and contributions to Country.

Safety share

Peter Billing, General Manager Evoenergy

Welcome

Helen Leayr, Facilitator
Communication Link





Communication Link

Ask.
Listen.
Understand.
Achieve.

Independent facilitation

Facilitation: Helen Leayr

Supporting facilitators:

Rosie Garland

Rennae Sillett

- Build understanding through information
- Know what you can influence
- Be heard and understood

Technical housekeeping

- Emergency exit
- Bathrooms
- Breaks
- Network storywall + Slack
- Slido – using our phones
- Online participants
- Assistance in participation



Agenda

- Welcome
- Reference Service Proposal update
- Recovery of network investment costs
- Activity – consider the challenges

Break

- Presentation on the different approaches
- Activity – feedback on the approaches
- Wrap up and session close

Updated community forum work program

Session 1 4 May

- Learn about the gas network
- Explore uncertainty that the energy transition is placing on Evoenergy and its customers
- Consider your values – what is important to you as customers.

Session 2 9 May

- Reflect on first session
- Learn about revenue recovery options and uncertainty
- Consider the options, and how risk is shared
- Provide feedback on the options.

Session 3 20 May

- Reflect on session 2, revisiting revenue recovery options
- Learn about tariffs
- Consider tariff options, and the impact on different customers.

Session 4 27 July

- Reference service proposal update.
- Learn about network costs that need to be recovered.
- Consider the options.
- Provide feedback on what is important to customers.

Session 5 1 August

- Review session 4.
- Consider other options for recovery of network costs.
- Learn about how network disconnections are managed.
- Consider options for how these costs are recovered.

Session 6 15 August

- Provide feedback on ways to better support customers through the transition.
- Prepare a report to Evoenergy from the community forum***

Session 7 14 November

- Review and reflect on Evoenergy's Draft Plan
- Consider how well it reflects input from the community forum.
- Provide feedback.



Updates since session 3

Helen Leayr
Communication Link



Since session 3

- ACT Government release of first Integrated Energy Plan (IEP)
- Lodgement of the Reference Service Proposal (including mid-point engagement report)
- July speakers' series:
 - ACT Gov: IEP1
 - ACTCOSS: Vulnerable customers
 - ECRC Chair: National transition and the ACT
- Forum name



DRAFT Community forum summary

Session 3, 20 May 2024

- Recap revenue recovery: longer term perspective and a hybrid approach
- Revisit activity 3 from session 2
- Learn about tariffs
- Consider tariff options

Attendees

- 33 forum members
- #3 observers:
Energy Regulatory Advisory Committee;
Australian Energy Regulator
- 8 Evoenergy staff

Presenters

- Megan Willcox, General Manager Economic Regulation
- Lev Yulin, Group Manager, Regulatory Pricing
- Ashlyn Napier, Principal Regulatory Economist

Facilitator

Helen Leayr,
Communication Link

Activity 01: Feedback on tariff principles: Groups were asked to provide feedback on Evoenergy's **tariff principles** including what's important and was anything missing. The group highlighted the need for a focus on equity and the long-term view (beyond 5 years) to consider those left behind. There was a suggestion to include consultation with the community as a principle and consider the relationship with the principles and emissions reduction.

Activity 02: Feedback on tariffs: Groups were asked to provide feedback on **tariff structures** and how network costs could be shared across different customer types. Lower network costs for residential options were suggested and incentivise costs for commercial. Groups explored block charges including the exploration of other potential block options and the impact changes have on existing users with consideration of those on a lower income. Lower fixed charges were considered, however, acknowledgement of lower fixed charges may also keep people on the network longer.

Revisiting the price and revenue cap discussion: Participants spent time revisiting revenue recovery options and the feedback captured during the last activity in session 2. The group considered a **longer-term view of the price or revenue cap**. Most participants said their view on the preferred option did not change when considering long-term. Evoenergy presented a possibility of a **hybrid option**. Feedback included it being an option worth considering, could balance risk, and a preferred option for some. There was also feedback on it possibly being confusing, complicated or difficult to explain, and could benefit Evoenergy over customers. Participants also said they were interested in more information on hybrid and forecasting.

Next steps

- Session 4, 27 July 2024
- Update session 2 dashboard summary based on today's feedback
- Keep in touch via Slack

Reference Service Proposal

Megan Willcox – General
Manager Economic Regulation



Reference Service Proposal preliminary positions

Approach to recovering revenue (tariff variation mechanism)

We proposed a **revenue cap** which:

- reflects ACT policy direction to achieve net zero emissions by phasing out gas and ban on new connections
- ensures Evoenergy recovers efficient costs approved by the AER to maintain a safe, secure and reliable network through the transition
- allows any required price adjustment to occur incrementally during the period with actual demand outcomes, avoiding potential between period price shocks
- avoids incentives under a price cap to seek to retain gas customers and consumption

Tariff structure

We proposed to **retain our current tariff structure**, and noted we would consider **rebalancing tariffs** across charge types (supply and consumption charges) and customer types (different consumption blocks), which:

- recognises the current structure is generally working well
- allows us to balance emissions reduction objectives with ensuring a fair and equitable transition

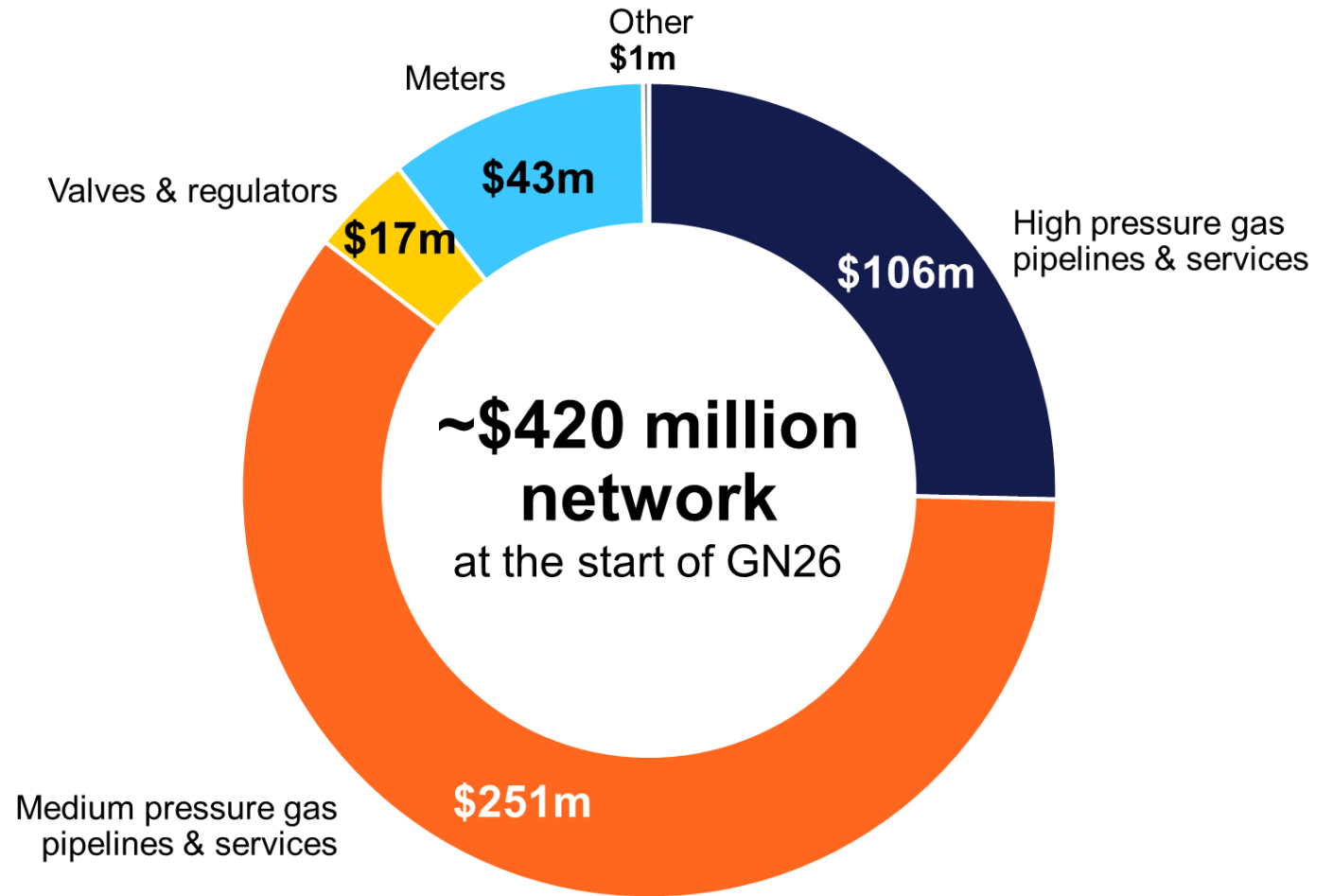
Recovery of network investment costs: Context

