

**Gas Access Arrangement
Regulatory Review 2026–31 (GN26)**
Energy Regulatory Advisory Panel (ERAP)

Meeting 4: Wednesday 29 May 2024, 10.30am-1.30pm



Acknowledgement of Country

Evoenergy acknowledges the Traditional Custodians of the Canberra region, the Ngunnawal and Ngambri peoples, and pays respect to their Elders past and present. We recognise and celebrate all First Peoples' continuing connections and contributions to the regions in which our footprint extends.

Technical housekeeping

- Turn cameras on if you can
- Keep yourself on mute while people are presenting
- Use the 'raise hand' feature or the chat for questions
- Timekeeping
- Meeting recording

Declaration of conflict of interest

Welcome and introductions



evoenergy



Agenda

- Safety share
- Demand uncertainty research update (Sagacity Research)
- GN26 engagement outcomes (Evoenergy)
- Community forum observations (ERAP)
- Managing equity and fairness
 - Capital base recovery regulatory considerations and illustrative scenarios

Outcomes sought

1. Shared understanding of demand uncertainty in the ACT and Queanbeyan-Palerang region.
2. Evoenergy share outcomes of GN26 engagement.
3. ERAP provide feedback/observations on community forum sessions.
 - Effectiveness of the sessions to support continuous improvement
 - Views of and implications for the long-term interests of consumers from the perspective of Evoenergy's customers.
4. Explain and explore illustrative scenarios to manage equity and fairness with regards to the recovery of Evoenergy's capital base and feedback given in relation to the National Gas Objective (long-term interests of consumers).



evoenergy

2. Safety share

Bruce Hansen – Group Manager Gas Networks



Safety share: Abolishments



3. Future demand for gas in the ACT and Queanbeyan-Palerang

Duncan Rusby – Director, Sagacity Research



Slides will be shared during session & circulated after the meeting

DEMAND FOR NATURAL GAS

UNDERSTANDING FUTURE DEMAND

evoenergy

April 2024

Commercial in confidence

4. GN26 engagement outcomes

Leah Ross – Economic Regulatory Manager

Gillian Symmans – Group Manager Regulatory Reviews and Policy



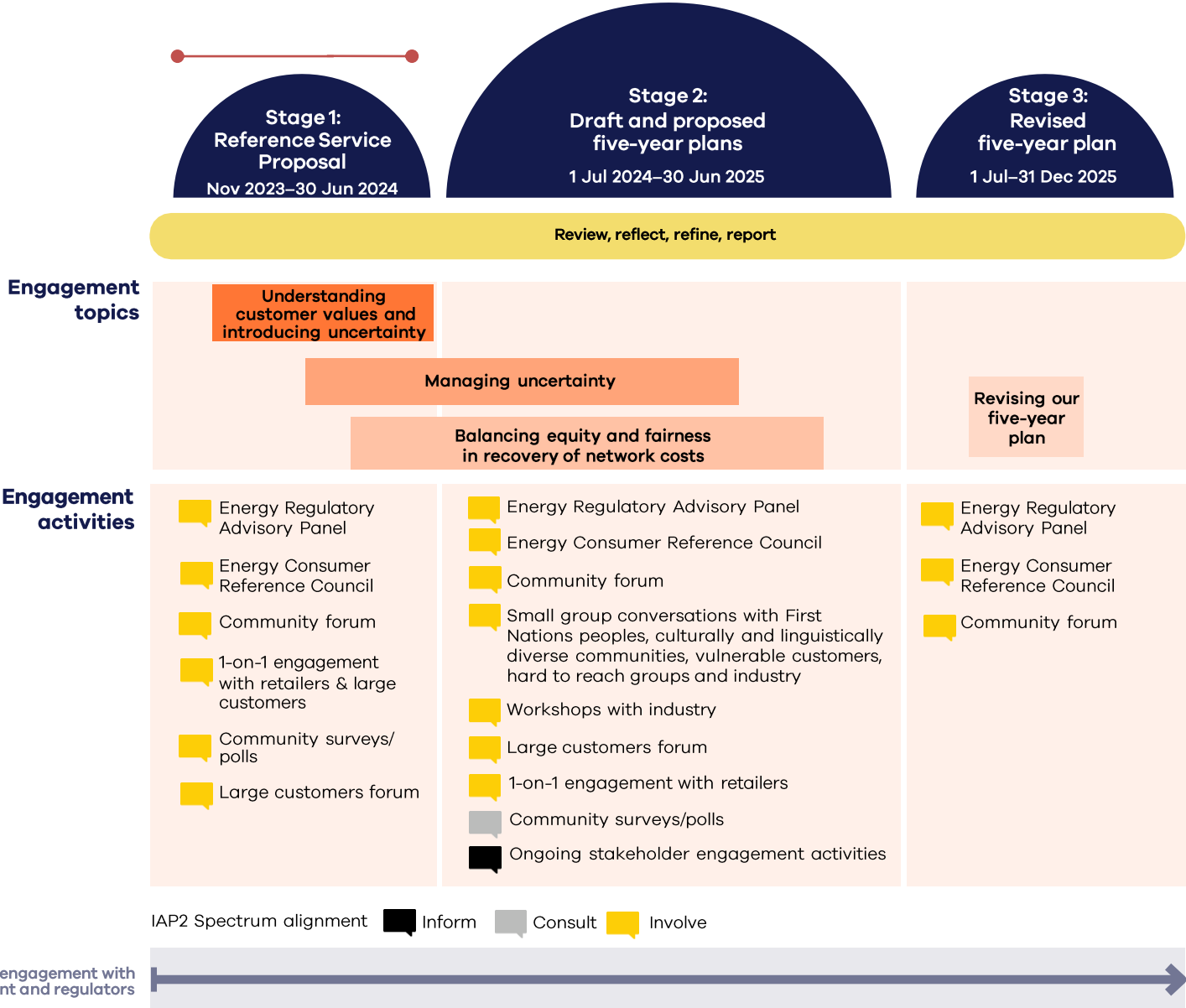
Our engagement journey

How we will engage

We will hear from a diverse range of voices, from businesses, large customers, First Nations peoples, culturally and linguistically diverse communities, hard to reach groups and young people.

We will engage genuinely through existing and new channels and activities. This includes small group conversations, one-on-one engagement, a community forum and engagement with our Energy Consumer Reference Council and Energy Regulatory Advisory Panel.

Our engagement journey is **phased** to ensure we ask the right questions at the right time to inform our 2026–2031 gas access arrangement regulatory proposal.



Find out more at the [Evoenergy website](#)

What we're hearing from other engagement



Stakeholder	Feedback / sentiment
Community forum	<ul style="list-style-type: none">• Values include equity and fairness, affordability, transparency, information and communication, adaptability.• Key themes emerging are equity, affordability and sustainability of the network.• Concern for vulnerable and hard to shift customers.
ECRC	<ul style="list-style-type: none">• Highlighted fairness as a key priority.• Emphasised the importance of addressing cost impacts with declining customer numbers.• Suggested a 'fund' to support the last gas customers, indicating concern for potential disproportionate costs.• Noted the need for more accurate forecasts on gas consumption reductions.• Highlighted challenges associated with reducing costs as the customer base decreases.• Requested that future costings include calculations for commercial consumers, aiming for greater transparency.• Evoenergy to consider alternative ways to communicate future options for the gas network that encompasses residential and commercial customer groups.
ERAP	<ul style="list-style-type: none">• Highlighted the importance of customer impacts over the long-term including equity and risk allocation, and the importance of price stability both within the regulatory period and over future periods.• Observed that tariff structures should be designed to endure, provide price stability and consider intergenerational and long-term implication on customers and Evoenergy.
Retailers	<ul style="list-style-type: none">• 1:1 discussions held with Origin, Red Energy, Energy Australia and ActewAGL.• Support maintaining current tariff structures and consideration of rebalancing tariffs across customer types and consumption vs fixed charges.• Some retailers observed they expect consumers to express a preference for price cap as it provides price certainty.
Large customers	<ul style="list-style-type: none">• Initial 1:1 discussions have begun with some Major Customers regarding their intentions and plans for transitioning away from gas.• Some customers have developed their own net-zero strategies and proactive measures for transition.• Customers are considering the costs associated with increasing their electricity load.• Government customers already have gas transition plans in place.• Communication to inform these customers on engagement opportunities is being developed.

What we're hearing from other engagement



Stakeholder	Feedback / sentiment
AER	<ul style="list-style-type: none">• Attended community forum sessions as observers (positive feedback on presenting complex topics to diverse participants in a short time frame, and use of effective methods to obtain feedback).• Expect active consideration of alternative to current price cap TVM and tariff structures to be supported by engagement.• Understand need for flexibility around elements of RSP.• Advised that the CCP for GN26 to be confirmed.
ACT Government	<ul style="list-style-type: none">• Evoenergy is engaging closely with the ACT Government through regular meetings.• These engagements are underpinned by the importance of informed technical decision making through the pathway to net zero by 2045.

Evoenergy customer research findings

Sagacity survey	<ul style="list-style-type: none">• Strong customer sentiment to electrify but point of action mostly likely driven by aging gas appliances.• Many gas appliances are over 16 years old, with 25% of gas space heating units reaching end of life in 5 years.• Almost half of respondents want to electrify, citing gas prices and environmental concerns as the key drivers.• Renters and homeowners split on whether they would look for a new home with a gas connection: approx. 45% actively want a home connected to gas, 36% don't want a home connected to gas and the remainder are unsure.
Annual Customer Survey	<ul style="list-style-type: none">• Fieldwork was completed on 12 May 2024, with 1,480 respondents.• Customers were asked about their intentions regarding gas transition.• Results will be available in late May 2024.
Major Customer survey	<ul style="list-style-type: none">• The survey is in the field, closing on 31 May 2024.• Early responses indicate that customers want more information about the gas transition.• The survey also asks customers about their transition timelines.



Communication Link

Ask.
Listen.
Understand.
Achieve.