Megan Willcox – General
Manager Economic Regulation



In 2026, the value of gas network assets will be around \$420 million

- Most assets **can't be sold off** if unused
- **Excludes** disconnection & decommission costs
- Network must operate **until fully decommissioned**, requiring spending
- In GN21, new assets' **lifespan reduced** to max 50 years



Recap: Policy context

ACT context: Integrated Energy Plan

ACT emissions

64.4% Transport (road & aviation)

19.9% Fossil fuel gas combustion

9.9% Waste including wastewater

2.1% Industrial processes/product use

1.9% Fugitive emissions

1% Agriculture

0.7% Other stationary energy

1 2024 – 2030

Setting the foundation for success

- ACT Government incentives
- Phase-in ban of new connections
- Mid-point review of IEP in 2027

2 2030 – 2035

Accelerating the transition

- Behavioral change + education
- Could include regulatory measures

3 2035 – 2040

Electric Canberra delivering for households

- Focus on phased decommissioning

National context: Changes to National Gas Objective:

“to promote efficient investment in, and efficient operation and use of, covered gas services for the long-term interests of consumers of covered gas with respect to:

a) price, quality, safety, reliability and security of supply of covered gas; and

b) the achievement of targets set by a participating jurisdiction—

i. for reducing Australia's greenhouse gas emissions; or

ii. that are likely to contribute to reducing Australia's greenhouse gas emissions.”



2024-2030

The Integrated Energy Plan

OUR PATHWAY TO ELECTRIFICATION



ACT Government measures

Existing

- Sustainable Household Scheme – no interest loan scheme up to \$15k
- Energy Efficiency Improvement Scheme
- ACT utilities concession
- Home Energy Support Program

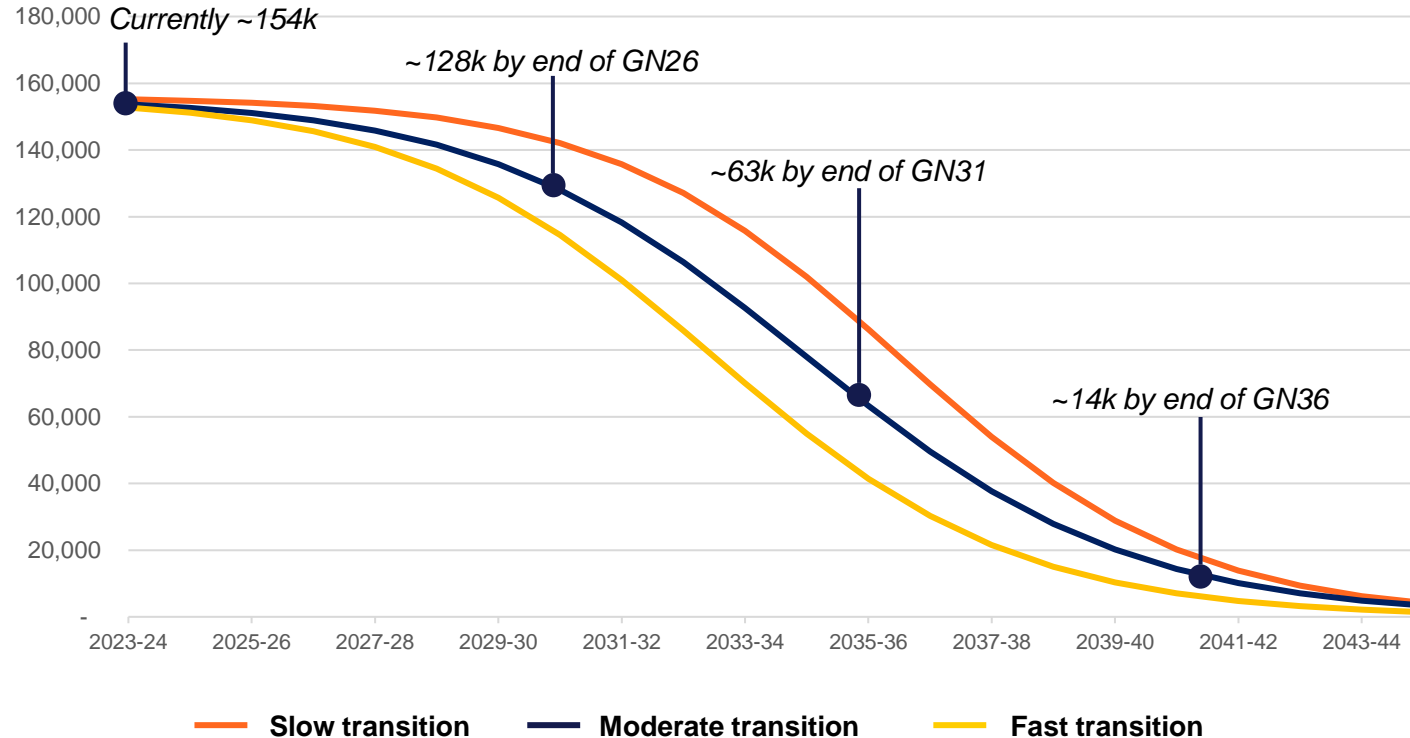
New

- Independent review of Energy Efficiency Improvement Scheme
- \$5.2m pilot for electrification pathway for households that need support
- Electrify feasible public + community housing by 2030
- Interest free loans to support multi-unit buildings
- Retrofit Readiness Program for apartment and unit owners

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Recap: Recovering network costs over a declining customer base

Indicative demand scenarios – customer numbers



- Customer numbers and gas volumes will **decline** over 20 years, approaching zero
- **Fewer customers** will **share** operational, maintenance, and past infrastructure costs

The ease of the transition will be different for each customer group

Residential customers

Total * 154k

Separate houses 96k

Semi-detached 26k

Flat or apartment 29k

*~9% of private dwellings with
less than \$650 total
household weekly income*

Low-income
separate
houses

Apartments
complexes with gas
appliances

Easy to transition

Hard to transition

Moderate -
high income
separate
households

*~38% of private dwellings
with more than \$3000 total
household weekly income*

Medium
density
housing
complexes

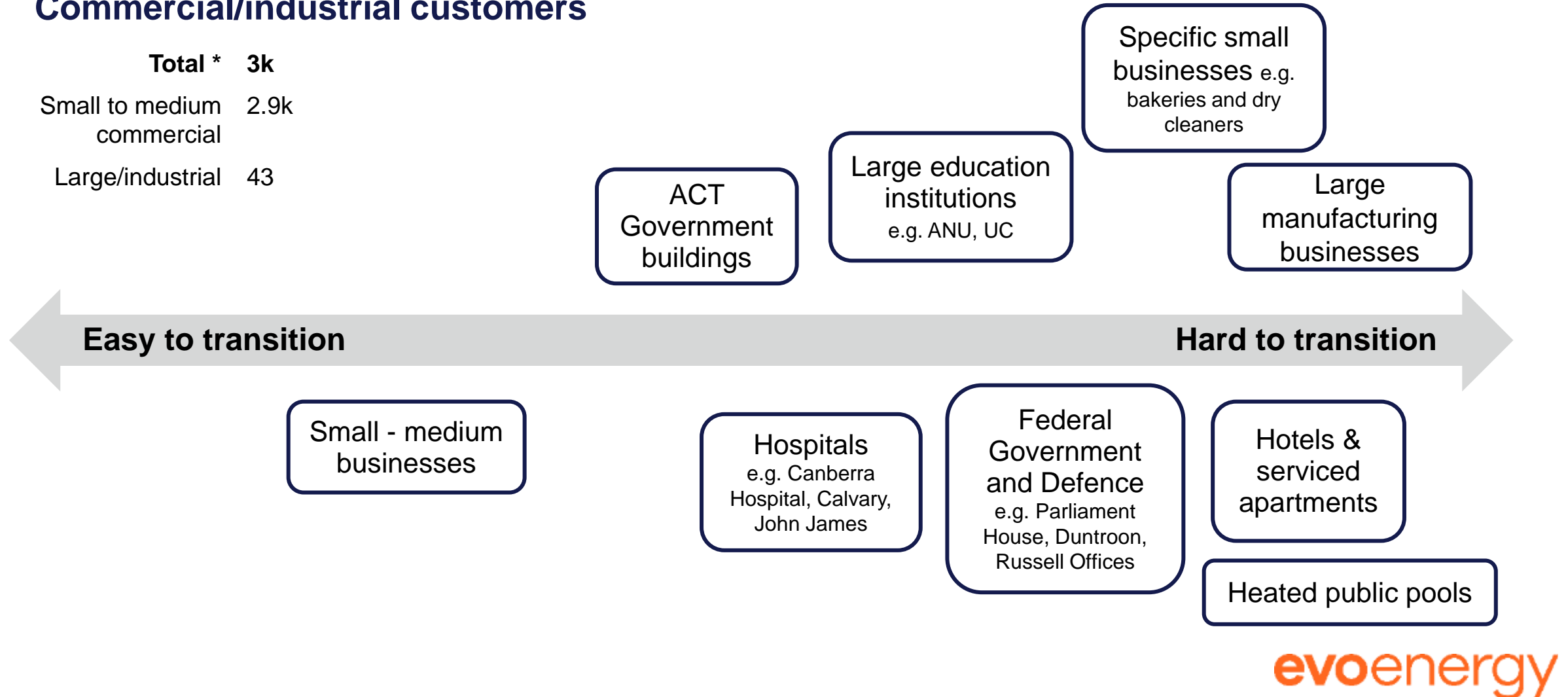
Rental
properties

*~30% of dwellings, with 23%
incurring rent payments
greater than 30% of
household income*