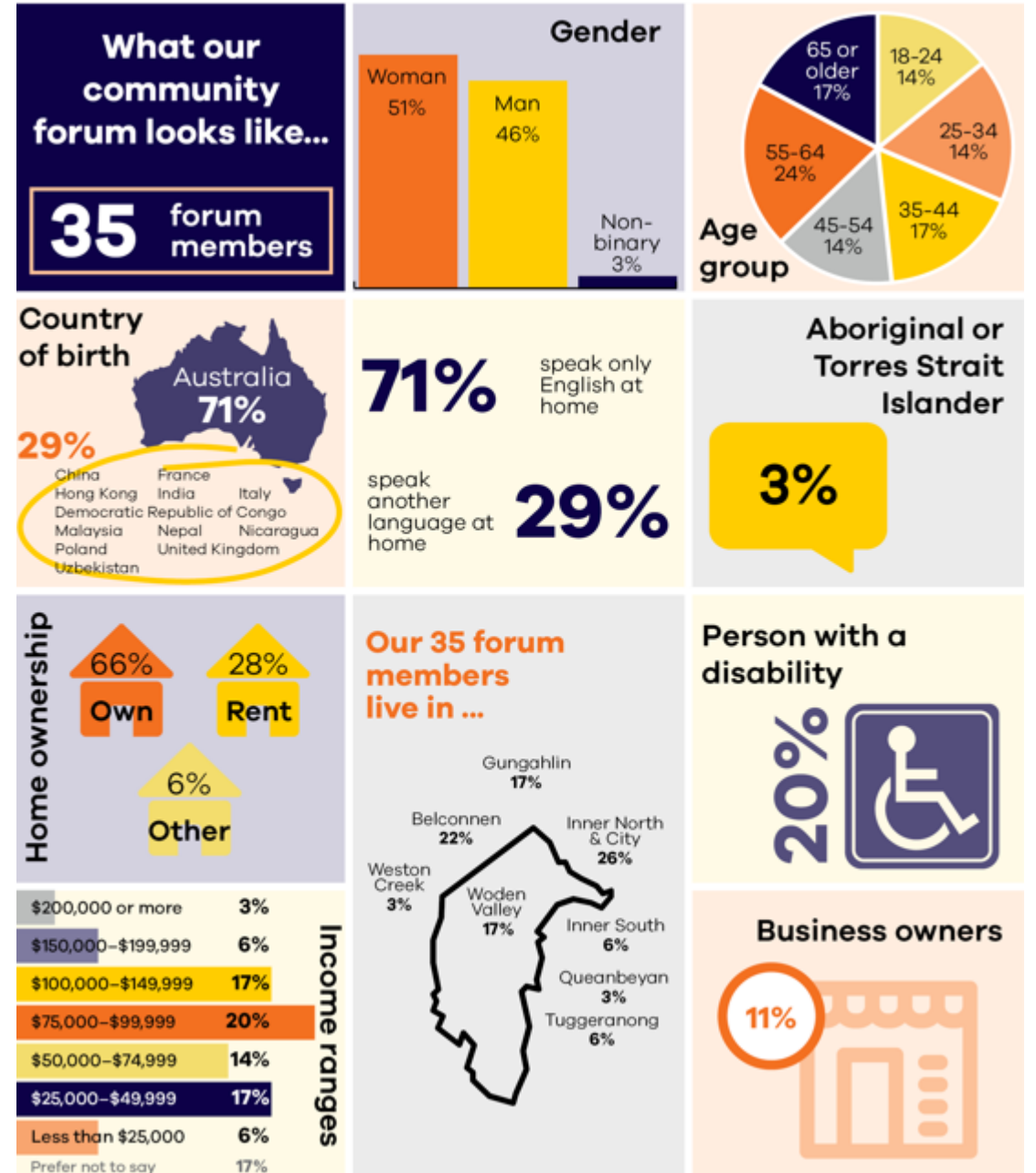
What we have heard so far from our community forum

Evoenergy community forum – interim report
Phase 1 – Reference Service Proposal

23 May 2024

Information provided in this presentation is a summary report and not designed to be a comprehensive list of all feedback received. It seeks to fairly balance feedback from all sources, qualitative and quantitative; large group discussion and that documented during small group work.

The community forum



The community forum

- ✓ Recruited and facilitated independently
- ✓ Diversely representative
- ✓ Hybrid delivery to ensure accessibility
- ✓ Engaged and actively participating
- ✓ Asking lots of questions
- ✓ Contributing to meetings
- ✓ Over 500 data points have been generated
- ✓ Snapshot reporting at the end of each session directed by the forum



Tools and activities to help everyone contribute



Small group and whole of group discussions



Individual feedback through post-it-notes and the story-wall



Digital polling to provide quick feedback both online and in person



Worksheets to capture group feedback



Providing information in different ways – presentations, written information, FAQs, videos and a site visit, hybrid



Use of personas and scenarios to encourage critical thinking and discussion

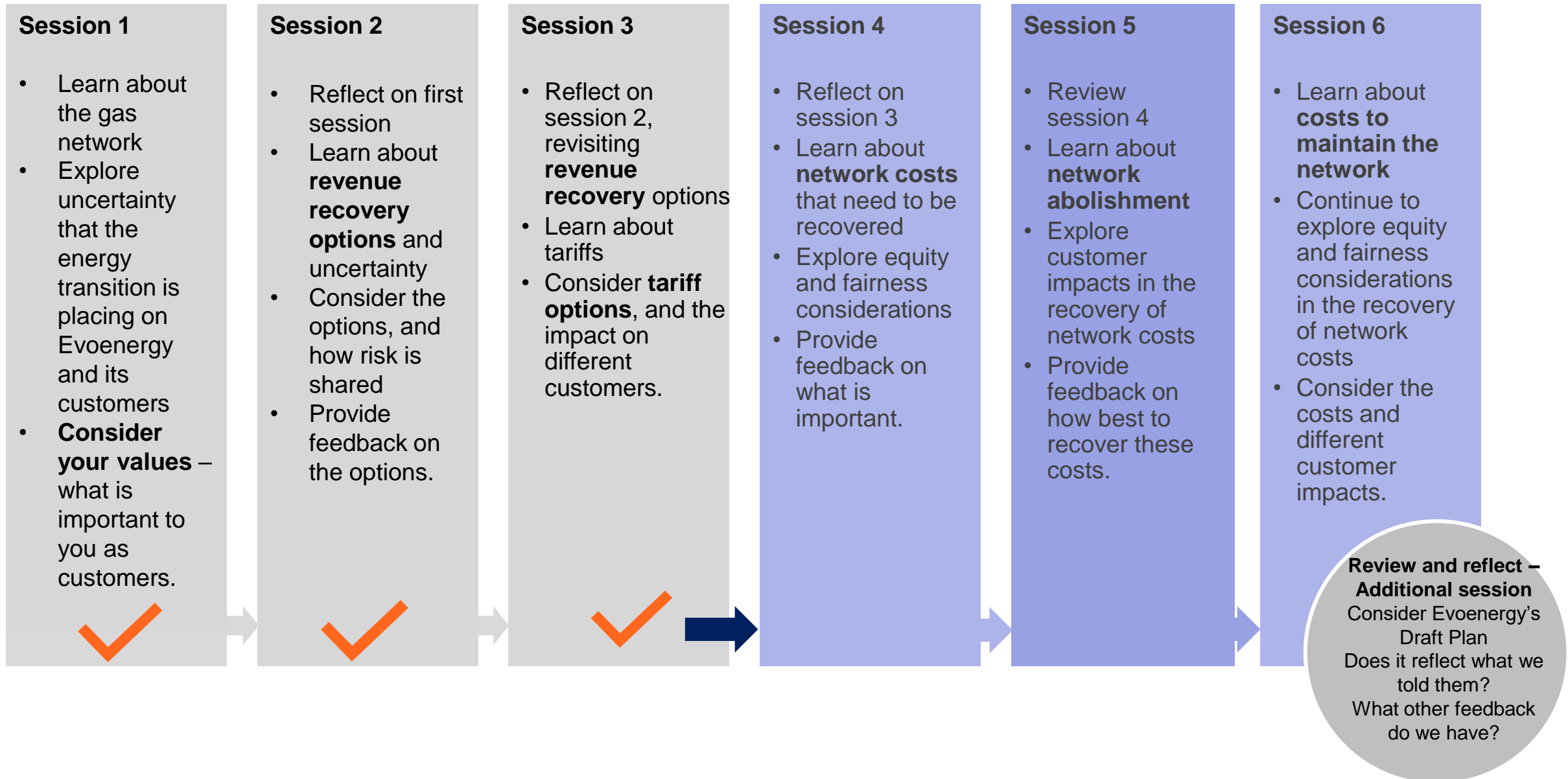


Many ways to ask questions – Slack, story wall, online chat, during presentations



Access to experts and leadership at Evoenergy

Community forum work program



Values defined by the community forum

**Adaptability +
empathy**

Community + family

**Communication +
collaboration**

Fairness + equity

**Honest, transparent
+ genuine**

Integrity + ethics

**Kindness +
compassion**

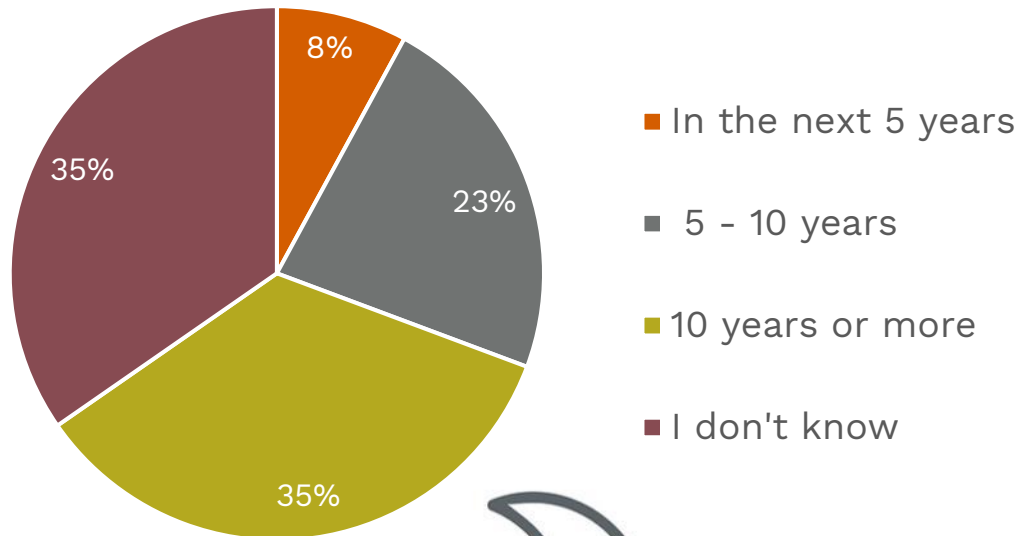


The values as they relate to gas

- Ensure that no one is left behind, recognising that **one size does not fit all**.
- Remember that **not everyone can adapt to the transition at the same pace** and some people will need more help than others. Be flexible and empathetic.
- The transition needs to be **affordable for everyone** in our community and not contribute to 'haves and have-nots'.
- Everyone should be entitled to participate in the transition in a fair way. Consider how to achieve **equity and fairness across all customers** including home-owners, renters and businesses. Seek to be fair over time and consider future generations.
- Maintain **transparency** across all areas including the options available to customers; the costs at different stages in the transition; and safety implications for the network.
- Be adaptable, **adopt innovation and new technology** where appropriate.
- **Keep the community informed** so they can make informed choices, through education campaigns and easy to understand information in multiple languages. Outline the journey and the final outcome. Seek to counter misinformation without being divisive.
- Consider the **implications of job losses** in the gas sector.
- **Consider community-based activities** such as community energy solutions and impacts on individual suburbs.

Considering the transition

How quickly will I transition?



The most common things influencing the timing of transition were **cost** and **condition of existing appliances**



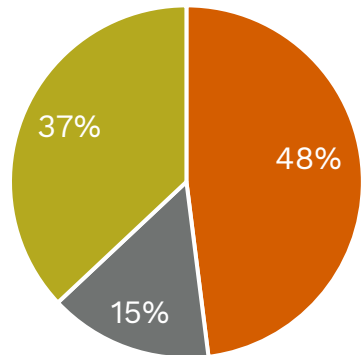
Impacts on different customer types

- Transitioning is up to the landlord for renters and commercial tenants. There is no real incentives or penalties for landlords.
- While cost may not be a barrier for higher income households, being time-poor could impact the pace of transition.
- NSW customers may not move quickly due to lack of policy drivers by the NSW Government.
- Lack of information and poor understanding could be barriers for transition.
- A single energy bill is a benefit for households and businesses.

Considering revenue recovery options

The community forum was introduced to the concept of demand uncertainty and the implications to the network of different paces of transition. The options to base gas prices on actual or forecast demand were presented to participants. They were asked their preference initially, and then again after being shown different demand scenarios.

Which option was preferred at the start of session 2

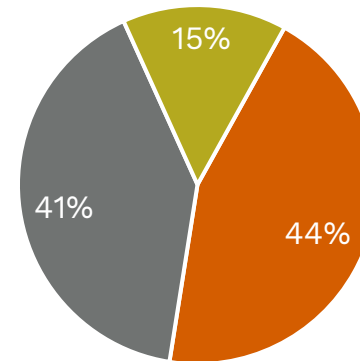


- Revenue cap
- Price cap
- I don't know yet

Participant's preferences were largely driven by a **desire for predictability and certainty** and the need for **further information**

Many participants did not clearly express why they changed preferences, those that did were motivated by potentially **lower costs**

Preference after considering different demand scenarios



- Revenue cap
- Price cap
- I don't know yet

When presented with the implications of a colder than forecast winter 3 people changed their preference

When presented with the implications of people moving off the gas network faster than forecast a further 4 people changed their preference

Revenue cap vs price cap

Considering revenue recovery options

The community forum was asked to consider the revenue recovery options with reference to the values they identified in session 1. They highlight four priority values that applied to the revenue recovery options. The forum was then asked to consider what option was best overall.

The top priority values

Adaptability + empathy ✓

Community + family

Communication + collaboration ✓

Fairness + equity ✓

Honest, transparent + genuine ✓

Integrity + ethics

Kindness + compassion

**Revenue cap
vs
price cap**

On balance what is the best option – for Evoenergy, the customer and the broader community?

Out of 5 groups, 3 groups felt that a revenue cap was in the best interest of Evoenergy.

There were mixed views on what was best for customers and the community.

There was concern about the impacts of possible five-year price spikes on customers.

The groups that didn't express a clear preference were interested in:

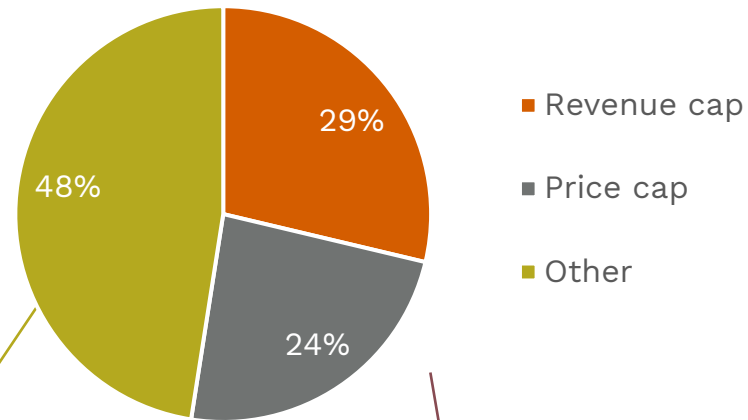
- Price certainty
- The role of government to support the transition
- Evoenergy's role as a business to accept greater risks than customers.

Considering revenue recovery options

In session 3, the community forum had the opportunity to revisit their views on the revenue recovery options and ask more questions. The implications of the price and revenue cap beyond the five-year regulatory period was presented to the group and they were asked which option they preferred over the longer term. The potential for a hybrid solution was also explored.

Revenue cap vs price cap

Which option do I prefer over the longer term?



'Other' responses included:

- The suggestion that over a longer term the option selected was not as important 'as it all evens out'.
- The potential for a hybrid option.

In explaining the reasons for their views, participants highlighted:

- The risk to Evoenergy's viability.
- Price volatility over the longer term.
- The impact of vulnerable customers being left on the network for a long time

Most of the group was supportive of considering a hybrid option, noting the following:

- It seemed like an innovative and fairer solution, providing greater equity.
- It was felt that customer bills would be more stable and predictable, which was important to participants.
- Further information was needed to understand the cost implications to customers.
- It may be more confusing to the customer.



Feedback on tariff principles

The community forum considered Evoenergy's tariff principles. The tariffs were supported by participants with two identified as particular priorities and a new one suggested.



Simplicity and consistency



Cost reflectivity and efficiency



Equity across customers & over time



Value of emissions reduction



Long-term price stability & durability

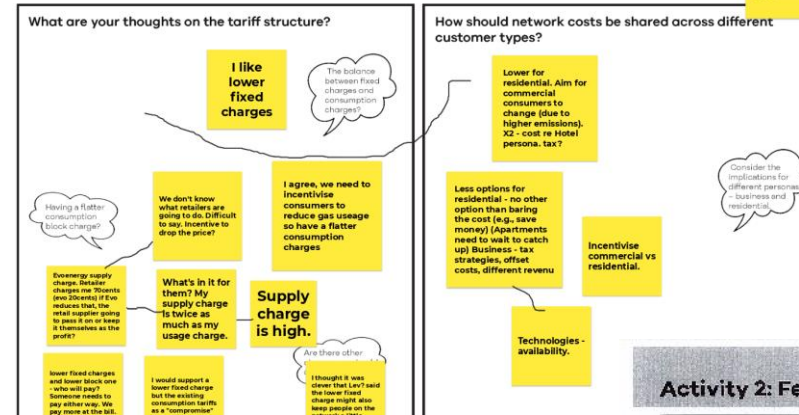
'A principle about communication with customers is missing.'

- Customers felt that equity across customers and recognising the value of emissions reductions were the most important tariff principles.
- A principle around communication and consultation with customers was suggested as important.
- It was suggested by some participants that if businesses were penalised they may relocate out of Canberra.
- The role of tariffs in changing behaviour was discussed.
- The different ways utility providers recover costs was raised and comparisons were drawn with water tariffs which incentivise customers to use less water.

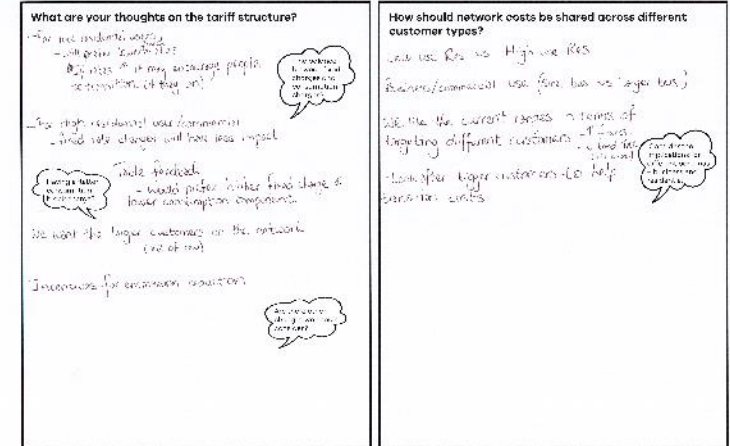
Feedback on tariff structure

- There was a general desire for tariffs to be structured to encourage people to move off the gas network. This was balanced by concerns about the impact on those left on the network.
- There were mixed views about the split between residential and business customers, with some support for businesses paying more, while others worried about businesses leaving the network early if it was too expensive.
- Interest was expressed in restructuring the tariffs with options suggested including:
 - Changing the steps between blocks
 - Inserting a smaller first block
 - Reducing the number of blocks
 - Having different blocks/structures for different customer types.
- There was some interest in tariffs as incentives to reduce emissions.