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The ease of the transition will be different for each customer group

Commercial/industrial customers



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Recovery of network investment costs: Introduction

Andrew Ponsonby – Principal
Economic Modeller





Our revenue requirement is made up of:

Operating costs (opex)

- some are in our control and some are not (e.g. ACT Government's Utilities Network Facilities Tax)

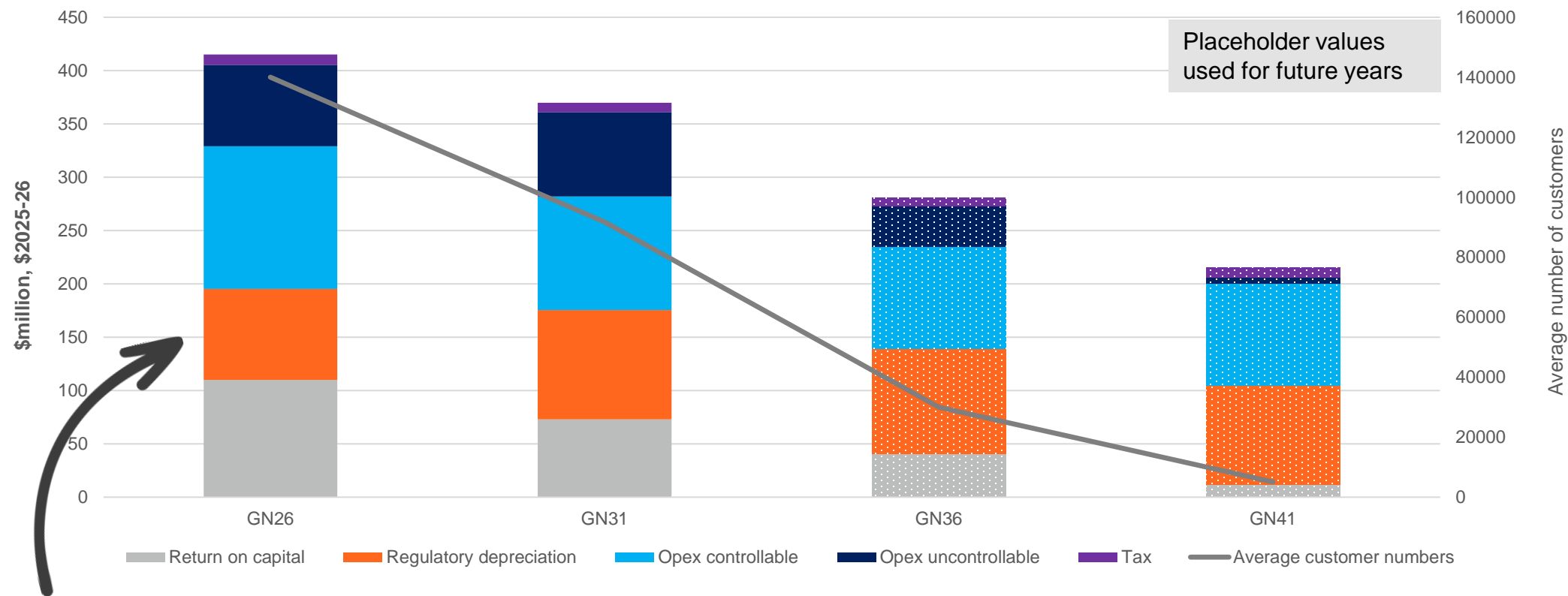
Infrastructure costs (capex)

- a shareholder return (return on capital) and depreciation allowance for assets over their lives, in exchange for initial spending to build and replace network assets

Tax allowance

Customers and demand will decrease faster than costs

Indicative revenue forecasts

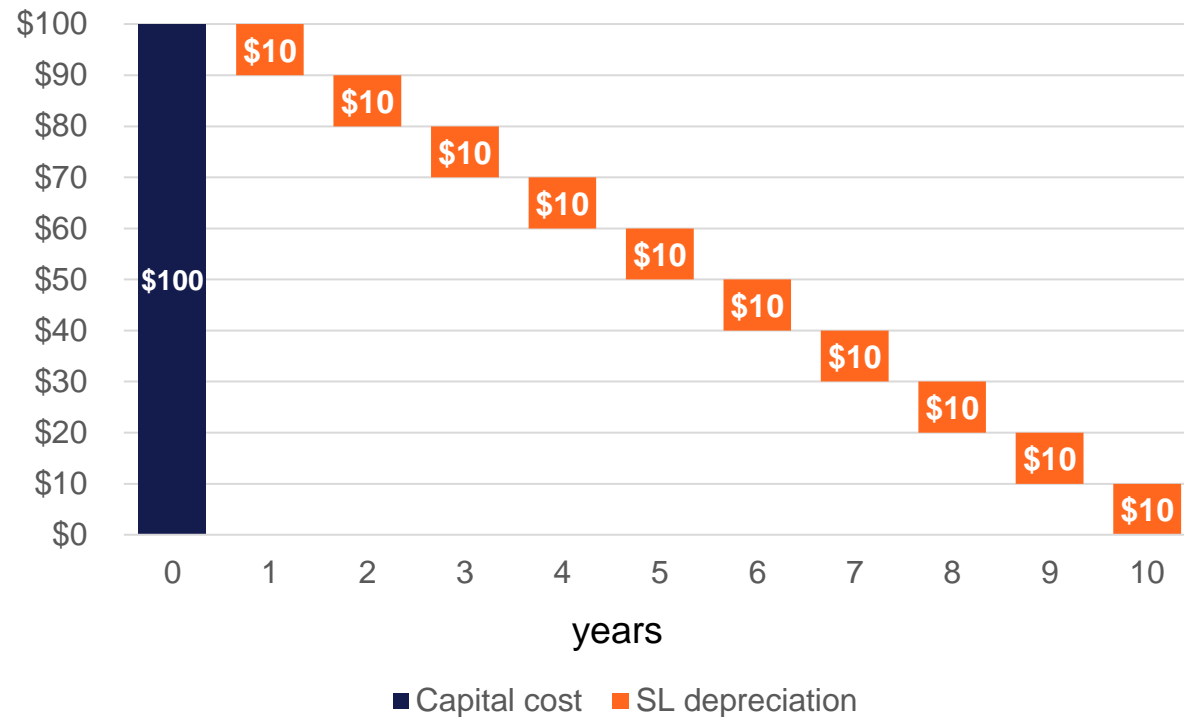


Today's focus: capital base recovery (depreciation)

What is depreciation?