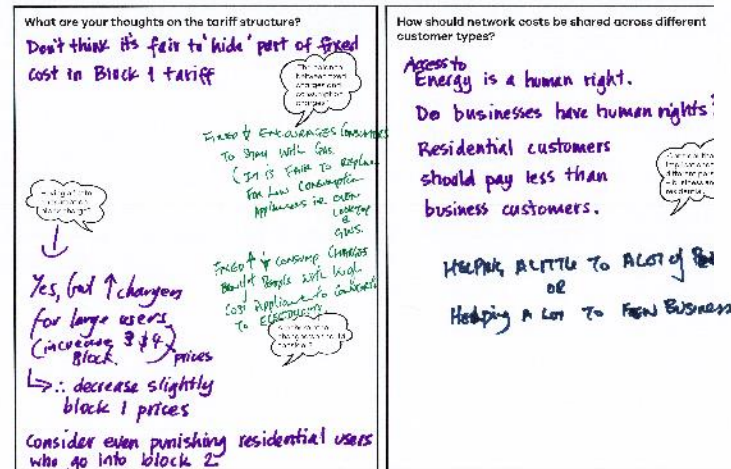
Activity 2: Feedback on tariffs



Activity 2: Feedback on tariffs

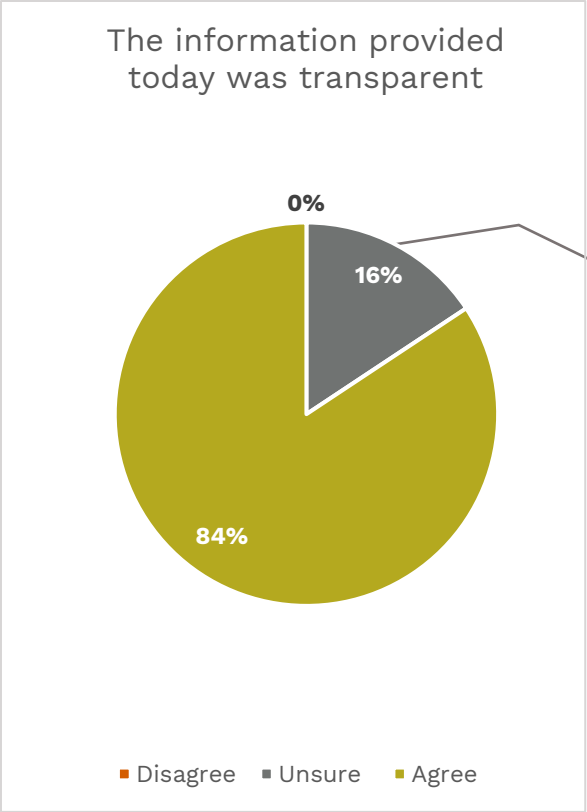
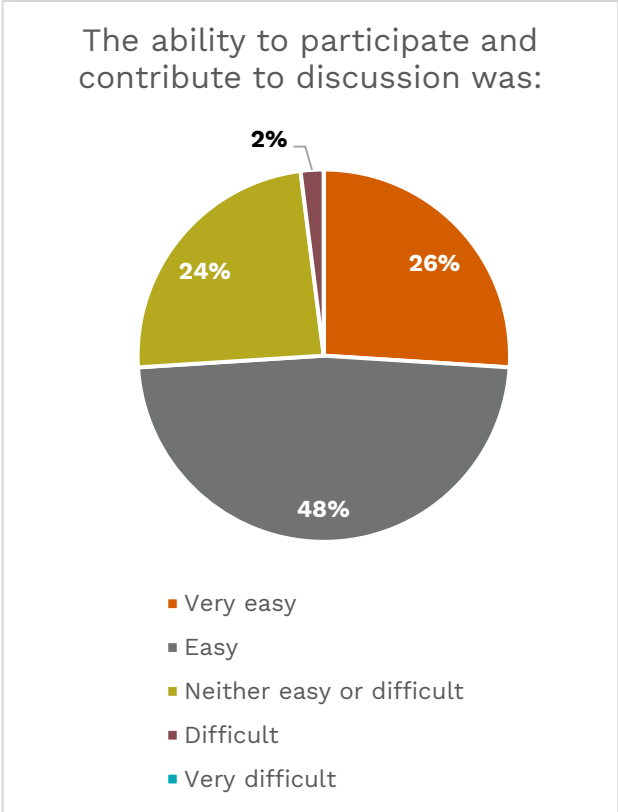
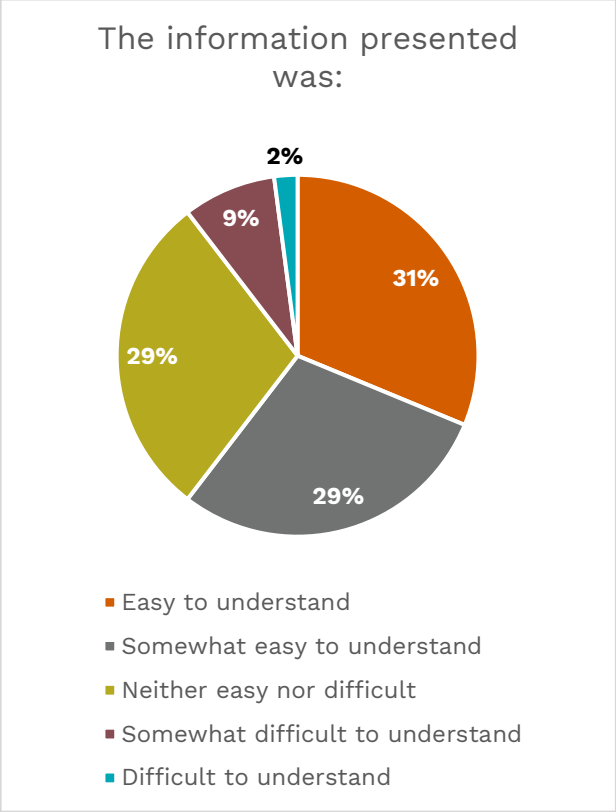


Activity 2: Feedback on tariffs



Feedback on the process

At the end of each session a standard check-in with participants allows feedback on how well they can participate. Feedback has been largely consistent across the three sessions.



There was a slightly higher level of 'unsure' selected during session 2.



Things to consider going forward

- There are several people who are only able to participate online, so maintaining a hybrid version will be important
- Small group work has not generated as much feedback as whole of group discussion, consider allowing more time for small group activities
- Allow more time for questions and general discussion
- Consider involving some non-Evoenergy subject matter experts
- Maintain a flow of information to participants between sessions to keep them engaged
- Personalised technical support (e.g. Teams and Slack) to forum participants should continue to be provided as required.



5. ERAP observations

Provide feedback to Evoenergy on observations of community forum sessions 1-3

- **Effectiveness of the sessions to support continuous improvement**
- **Views of and implications for the long-term interests of consumers from the perspective of Evoenergy's customers**



6. Managing equity and fairness: capital base recovery considerations and illustrative scenarios

Andrew Ponsonby – Principal Economic Modeller

Gillian Symmans – Group Manager, Regulatory Reviews and Policy





Questions for ERAP consideration

1. What are your thoughts on the balance between customer prices and capital base recovery:
 - Over the GN26 period?
 - Out to 2045?
 - What are the fairness and equity considerations?
2. Does the speed of the transition change the optimal balance? What if the transition is fast versus slow?
3. What does this analysis mean when considered in the context of the AER's information paper and recent approaches for Victoria gas networks?
4. What other information/analysis could we do to find the 'balance' for GN26?
5. Do you have suggestions about how we could engage with the community forum on this topic in late July?
6. Is there a role for capital base recovery through other avenues (outside the current economic regulatory framework)? If so, why and when?

Capital base recovery

National Gas Law (s23) national gas objective

The objective of **this Law is 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

National Gas Law (s24) revenue and pricing principles

- (2) A service provider should be provided with **a reasonable opportunity to recover at least the efficient costs the service provider incurs** in:
 - a) Providing reference services; and
 - b) Complying with regulatory obligations or requirement or making a regulatory payment
- (3) A service provider should be provided with effective incentives in order to promote economic efficiency with respect to reference services the service provider provides. The economic efficiency that should be promoted includes
 - a) Efficient investment in or connection with a pipeline with which the service provider provides reference services; and
 - b) The efficient provision of pipeline services; and
 - c) The efficient use of the pipeline.
- (4) **Regard should be had to the capital base with respect to a pipeline adopted**
 - a) **In any previous (i) full access arrangement decision**; or (ii) decision of a relevant regulator under the Gas Code
 - b) In the Rules.
- (5) A reference tariff should allow for a return commensurate with the regulatory and commercial risks involved in providing the reference service...
- (6) **Regard should be had to the economic costs and risks of the potential for under and over investment by a service provider in a pipeline...**
- (7) Regard should be had to the economic costs and risks of under and over utilisation of a pipeline...

National Gas Rules (NGR 89) depreciation criteria

- (1) The depreciation schedule should be designed:
 - a) So that reference tariffs will vary, over time, in a way that promotes efficient growth in the market for reference services; and
 - b) So that each asset or group of assets is **depreciated over the economic life** of that asset or group of assets; and
 - c) So as to allow, ~~as far as reasonably practicable~~, for **adjustment reflecting changes in the expected economic life** of a particular asset, or a particular group of assets; and
 - d) So that (subject to the rules about capital redundancy), an asset is depreciated only once; and
 - e) So as to allow for the service provider's **reasonable needs for cash flow** to meet financing, non-capital and other costs.


ACTG Integrated
Energy Plan – phase
out of fossil fuel gas
by 2045



Large upfront investment in infrastructure

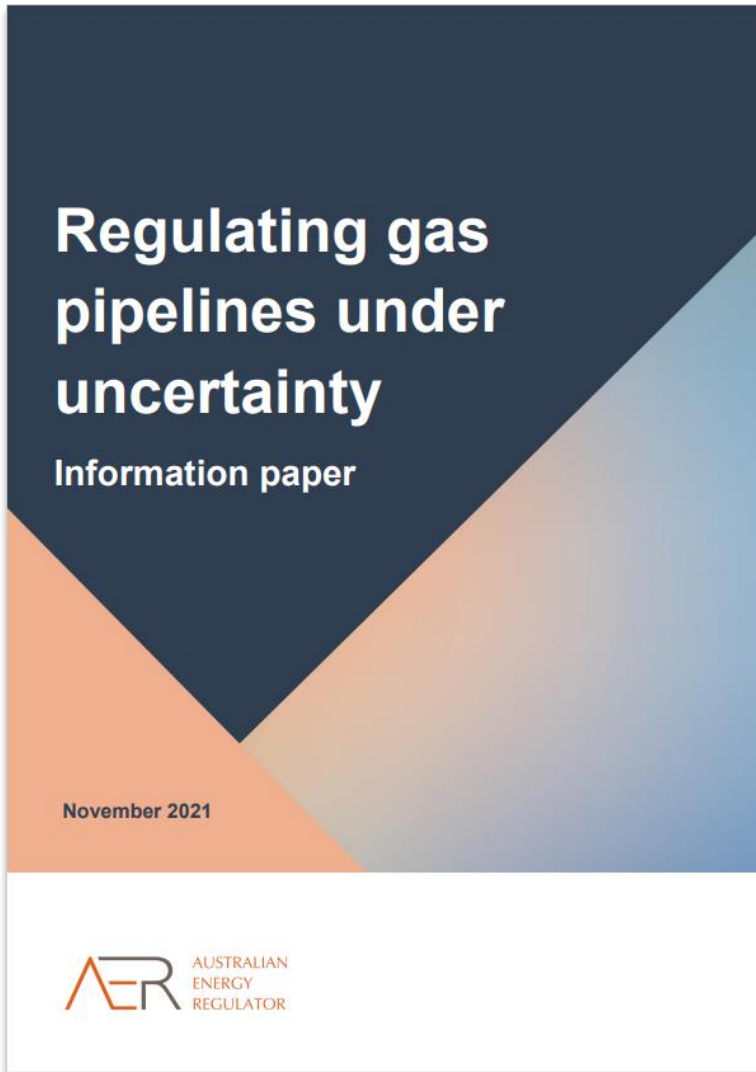


Return of capital provides incentive for ongoing provision of service



High fixed costs (unchanged by demand)

The AER recognises that gas networks face stranding risk



...stranded assets are investments that are no longer able to earn an economic return prior to the end of their economic life as assumed at the investment decision point. Their economic life may be curtailed due to either changes in technology, regulation, market changes, or some combinations of these.

...there is little a network business can do to counteract the effects of a declining customer base, other than limiting new expenditures and managing prices to minimize disconnections by customers. However, the costs to maintain a gas network do not decrease in proportion to gas demand decline.

evoenergy

AER considered set of regulatory options to address falling demand

AER current
adopted
approach

Accelerated depreciation	Cost recovery is bought forward by shortening asset lives.
Compensation for stranded asset risk	Ex-ante compensation is calculated on the probability of the stranded asset risk eventuating and value of assets and provided as a business-specific cash payment.
Removing capital base indexation	Remove the indexation of the RAB and allow for a nominal rate of return to accelerate cost recovery.
NGR capital redundancy provisions	Remove the value of the redundant asset from the RAB and share the costs between network and users.
Re-evaluate the capital base	Review and revise the RAB to reflect changes in demand (requires legislative change).
Exit fees	Exit fees levied on disconnecting customers to reflect foregone future contribution to RAB recovery.
Increase fixed charges	Fixed costs of supply recovered through higher fixed charges (i.e. customers pay for the costs of their gas services, regardless of how much gas is consumed).
Status quo	No regulatory action taken (i.e. if stranded asset risk is not demonstrated to be material, or if the action is contrary to interests of the long-term consumer).

Accelerated depreciation provides the AER with flexibility, but is used cautiously

Accelerated depreciation provides the AER with flexibility to respond to changing demand and policy settings in order to facilitate equitable and efficient allocation of costs between current and future gas customers, without locking in a permanent price change.

Does not support RAB recovery at any cost

...the NGL guiding revenue and pricing principle that regulated businesses should be provided with a reasonable opportunity to recover at least the efficient costs they incurred in providing services does not mean gas consumers must guarantee that the regulated businesses recover their costs under any circumstances.

Has regard to price impacts

...we must have regard to consumer's interest in having affordable and stable or reasonably predictable gas access prices to encourage their use of gas infrastructure. Having said that it is fair to note that regulated businesses also have an interest to maintain price affordability to avoid further decline in gas customer numbers.

Impact of emissions reduction policies

...assuming 2050 as the cap of the expected economic life...without reasonable evidence or analysis would be inappropriate.

As businesses may face different levels of stranded asset risk... We may allow the same class of assets to have different assumed asset lives (depending on the economic stranding risk the relevant business faces) among regulated businesses.

...the fact that there is a policy as well as economic dimension to the expected decline in gas demand raises the question of whether the stranded asset risk should be allocated only between regulated businesses and consumers'

Recent Australian gas network examples

Firm	Proposal	Draft Decision	Revised Proposal	Final Decision
MGN 2023-28	\$413m of SLD* + \$86m of accelerated SLD. 8.6% of total proposed revenue.	Accepted accelerated depreciation (AD) so long as no real price increase. Accepted \$55m. 5.5% of total revenue.	Didn't accept draft decision. Reproposed \$86m. 8.5% of total proposed revenue.	Accepted AD for annual real price increases up to 1.5%. Accepted \$53m of the AD proposed. 4.6% of the approved total revenue.
AGN 2023-28	\$414m of SLD + \$175m of accelerated SLD. 15.2% of total proposed revenue.	Accepted AD so long as no real price increase. Accepted in full, \$175m. 14.8% of total revenue.	Accepted amount, but not the rationale. 15.1% of total proposed revenue.	Accepted AD for annual real price increases up to 1.5%. Accepted the proposed AD in full, \$175m. 12.8% of total approved revenue
AusNet 2023-28	\$475m of SLD + \$200m of accelerated SLD. 17.4% of total proposed revenue.	Accepted AD so long as no real price increase. Accepted \$83m. 7.6% of total revenue.	Didn't accept draft decision. Reproposed \$200m. 16.5% of total proposed revenue.	Accepted AD for annual real price increases up to 1.5%. Accepted \$105m of the proposed AD. 8.3% of total approved revenue
ATCO (Western Australia) 2025-29	\$305m of SLD + \$70.15m of accelerated SLD. 6.2% of total proposed revenue.	ERA supported AD as a tool but allowed no (i.e. \$0m) AD due to concerns over robustness of proposal and modelling methodology.	TBA	TBA

Rationale for accelerated depreciation related to net zero emissions policy, gas demand uncertainty and the Victorian gas substitution roadmap

*SLD: Straight Line Depreciation

**AD: Accelerated Depreciation

Treatment of stranded assets in other jurisdictions

New Zealand



Electricity distribution businesses (EBDs)

Allows EBDs to apply for NPV neutral shortening of existing asset lives (capped at 15% reduction). For new assets, EBDs may elect new assets lives based on economic (rather than technical) asset life.

Fibre fixed line service providers

Service providers may: retain stranded assets in the RAB; reduce assets lives (or alternative depreciation path); and receive an ex-ante cash allowance to compensate for stranding risk not otherwise mitigated.

United Kingdom



Gas distribution and transmission service providers

Front-loaded depreciation for post-2002 assets, using a 45 year sum of digits. Depreciation is set so different generations pay network charges broadly in proportion to the value of network services they receive.

The Netherlands



Gas network service provider (GTS)

Allows GTS to apply declining balance depreciation (diminishing balance) to assets and nominal rate of return. GTS may also write off divestments from RAB in the year the divestment occurs.

Western Australia (ERA)



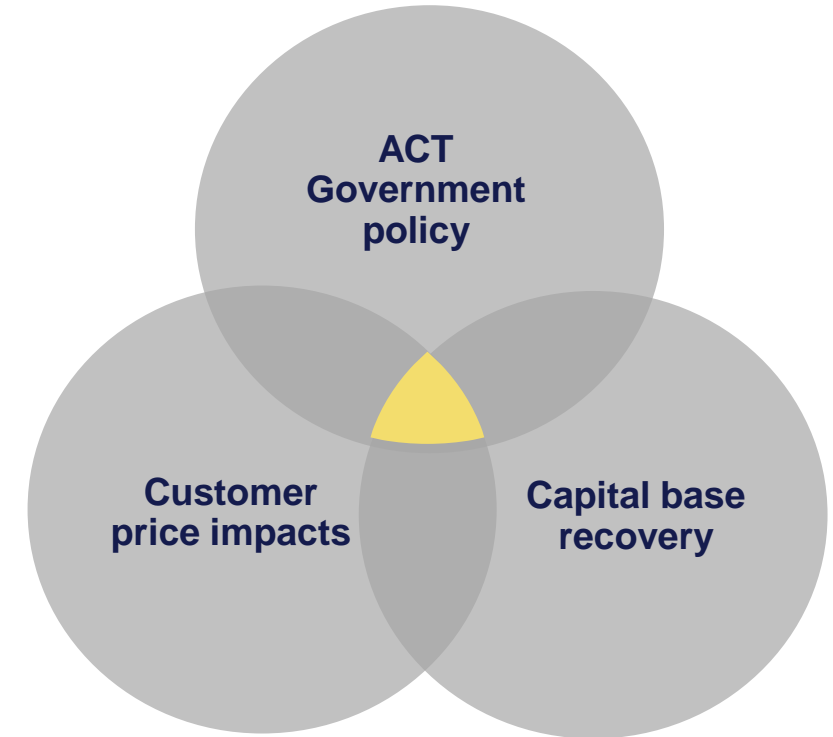
Dampier-Bunbury gas network service provider

Economic life of the pipeline capped at 2063 and depreciation schedules adjusted accordingly.

Evoenergy illustrative scenarios of capital base recovery approaches

Evoenergy's capital base recovery illustrative scenarios

- Evoenergy has developed three illustrative scenarios for capital base recovery.
- The scenarios reflect the bookends of the spectrum, from no change to full capital base recovery profiled based on customer exit.
- The intention of the scenarios is to demonstrate the **trade-offs between capital base recovery and customer price impacts** over the long-term to 2045.
- **None** of the scenarios reflect Evoenergy's intended approach which is still to be developed.
- While three scenarios have been chosen, there are many options between these bookends.
- A key consideration is finding the right balance between capital base recovery and customer price impacts over long term, taking into account equity and fairness considerations and avoiding escalating customer exit from the network
- Further work will be done to find that balance before developing a preferred approach



The optimal balance will be informed by:

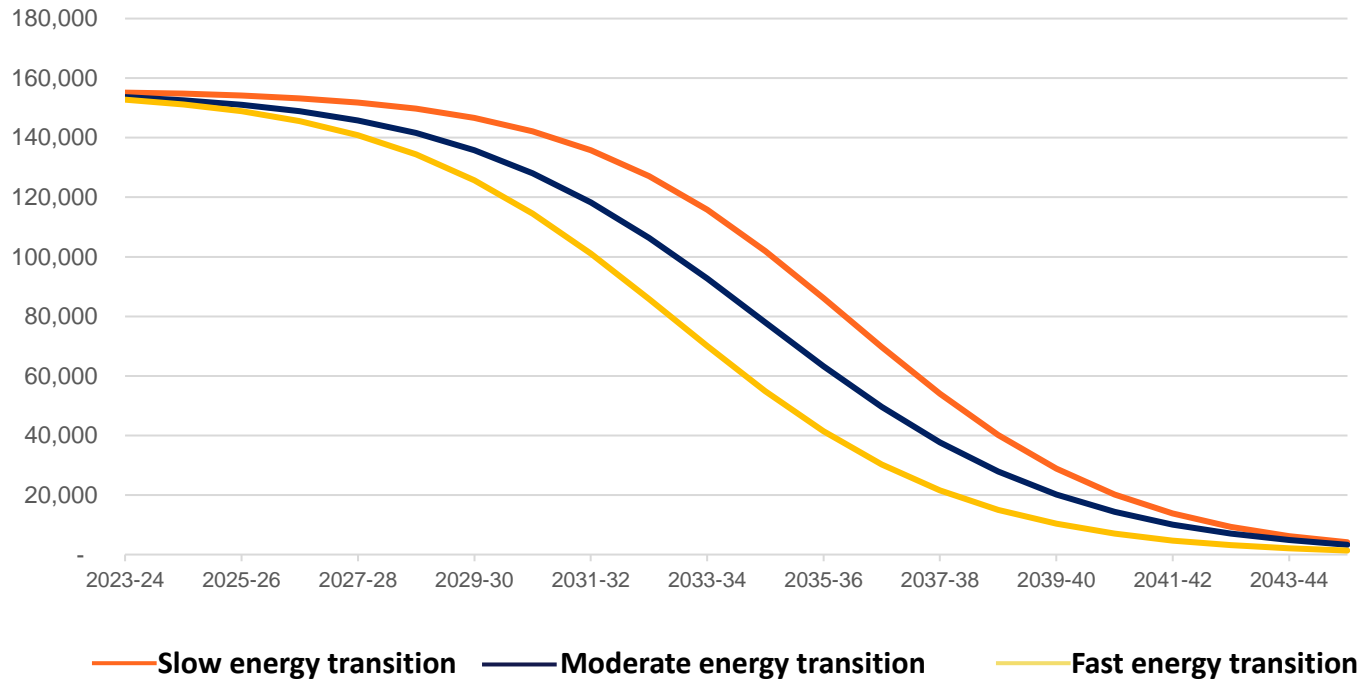
- data analysis, customer research and price-elasticity modelling
- **extensive engagement** with the community, Government and Australian Energy Regulator

Key modelling assumptions

- This modelling has been done using a bespoke model, which is a standard AER post-tax revenue model (PTRM) for the gas network, extended out to FY2045.
- As well as being extended out in time, the model allows for different scenarios to be run, for example relating to asset lives (accelerated depreciation scenarios).
- **Customer numbers** and **gas demand scenarios** are based on the ACT Government's *Integrated Energy Plan* scaled for the NSW customers and discussed in the following slide.
- For the **depreciation** scenarios:
 - Under the linear approaches, standard straight-line depreciation is used
 - Under the customer-weighted approach, annual depreciation is weighted to the number of customers on the network (using Evoenergy's moderate customer number forecast).
- The illustrative **retail bill** forecast assumes:
 - No real increase in non-network costs (physical gas costs, retail margin etc)
 - The network expenditure profile does not substantially reduce over time as customers leave the network.