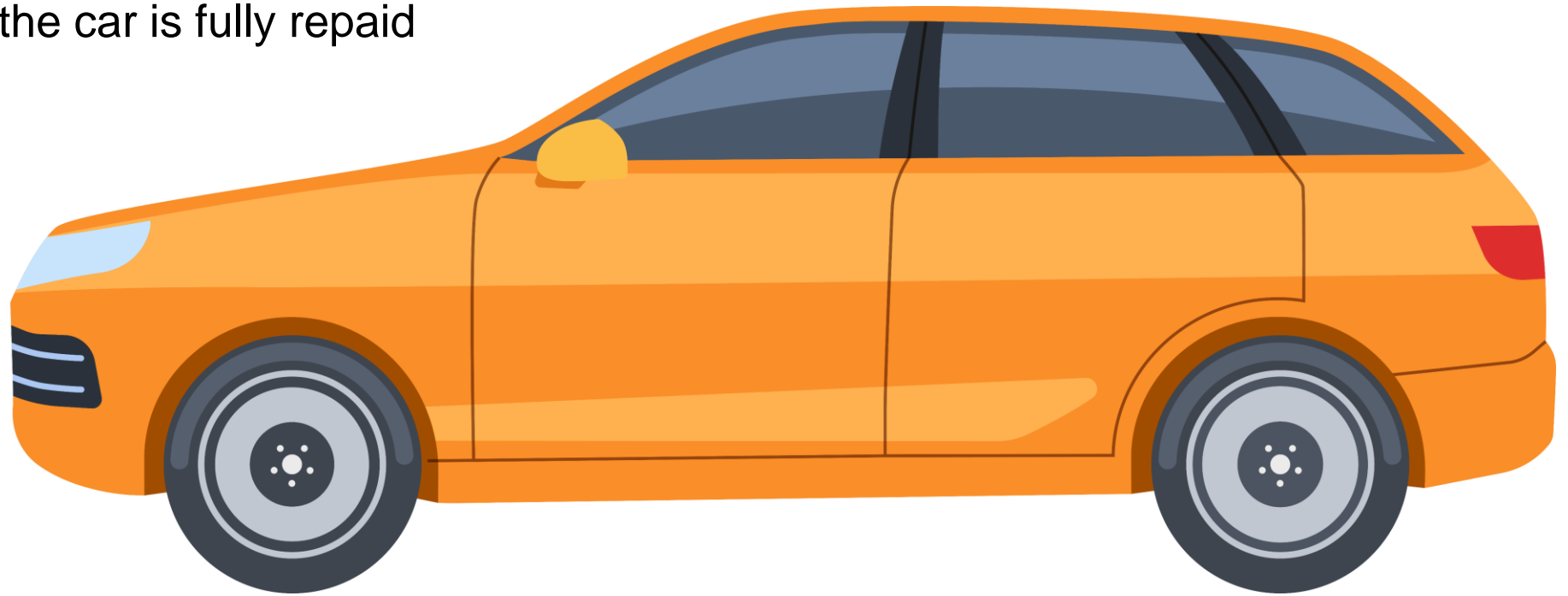
- Gas network owners **invest** heavily in infrastructure, which lasts 50-80 years
- Costs are **recovered** from customers over the asset's useful life, as per regulatory framework.
- Usually, this is done using 'straight-line' (SL) depreciation, recovering value **evenly** each year.
- There are **other ways** assets can be depreciated.

Example of straight-line depreciation



Consider a new car under lease...

Lease payments must be made until
the initial cost of the car is fully repaid



When it works well



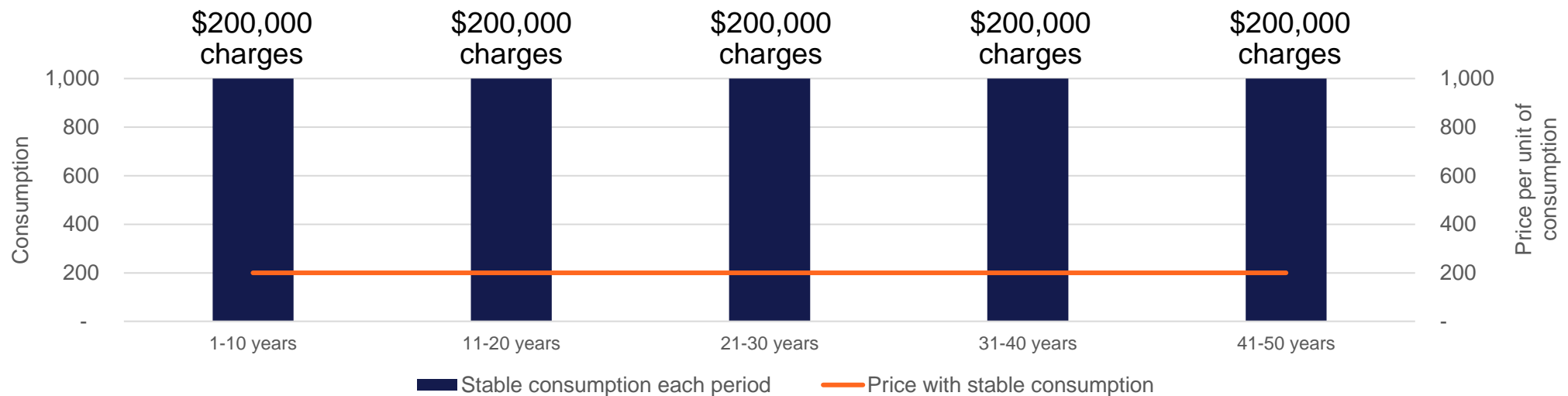
Time available is at least as long as the asset life



Demand is mostly stable

Example

A \$1 million asset with a life of 50 years:
Depreciation charge = \$20,000 per year