Gas demand will decline from now through to 2045

Illustrative scenarios of gas customer numbers



	Customer numbers by 2030, '000	% change from FY24 to FY30
Slow energy transition	147	-6%
Moderate energy transition	136	-13%
Fast energy transition	126	-20%

Slow energy transition: gas customer numbers reach upper bound of the ACTG IEP forecast two years late, in FY32

Moderate energy transition: gas customer numbers align with the upper bound of the ACTG IEP forecast of customer numbers in FY30

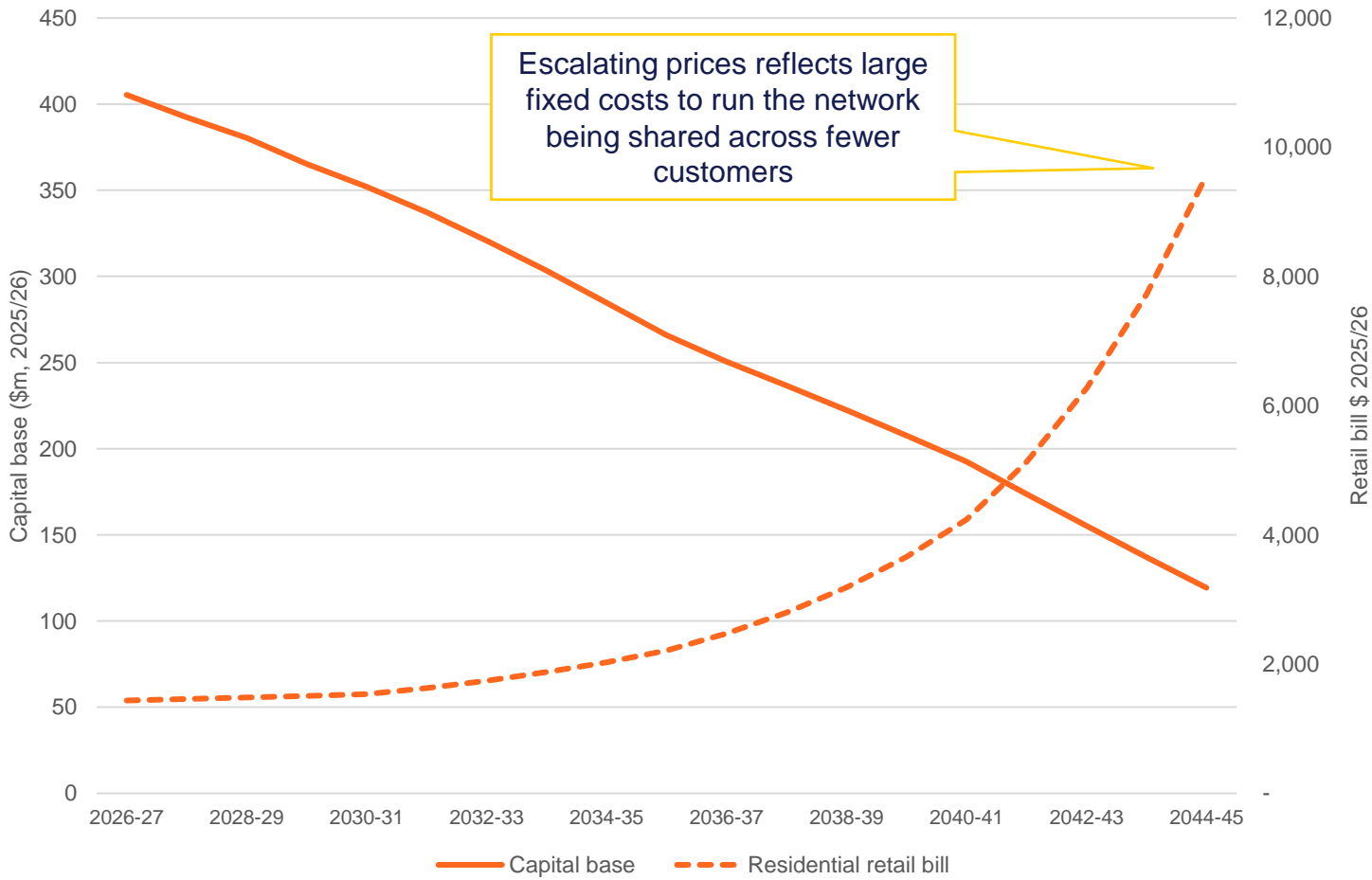
Fast energy transition: gas customer numbers align with the midpoint of the ACT Government's forecast of customer numbers in FY30

Accelerated depreciation illustrative scenarios

Scenario	Forecast methodology
1 – Base case / current approach (GN21)	This is the base case and assumes new asset lives to be the same as in the AER's GN21 Final Decision outcome. Existing asset lives are not adjusted but rolled forward per the standard process. Asset lives are detailed in an Appendix.
2 – All assets linearly depreciated by 2045	Under this scenario, all assets (new and existing) are fully depreciated by 2045 from 2026.
3a – Customer-weighted (slow)	Under this scenario, RAB recovery is achieved in proportion to the number of customers on the network each year (slow customer scenario)
3b – Customer-weighted (moderate)	Under this scenario, RAB recovery is achieved in proportion to the number of customers on the network each year (moderate customer scenario)
3c – Customer-weighted (fast)	Under this scenario, RAB recovery is achieved in proportion to the number of customers on the network each year (fast customer scenario)

The current approach to capital base depreciation will lead to both capital base under-recovery and escalating customer prices

Forecast closing capital base and residential retail bill



Note: modelling based on 'moderate energy transition' customer number forecast

	Closing capital base (FY31)	Annual retail real price increase	Annual network real price increase
GN26	\$352m	1.6%	4.7%

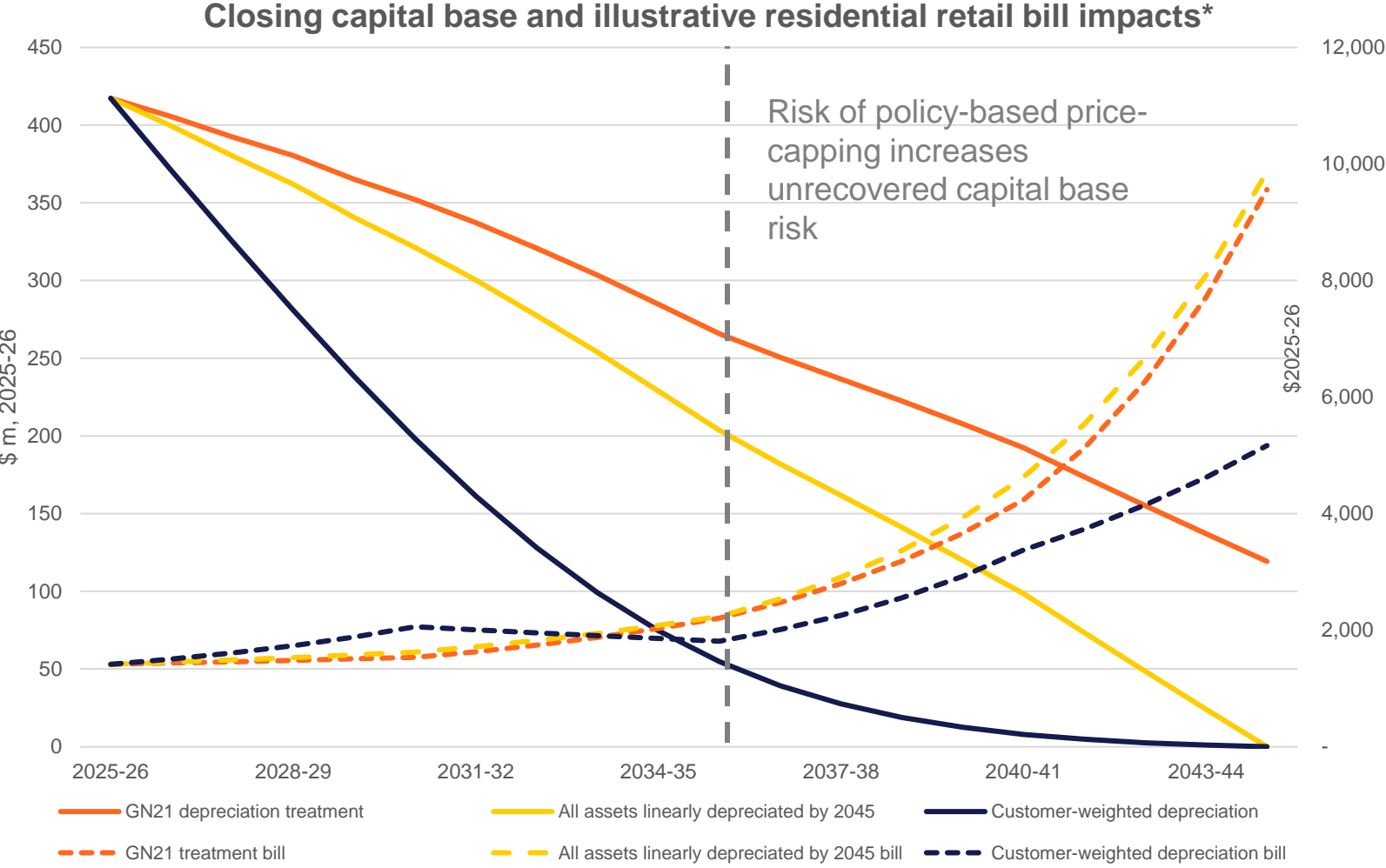
AER approach in Victoria of capping prices at 1.5% p.a. real increases will not be feasible with a declining customer base, even without accelerated depreciation

	Closing capital base	Annual retail real price increase	Annual network real price increase
FY36	\$266m	9%	17%
FY41	\$192m	16%	21%
FY45	\$119m	24%	27%

Current GN21 approach does not provide reasonable opportunity to recover efficient costs with >\$119m unrecovered capital base at 2045

Trade-off between capital base recovery and customer price increases

Illustrative approaches canvass minimum and maximum theoretically possible approaches, however, feasible outcomes in GN26 and beyond will be influenced by retail price impacts and potential for regulatory or policy-based price capping

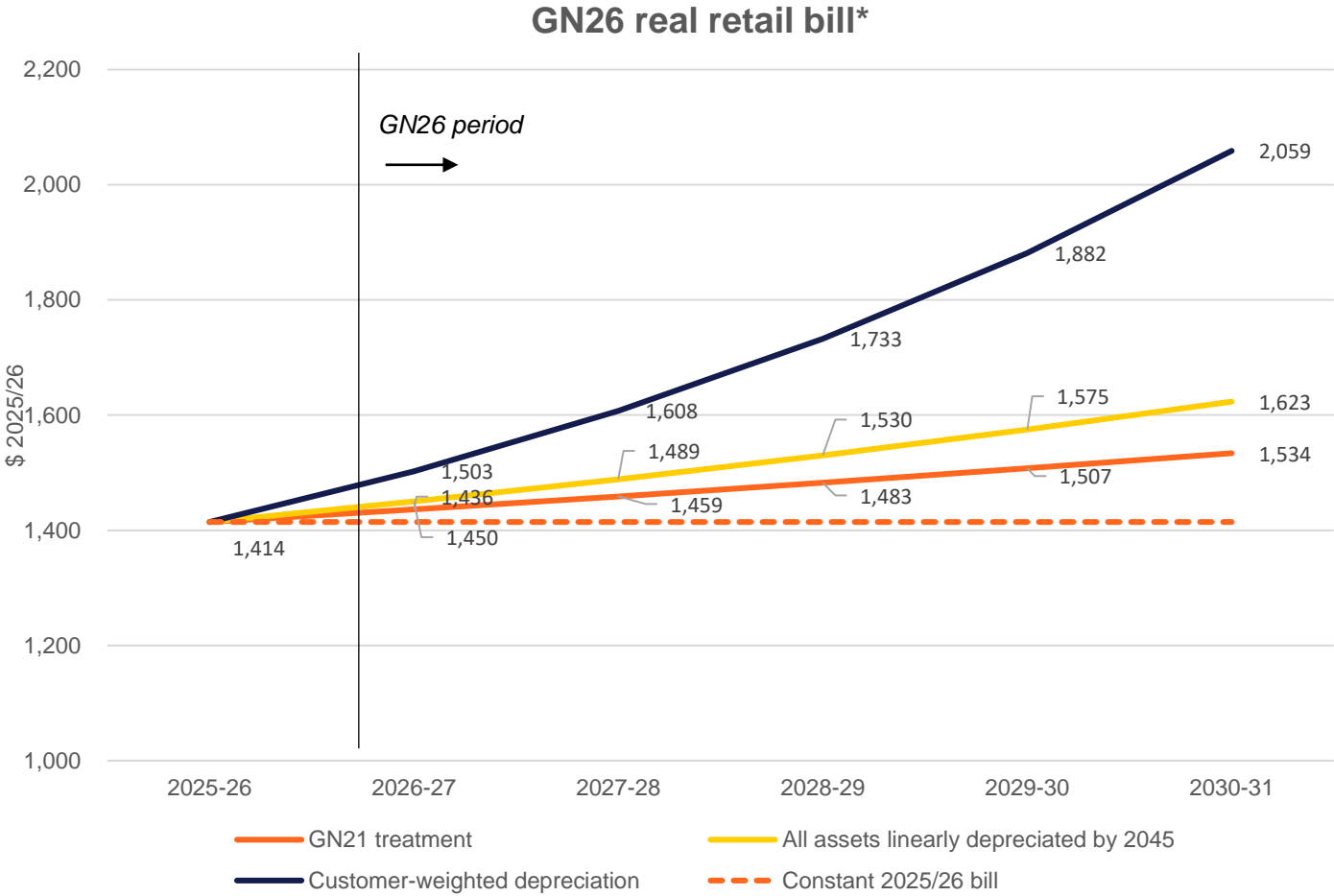


Scenario	Closing capital base as at FY36	Reduction in capital base by FY31
GN21 depreciation	\$266m	-15.6%
All assets linearly depreciated by 2045	\$204m	-23.0%
Customer-weighted depreciation	\$55m	-52.5%

Customer-weighted approach results in 3+ times more depreciation by FY31 than GN21 approach

Scenario	Real retail price increase over GN26	Real network price increase over GN26
GN21 depreciation	8.4%	25.8%
All assets linearly depreciated by 2045	14.8%	45.2%
Customer-weighted depreciation	45.6%	139.5%

Accelerated depreciation has a material impact on retail bills in GN26

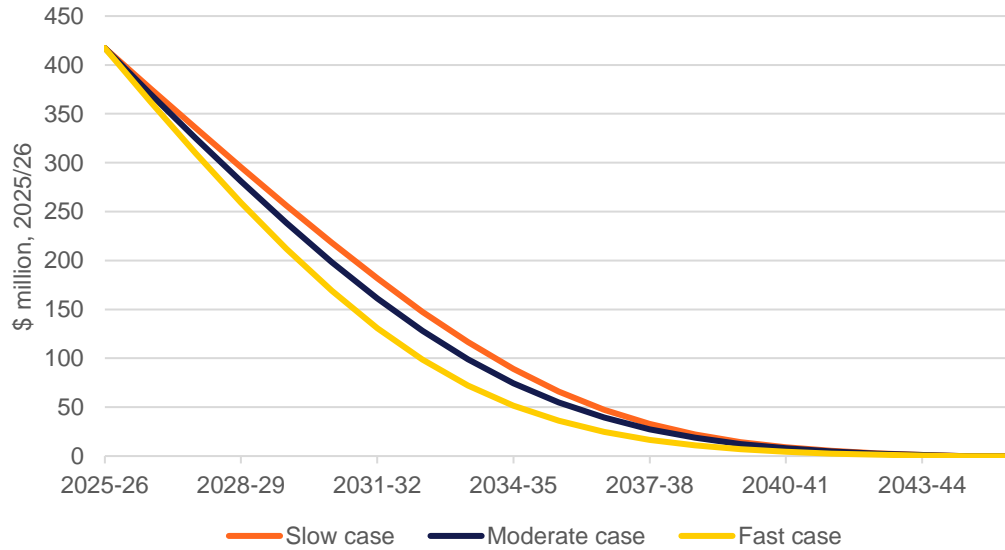


Illustrative real bill changes	Annual average retail bill increase	Annual average network bill increase	Annual average network bill increase
GN21 depreciation treatment	1.6%	4.7%	\$ 24
All assets linearly depreciated by 2045	2.8%	7.7%	\$ 42
Customer-weighted depreciation (moderate customer forecast)	7.8%	19.1%	\$ 129

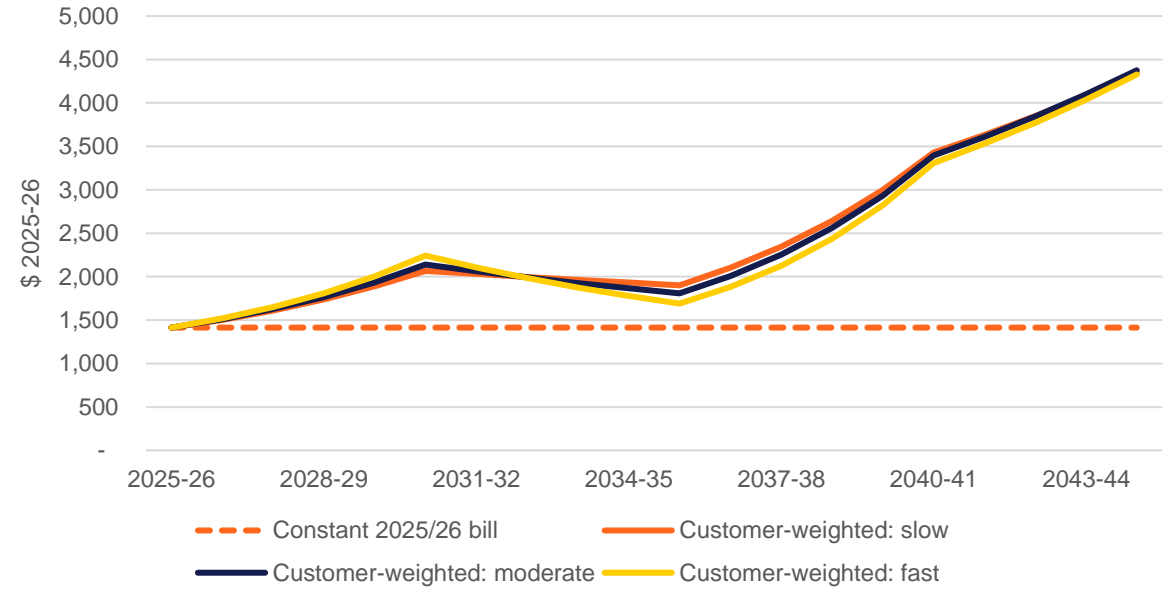
Customer-weighted approach provides more equitable sharing of capital base recovery across customers and over time but leads to higher real price increase in GN26

A slower paced energy transition would soften, but not avoid, the impact on customer prices of capital base recovery

Closing RAB



GN26 real retail bill



Customer-weighted approach price increases

Scenario	Real retail price increase over GN26	Real network price increase over GN26	Increase in retail bill over GN26 (real \$25-26)	Average annual increase in retail bill (real \$25-26)
Slow case	41.0%	125.5%	\$580	\$116
Moderate case	45.6%	139.5%	\$645	\$129
Fast case	52.5%	160.7%	\$743	\$149

Next steps

Identifying the appropriate balance between capital base recovery and customer prices for GN26 and beyond, to be informed by:

- **Engagement** with community forum from late July 2024 and major customers ongoing
- Development of **demand forecasts** (September to November 2024)
 - Understand **customer responsiveness** to gas and electricity prices (price-elasticity study)
 - Incorporate **customer research** on gas transition intentions – e.g. Sagacity, community forum, Evoenergy annual customer survey and major customer forums
 - Incorporate ACT Government policies and plans for electrification and energy efficiency upgrades for major assets, e.g. schools, buildings, hospitals, public housing etc.
- **Engage** with Government and Regulators on trade-off between capital base recovery and customer prices over GN26 and beyond
- Develop Draft Plan for public consultation from December 2024 to February 2025



Questions for ERAP consideration

1. What are your thoughts on the balance between customer prices and capital base recovery:
 - Over the GN26 period?
 - Out to 2045?
 - What are the fairness and equity considerations?
2. Does the speed of the transition change the optimal balance? What if the transition is fast versus slow?
3. What does this analysis mean when considered in the context of the AER's information paper and recent approaches for Victoria gas networks?
4. What other information/analysis could we do to find the 'balance' for GN26?
5. Do you have suggestions about how we could engage with the community forum on this topic in late July?
6. Is there a role for capital base recovery through other avenues (outside the current economic regulatory framework)? If so, why and when?

7. Other business




Meeting close ~1.30pm

Appendices

GN21 accelerated depreciation treatment

In the current access arrangement, Evoenergy introduced a modest increase in depreciation through reduction in the '**standard life**' (i.e. the regulatory life for new assets) of two asset classes with a long asset life:

	GN16 (2016-21)	GN21 (2021-26)
HP Mains	80 years	50 years
MP Services	50 years	30 years



Note: 'remaining life' of existing assets was not affected, so in GN21, the remaining life of HP Mains and MP Services exceeded the standard asset life (i.e. new asset lives) of these assets.

The following slide shows Evoenergy's asset lives at the time of the GN21 Final Decision by the AER.

GN21 regulatory asset lives (final decision)

	Opening asset value (\$2021/22)	Remaining life (years)	Standard life (years)
HP Mains	93.89	60.24	50
HP Services	0.90	30.14	50
MP Mains	139.36	24.04	30
MP Services	89.00	36.12	30
TRS&DRS – Valves & Regulators	14.38	8.28	15
Contract meters	0.98	14.06	15
Tariff meters	38.53	10.48	15
Total capital base	376.69	n.a.	n.a.

Note: assets with 5 years or less standard asset life not extracted as they are not sensitive to net zero targets / accelerated depreciation from GN26 planning perspective

While ACT hearts and minds support electrification, affordability may dampen the speed of transition

Australians are feeling optimistic about the future, however...

Cost of living continues to impact:¹

- 43% are experiencing financial difficulty
- 87% are concerned with grocery prices
- 75% are concerned with electricity bills.