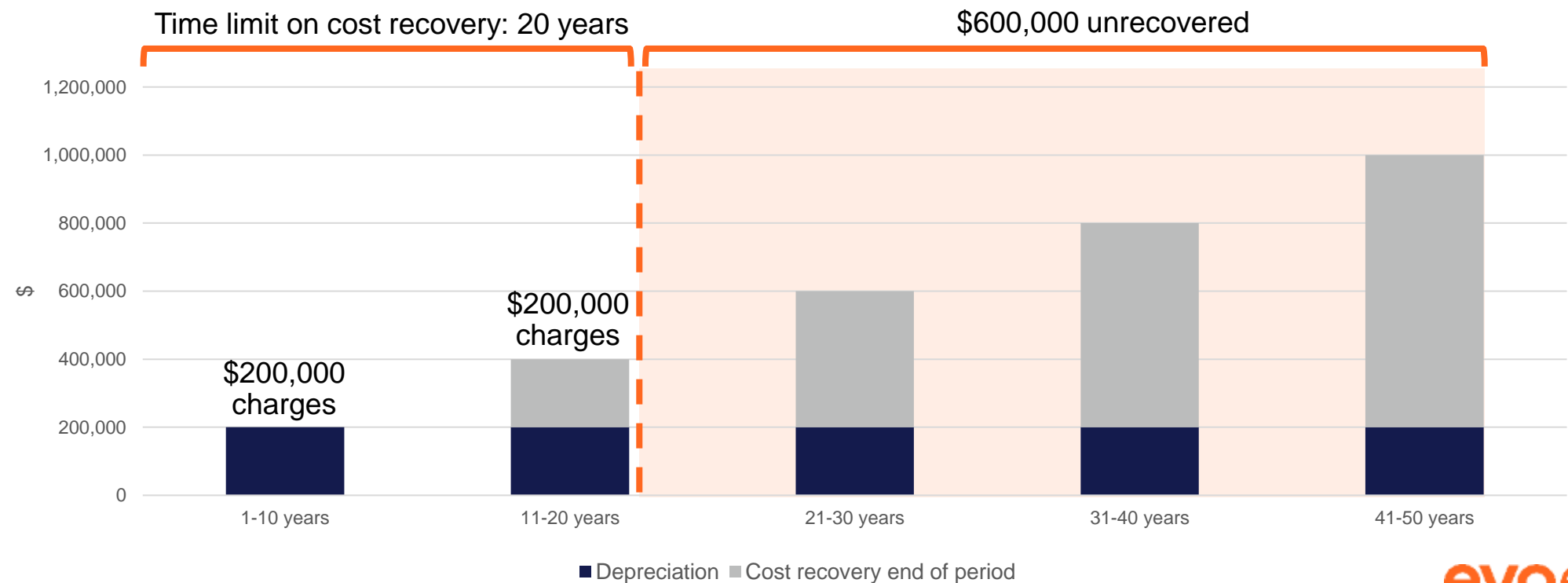


When time is limited



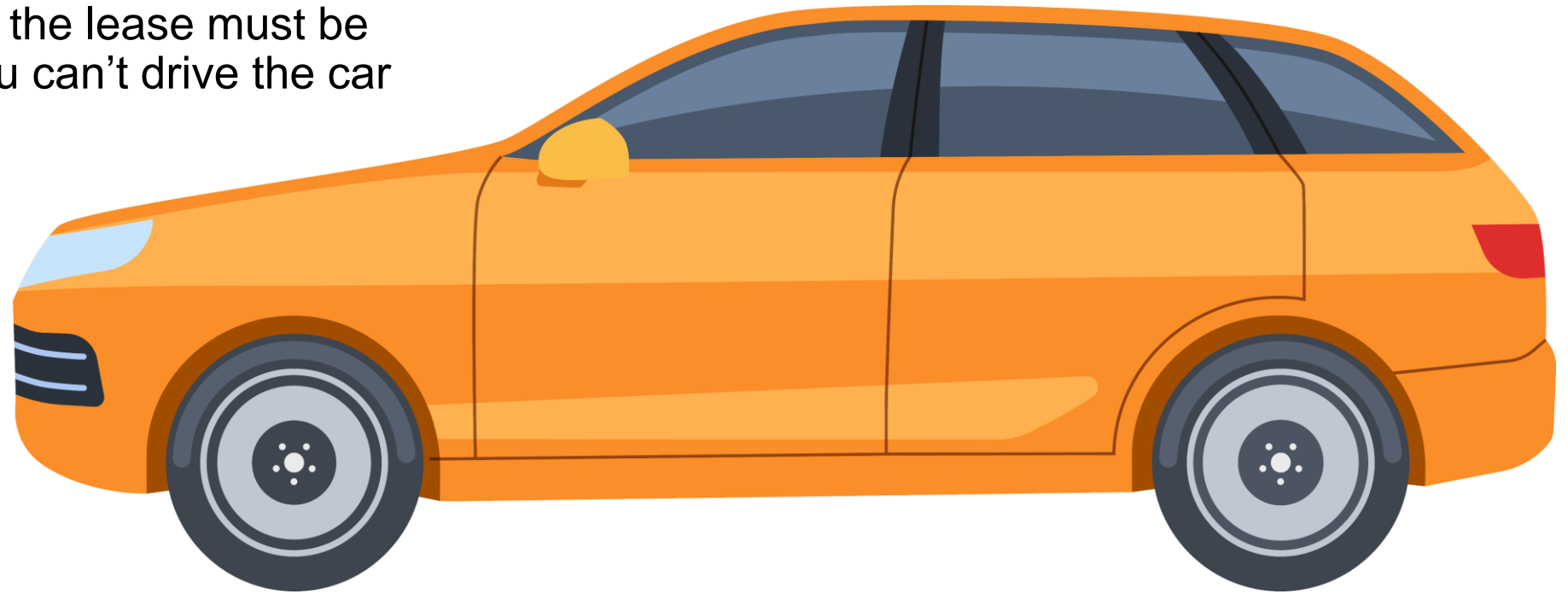
Prevents the full cost recovery

Example



Half-way through your lease the Government restricts the use of your car model...

The remainder of the lease must be paid, however you can't drive the car

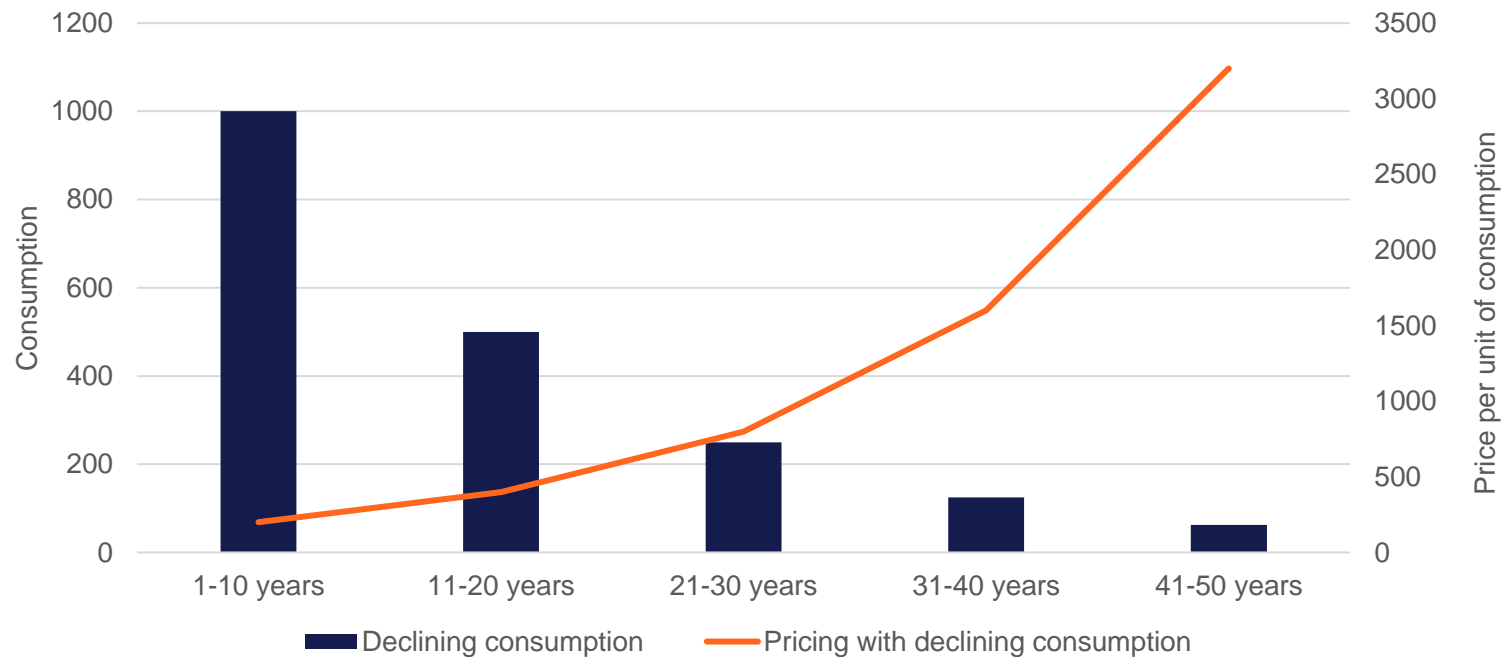


When consumption declines rapidly



Can result in significant price increases

Example



- Depreciation to be recovered each period doesn't change
- Volume of consumption we can spread cost across declines

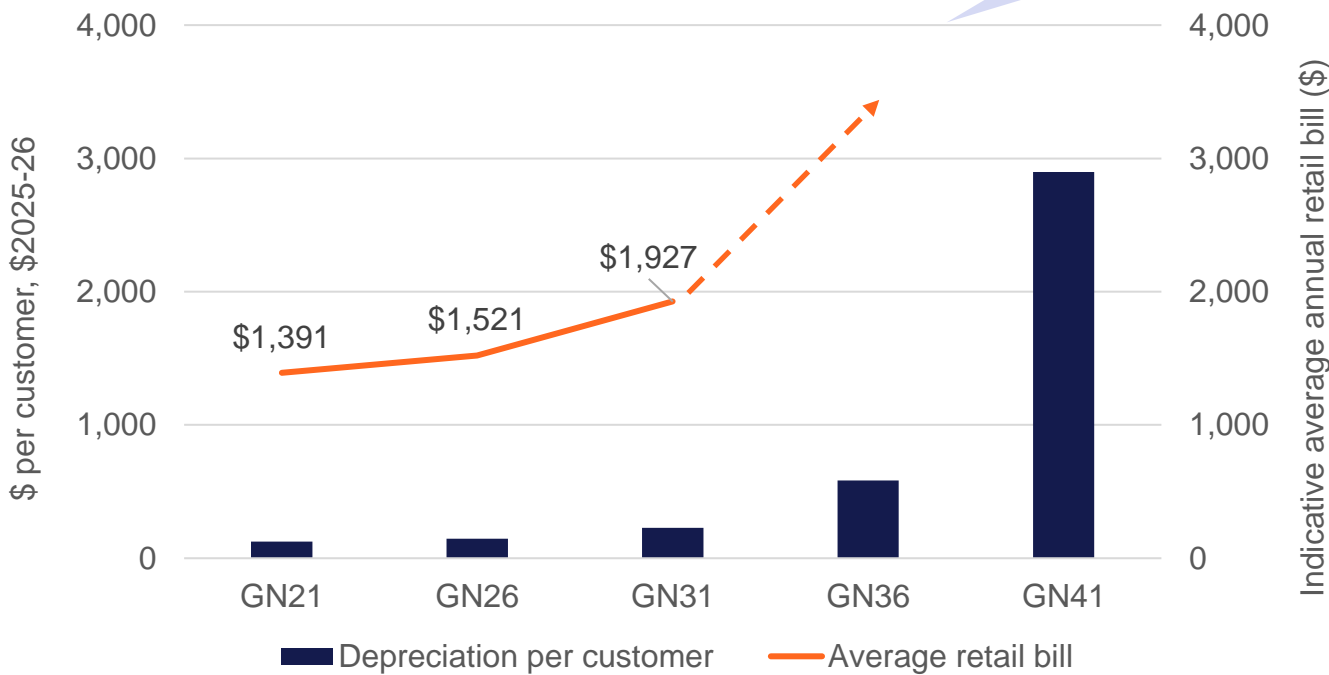
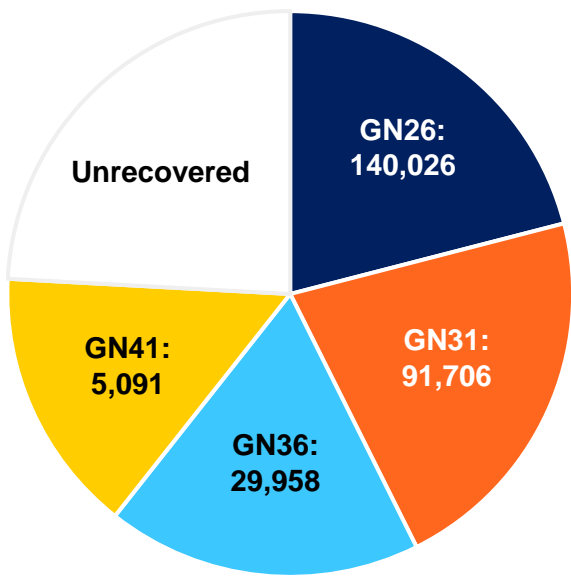
Status quo: Cost recovery with no change to depreciation approach

In our current (GN21) period, we shortened lives of new assets only, and these asset lives still extended beyond 2045

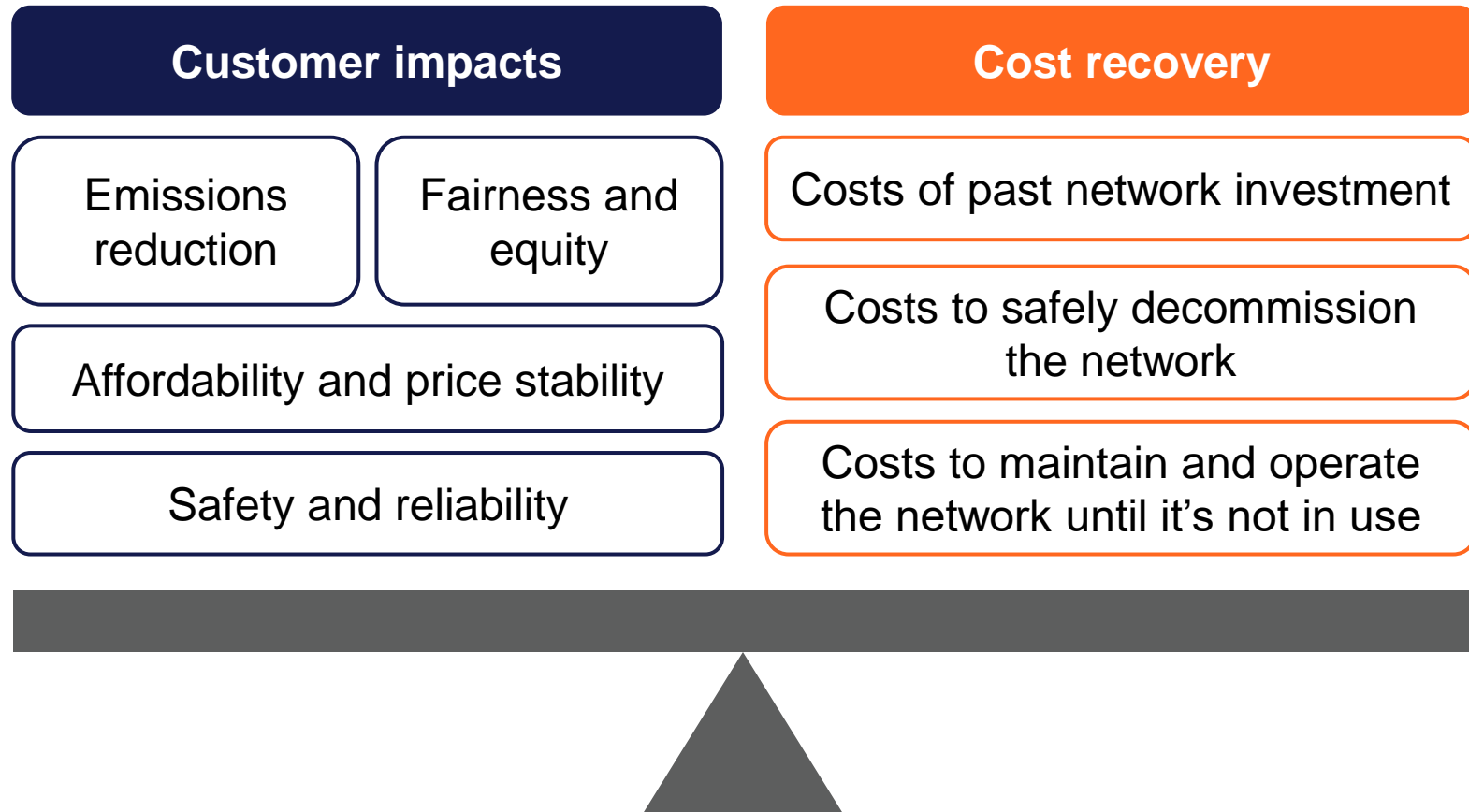
Asset base not recovered and prices increase. **Not a viable option.**

Bill impacts beyond the 2031-36 period will be driven by a range of factors for which we don't know yet

Share of depreciation costs
(number of customers)



How can Evoenergy fairly recover asset costs as customer numbers decline?





Group activity 1: Consider the challenge

In small groups discuss these questions:

What do you see as important for Evoenergy to take into consideration? Reflect on our different customer personas

Review our customer values. Which are most important when addressing this challenge?

What further information do you need to understand the issues and tell us what you think?

Record your answers on our worksheet and be ready to share with the forum.

Reflection and discussion

Morning tea






Potential approaches to address this challenge

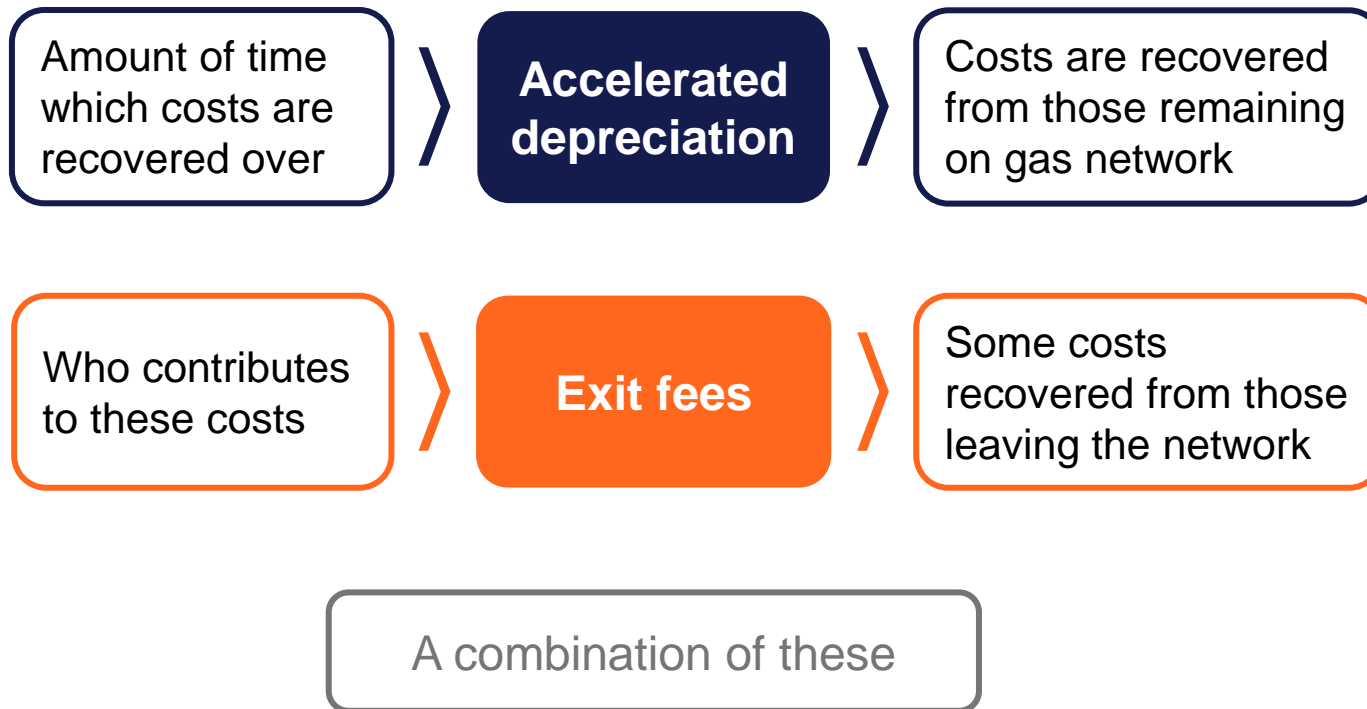
Alexis Hardin – Manager
Regulatory Finance and Strategy



Potential approaches under the regulatory framework

Accelerated depreciation (AER current approach)	Cost recovery bought forward by shortening asset lives – different approaches for how this can be applied	
Compensation for stranded asset risk	Cost recovery through customer bills, calculated on probability of stranded asset risk eventuating + assets value	Difficult to measure probability ahead of time 
Capital redundancy provisions	Remove value of redundant assets and shares costs between network and users	Not relevant in GN26 as assets still being used. Requires mechanism to remove non-contributing assets from the gas service asset base, preventing costs from falling on remaining users during asset redundancy 
Exit fees	Exit fees levied on disconnecting customers to reflect foregone future contribution to asset costs recovery	
Increase fixed charges	Fixed costs of supply recovered through higher fixed charges (i.e. customers pay for costs of gas services, regardless of how much gas is consumed)	Potential to drive customers off the network at a faster rate and further increase costs to remaining customers 

There are approaches that don't change the total amount recovered but can **change**:



Cost recovery with changes to depreciation

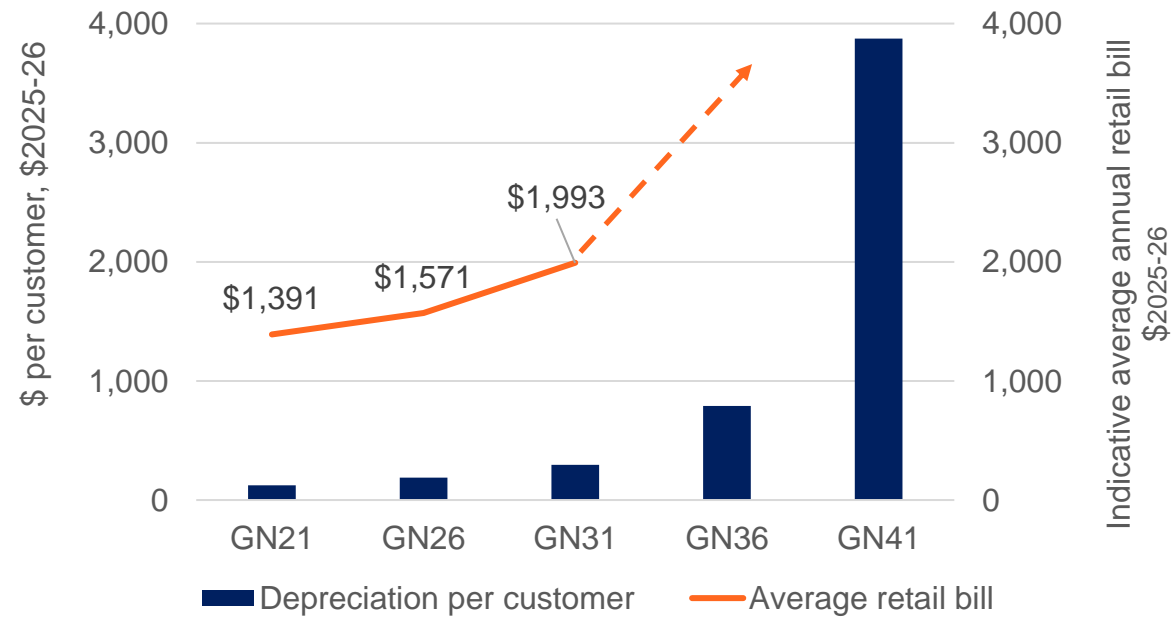
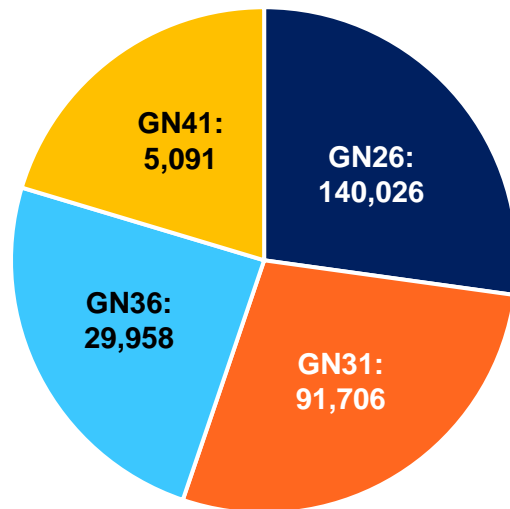
For this discussion, ***let's assume:***

- Evoenergy will seek to **recover its total** efficient network investment
- Will be achieved through the **regulatory framework** (no alternative funding available)
- **Won't be significant change** in policy direction to electrify by 2045
- Customer number profile will be **in line with** the moderate energy transition scenario
- 'Business as usual' approach is **not a viable option**
- Non-network component of the retail bill **held constant**

1. Straight-line depreciation but shortened asset lives

Asset lives are set to be fully depreciated by 2045

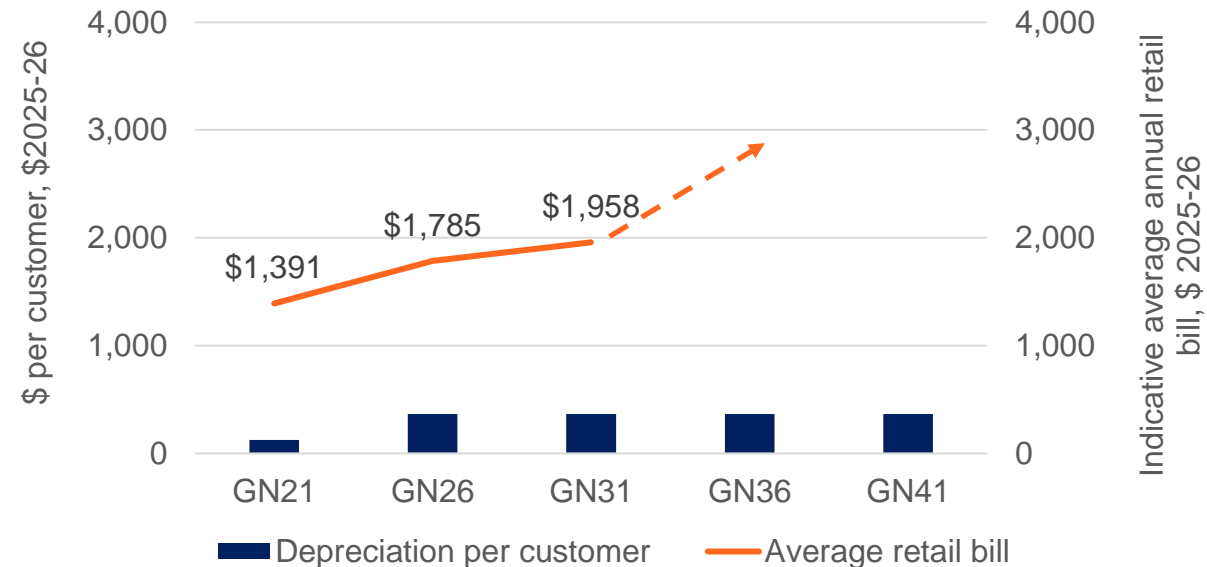
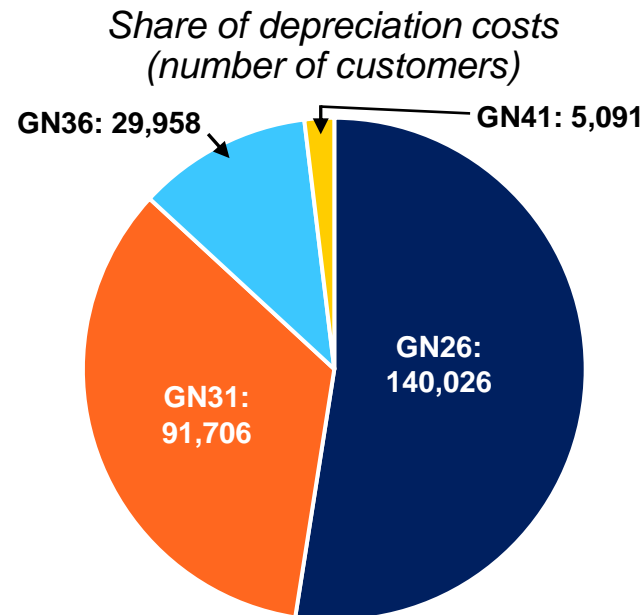
Share of depreciation costs
(number of customers)