Cost is considered the top barrier to reducing energy use (in every State and Territory except SA who identified cost as second barrier)²

Locating information from a trusted source to support reducing energy use is considered hard by 43% of households²

¹ Source: *SEC Newgate Australia Mood of the Nation - February 2024*

² Source: *Energy Consumers Australia Household energy information research 2023*

Canberrans are focused on electrification³...

- Almost half express a desire to fully electrify their home
- Amongst those wanting to stop using mains gas altogether, the environment was a stronger driver (64%), followed by price (59%)
- With preferences shifting to electric, remaining gas appliances are getting older, bringing forward one of the **key moments of truth – the need for replacements**
- ~25% of customers with gas appliances plan to replace at least one gas appliance with electric in the next two years
- Solar households are even more likely to replace gas with electric appliances
- Customers are looking for the **ideal financial timing** to make the transition from gas to electric appliances

³ Source: Future Demand for Gas in the ACT: Sagacity for Evoenergy

Aging gas appliances are driving electrification and consumers have a range of concerns about the future

Future demand for gas in the ACT: Sagacity for Evoenergy

- Peak gas to electric appliance switching is expected in the next 5 years (at least one appliance), as the stock of gas appliances ages.
- Increased propensity to electrify heating, hot water and cook tops, but customers will wait until the gas appliance fails before replacing it.
- Over 50% identified price as the reason for switching away from gas (followed by “gas isn’t as environmentally friendly” and other energy policy related reasons)

Household Energy Consumers: ECA

- 84% are very concerned about increasing energy costs
- ACT barriers to reducing energy use: costs too much, I don’t know what I can do, it takes too much effort

Household Energy Consumer Research November 2023

IEP Community and Stakeholder Engagement Report: ACT Government

- 46.5% very supportive and 28% very unsupportive of the electrification pathway in the ACT
- Strong support for prioritising fair and equitable transition to NZ45, particularly for vulnerable households
- Concern for: the upgrades required for the electricity network and existing buildings connected to gas; costs of the transition on households; impact on the workforce (upskilling and retraining)

IEP Community and Stakeholder Engagement Report March 2024

ACT Consumer Sentiment & Behaviour: ECA

- 29% have gas central heating
- 22% will or are considering replacing their heating system (total heating stock)
- 29% will or are considering installing solar or battery (32%) systems

ACT Energy Consumer Sentiment and Behaviours December 2023

Mood of the Nation: SEC Newgate 2023

- Respondents nominated: grocery prices (85%), gas bills (56%) and electricity bills (77%) as main cost of living concerns.
- 73% support a wholesale gas price cap (\$12) and 73% support development of new domestic gas projects

Mood of the Nation 2023 February 2023

Mood of the Nation: SEC Newgate 2024

- 43% of Australians are experiencing financial distress and respondents nominated: grocery prices (85%), electricity bills (75%) and petrol prices (78%) as main cost of living concerns.

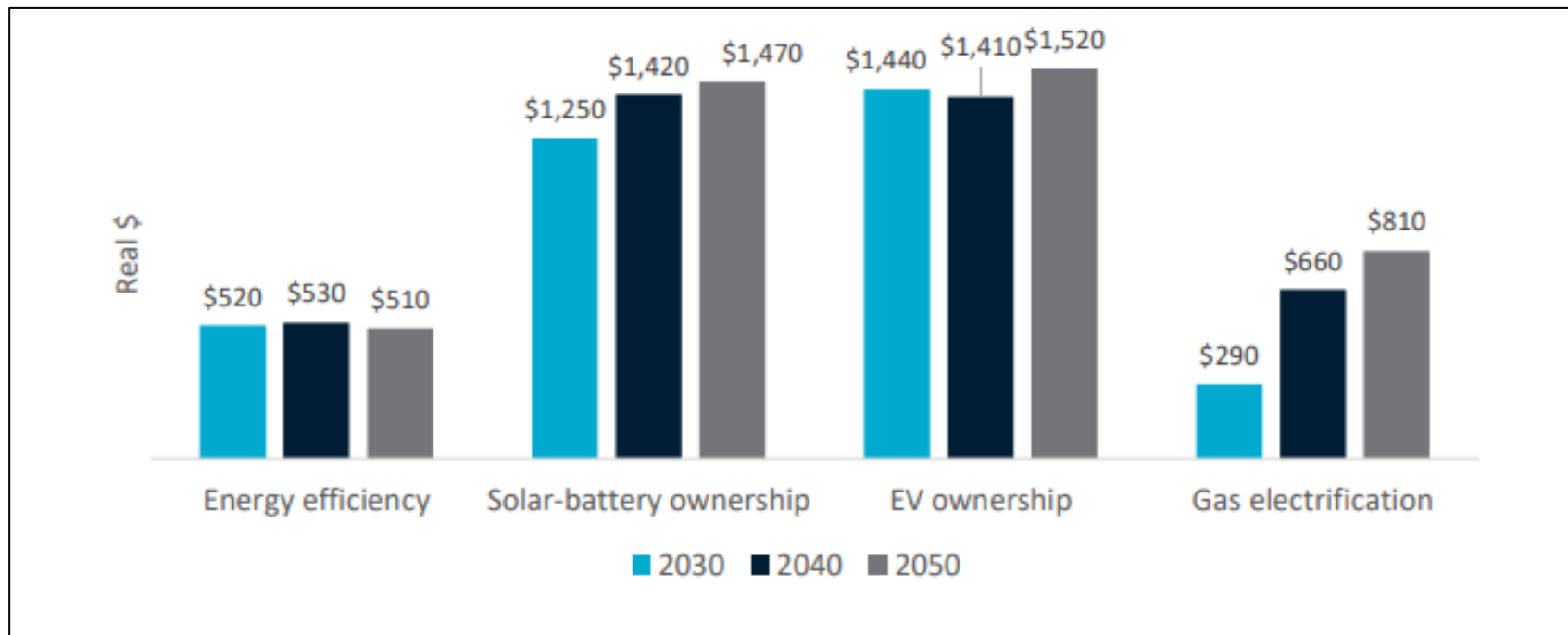
Mood of the Nation 2024 February 2024

Human side of the energy transition: KPMG 2024

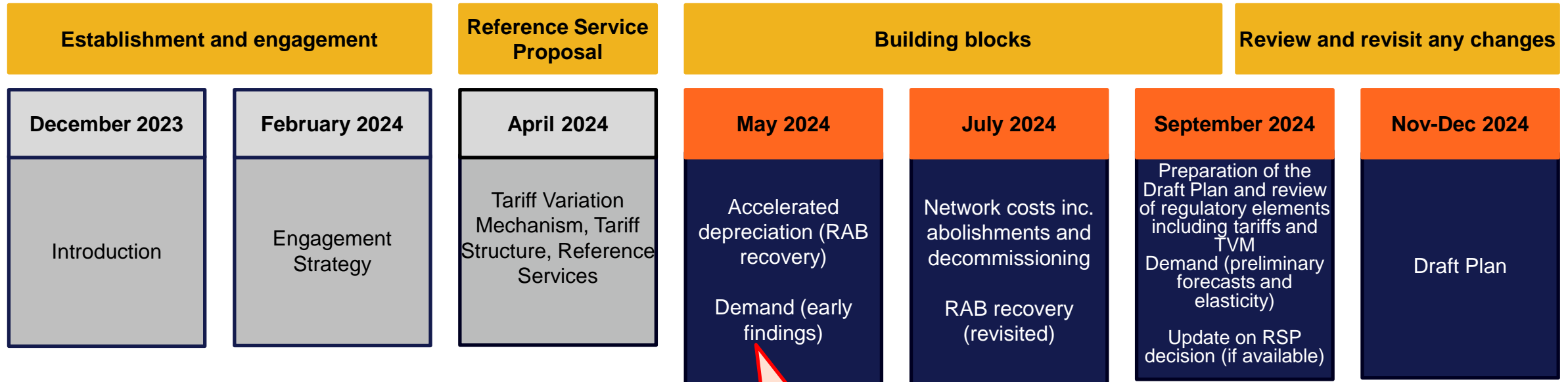
- 81% of Australians are worried about the rising cost of energy and 70% expect energy companies to go ‘green’ without an increase in bills.
- 50% of Australians believe fossil fuels have a part to play in the energy future, 20% want fossil fuels phased out completely

Human side of the energy transition 2024

Estimates of energy efficiency savings from converting from gas to electric (per year) for the average household



ERAP Workplan: overview to December



We are here

ERAP Workplan (May 2024)

Meeting	Meeting 4 29 May	Meeting 5 16 July	Meeting 6 25 Sept	Meeting 7 15 Nov*	Meeting 8 28 Mar 2025*
<p>Items for discussion</p> <p><i>Consider, challenge and guide</i></p>	<p>Consider, challenge and guide:</p> <ul style="list-style-type: none"> Managing equity and fairness: RAB recovery <p>Evoenergy share: Feedback from other engagement</p> <ul style="list-style-type: none"> Future of ACT gas demand (Sagacity Research) Demand elasticity results (if available) 	<p>Consider, challenge, guide:</p> <ul style="list-style-type: none"> Managing equity and fairness: RAB recovery (revisited) Managing equity and fairness: Network costs inc. abolishments and decommissioning <p>Evoenergy share:</p> <ul style="list-style-type: none"> Feedback from other engagement Demand elasticity results (if available) IEP update (if available) 	<p>Consider, challenge, guide:</p> <ul style="list-style-type: none"> Managing equity and fairness: RAB recovery (revisited) Managing equity and fairness: Network costs inc. abolishments and decommissioning <p>Evoenergy share:</p> <ul style="list-style-type: none"> Feedback from other engagement Demand elasticity and demand forecast prelim. results (if available) IEP update (if available) 	<p>Evoenergy share</p> <ul style="list-style-type: none"> Draft Plan update (review and revisit any changes to elements) <p><i>Consider joint CF/ ERAP</i></p>	<p>Consider, challenge, guide</p> <ul style="list-style-type: none"> Review approaches for AA proposal <p>Evoenergy share:</p> <ul style="list-style-type: none"> Feedback on Draft Plan
<p>Other meetings / notable events</p>	<ul style="list-style-type: none"> CF 1: 4/5: Introducing uncertainty and values CF 2: 9/5: Managing uncertainty (TVM/Ref Services) CF 3: 20/5: Managing uncertainty (Tariffs and TVM revisit) ECRC 20/6: Managing equity and fairness (RAB recovery) RSP due 28/6 (no mtgs in June, except ECRC) 	<ul style="list-style-type: none"> CF 4: 27/7: Managing equity and fairness (RAB recovery) CF 5: 1/8: abolishments and decommissioning CF6: 15/8: network costs 	<ul style="list-style-type: none"> ACT Elections 19/10 ECRC 24/10 Abolishment & Decom. Revisit. Draft Plan update 	<ul style="list-style-type: none"> CF 7: Draft Plan update (TBC) ECRC 10/12 Draft Plan update Evoenergy release Draft Plan 12/12 	<ul style="list-style-type: none"> CF 8: feedback on Draft Plan (TBC) Consultation on Draft Plan closes end February