Evoenergy's costs are recovered but prices are higher

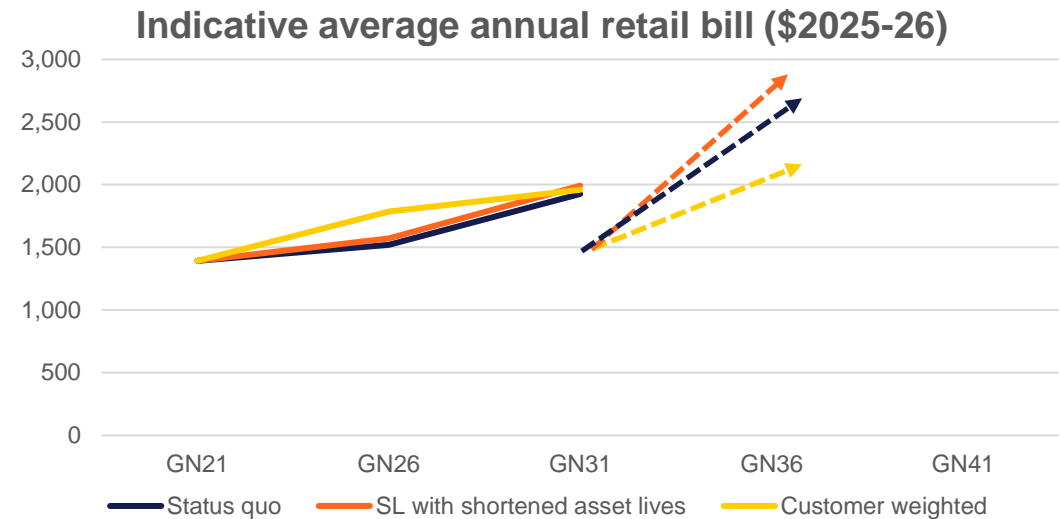
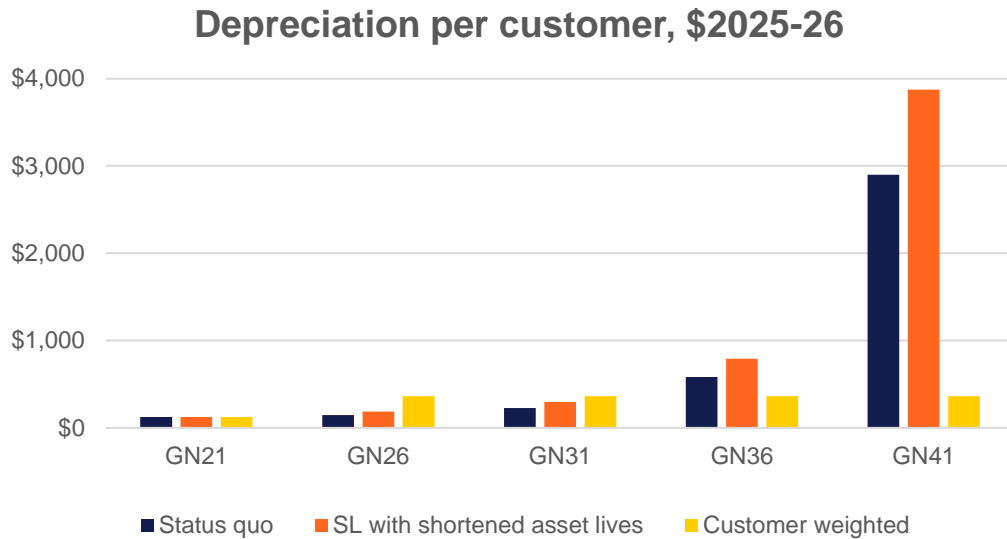
2. Customer-weighted depreciation (same per customer per year)

Weighted by number of customers using the network each period, with more depreciation recovered when customer numbers are high, so each customer pays equal share annually.



Evoenergy recovers its costs. Customer bills step up next period, then increase at more moderate rate than other options.

All approaches together



Status quo: lowest price impact in GN26 but asset costs not recovered

Straight line with shorter asset lives: modest price increase in GN26, steeper increases after. Asset cost likely not recovered due to very high GN36 prices.

Customer weighted: higher price increase in GN26, slower increase after. Asset cost more likely recovered.



Group activity 2: Consider the approaches

In small groups discuss these questions:

What are the strengths and weaknesses of each approach? Why?

Review our customer values. What should Evoenergy prioritise as they consider these different approaches?

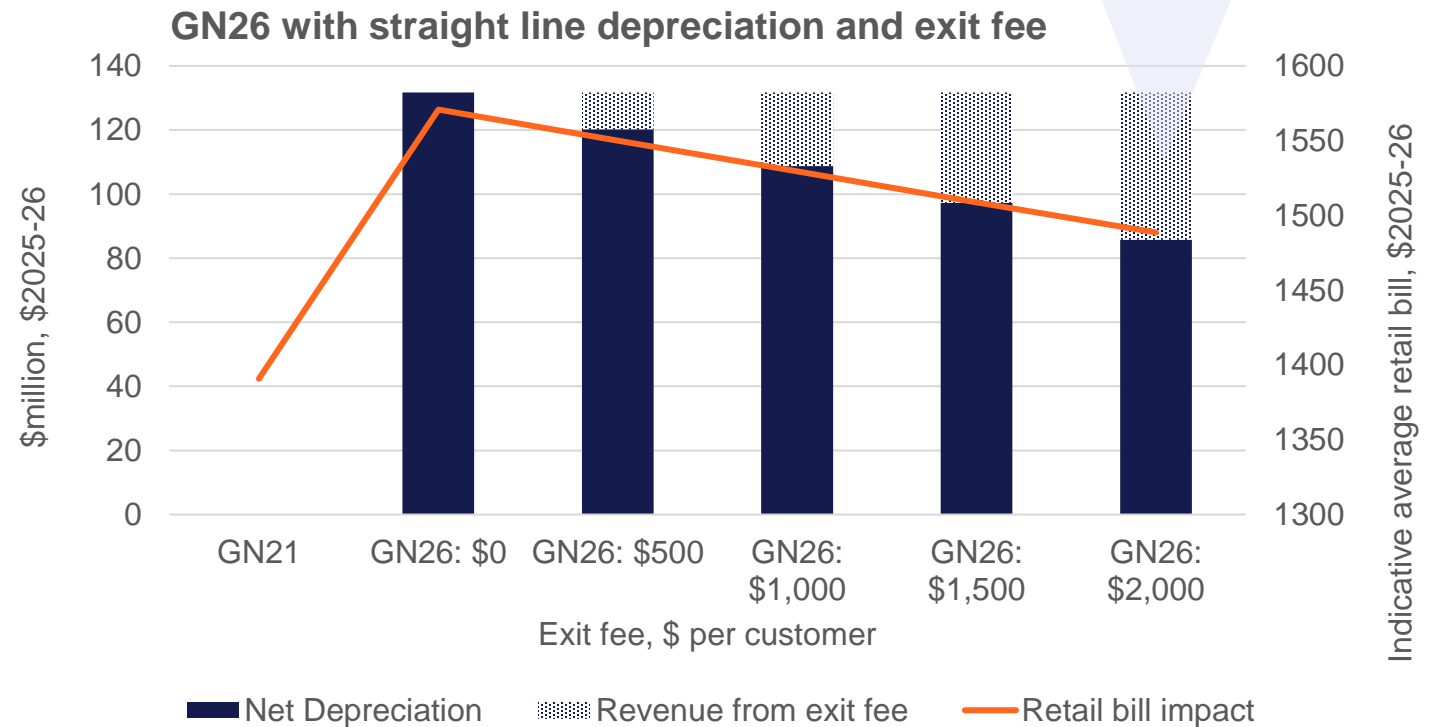
What further information do you need to understand the issues and tell us what you think?

Record your answers on our worksheet and be ready to share with the forum.

Another option is to introduce an exit fee to recover costs from those leaving the network

- The fee could be **higher** for customers **leaving early** and then decline over time
- Conceptually, it would be like a **break-fee** on a mortgage
- As exit fee **goes up**, customers **pay less**

An exit fee of \$2,000 per customer could reduce the average retail bill in GN26 by 5% (or \$82)





Group activity 3: Consider an exit fee

In small groups discuss these questions:

What are the strengths and weaknesses of having an exit fee?

Review our customer values. What should Evoenergy prioritise as they consider an exit fee?

What further information do you need to understand the issues and tell us what you think?

Record your answers on our worksheet and be ready to share with the forum.

Reflection and discussion

Session 4, 27 July 2024

- Reference Service Proposal update
- Recap revenue recovery
- Consider the challenge and approaches

Attendees

- 33 forum members
- 2 observers:
Energy Regulatory Advisory Committee;
Australian Energy Regulator
- 8 Evoenergy staff

Presenters

- Megan Willcox, General Manager Economic Regulation
- Andrew Ponsonby – Principal Economic Modeller
- Alexis Hardin – Manager Regulatory Finance and Strategy

Facilitator

Helen Leayr,
Communication Link

Recovery of network investment costs: Introduction

Group activity 2: Consider the depreciation approaches

What are the strengths and weaknesses of each approach? Why?

Review our customer values. What should Evoenergy prioritise as they consider these different approaches?

What further information do you need to understand the issues and tell us what you think?

Group activity 3: Consider an exit fee

What are the strengths and weaknesses of having an exit fee?

Review our customer values. What should Evoenergy prioritise as they consider an exit fee?

What further information do you need to understand the issues and tell us what you think?

Potential approaches to address this challenge

Group activity 1: Consider the challenge

What do you see as important for Evoenergy to take into consideration? Reflect on our different customer personas

Review our customer values. Which are most important when addressing this challenge?

What further information do you need to understand the issues and tell us what you think?

Next steps

- Session 5, 1 August 2024
- Update session 4 dashboard summary based on today's feedback
- Keep in touch via Slack

Next forum: Session 5

- Consider any other ideas participants may have to respond to the challenge
- Understand and consider approaches to recovery of costs associated with disconnections

1 August 2024, 5 – 8pm

We will keep in touch via slack.

Heads, hands, heart checkout



Head: Something you are thinking about



Hands: Something you want to do



Heart: Something you are feeling.

Slido.com
#2383153



Thank you