

GN26 Energy Regulatory Advisory Panel (ERAP)

Meeting #4 Summary | Wednesday 29 May 2024, 10.30am – 1.30pm, via MS Teams



Attendees

ERAP members Dr Andrew Nance (Chair), Louise Benjamin, Wendy Russell, Katherine Lowe, Gavin Dufty

Evoenergy John Knox (CEO), Peter Billing (General Manager Evoenergy), Megan Willcox (General Manager Economic Regulation), Gillian Symmans (Group Manager Regulatory Reviews & Policy), Bruce Hansen (Group Manager Gas Networks), Lev Yulin (Group Manager Regulatory Pricing & Finance), Lauren Wachniewski (Communications & Engagement Manager), Leah Ross (Economic Regulatory Manager), Andrew Ponsonby (Principal Economic Modeller)

AER Network Pricing Team (observers) Dale Johansen (Director), Anita Bryant (Assistant Director)

Sagacity Research (presenter) Duncan Rusby (Director) (*attended for demand uncertainty presentation only*)

Agenda

- Demand uncertainty (presentation by Sagacity Research)
- GN26 engagement outcomes and Community Forum observations
- 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. Share outcomes of GN26 engagement to date.
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 Evoenergy's consumers.
4. 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.

1. Welcome

- The chair opened the meeting and invited attendees and observers to introduce themselves.
- No conflict of interest declared, and the ERAP noted the overview of the agenda and meeting outcomes sought.

2. Acknowledgement of Country

- Evoenergy offered an Acknowledgement of Country, reflecting on Reconciliation Week and the importance of truth-telling in difficult conversations.

3. Safety share

- Evoenergy's safety share highlighted the importance of abolishing services in managing safety of the gas network through the consumer-led phase of the energy transition.

4. Demand uncertainty: future demand for gas in the ACT and Queanbeyan-Palerang (presentation by Sagacity Research)

- The ERAP noted the presentation by Sagacity Research on a recent survey of ACT and Queanbeyan-Palerang gas customers on their preferences and future intentions for gas. The presentation identified an acceleration of demand uncertainty over the next five years, and a strong shift in customer preferences towards electrical appliances. The ERAP considered findings that customers will likely replace current gas appliances with electric appliances, at the point of failure (but not before) and that the point of failure for a large portion of aging appliances is likely to occur in the next five to ten years. The ERAP considered these survey findings suggested that the consumption is likely to fall faster than customers numbers, particularly as large load appliances such as heaters are replaced. The ERAP also noted advice from Evoenergy that over the past 15 years, average customer consumption has been falling and this could be the result of a number of factors (appliance switching and weather) and further that in the past 12 months there are approximately 2,000 customers connected to the network who have consumed no gas in the past 12 months. The ERAP sought to clarify how this survey will be used in Evoenergy's demand forecast and were advised econometric modelling will be undertaken that will consider a range of inputs including this report, as well as other customer surveys run by Evoenergy and ACT Government, known customer electrification plans including for ACT Government owned assets and the findings of a soon-to-be commissioned demand price elasticity study. The ERAP observed the use of "uncertainty" in this report may be confusing for readers.

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5. GN26 engagement outcomes

- The ERAP **noted** the presentation by Evoenergy on the outcome of recent engagements, including Stage 1 of the Community Forum, ECRC, retailer and large customers meetings. The ERAP noted that the key themes emerging from these engagements are equity, affordability, transparency and sustainability of the network. In particular, there is strong concern amongst Forum members about the impacts of the energy transition on vulnerable and hard to shift customers.
- The ERAP advocated for Evoenergy to continue its ongoing discussions with the ACT Government in relation to its own transition plans for its assets, as well as its approach to managing and supporting vulnerable and hard to transition members of the community and its plan for complex buildings such as multi-dwelling units.
- The ERAP also noted the summary outcomes from the recent Community Forums including the community's gas network values, feedback on options to manage demand uncertainty (tariff variation mechanism (TVM)) and Evoenergy's tariff structures. The ERAP strongly recommended that Evoenergy refrain from drawing conclusions about customer preferences about the tariff variation mechanism from this engagement and reiterated its view that it is challenging to engage with the community on the TVM without presenting revenue requirements and resulting bill impacts over the next five years. The ERAP suggested Evoenergy focus more on what is important to customers and their values rather than seeking explicit preferences on regulatory approaches.
- The ERAP offered the following observations for Evoenergy to consider as it plans its future Community Forums:
 - It will be important to capture and use the Forum participant's views and suggestions on the issues that are outside Evoenergy's control (including recommendations for ACT Government action i.e. complementary measures such as support for vulnerable customers, or education campaigns, or support programs).
 - ERAP recommended Evoenergy consider:
 - offering an optional, online Q&A session ahead of the next round of Forums to maintain connection and capacity building for participants.
 - engaging with ERAP members on the approach to the next round of Community Forums.

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

- The ERAP and observers **noted** the confidential nature of the material provided by Evoenergy and further noted that illustrative scenarios (both for customer demand and for accelerated depreciation approaches) had been provided to facilitate a discussion about capital base recovery and did not reflect Evoenergy's intended approach. The members and observers agreed the discussion would be confidential.
- The ERAP considered the existing regulatory options, the precedents for capital base recovery and Evoenergy's illustrative scenarios and offered the following observations:
 - When discussing this issue with the community it will be important to facilitate and build on previous discussions about what is important to customers (their values) as they consider the implications of the capital base recovery task over the GN26 period, as well as beyond (i.e. equity, fairness, emissions reductions).
 - While the regulatory framework provides a reasonable opportunity to recover at least efficient network costs (National Gas Law, s23-24), Evoenergy cannot assume that full cost recovery is certain and consideration will need to be given to redundant asset provisions in the National Gas Rules (NGR 85). Further, Evoenergy should consider the full range of levers available as it develops its capital base recovery position (including exit fees, stranded asset compensation, increased fixed charges) (continued next page).

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

- The ERAP considered the existing regulatory options, the precedents for capital base recovery and Evoenergy's illustrative scenarios and offered the following observations (continued):
 - Using a linear accelerated depreciation methodology would result in unacceptable intergenerational outcomes. Ensuring equitable outcomes will require aligning customer demand to the capital recovery task in the immediate term (i.e. GN26 period).
 - Evoenergy should consider opportunities to recover its capital base outside the current scope of the regulatory framework (such as a re-evaluation of the asset base across Evoenergy's energy portfolio). The ERAP offered to support Evoenergy as it considers advice and options on this issue.
 - The ERAP sought clarity on how the AER's Victorian gas network (2023-28) decisions to accept accelerated depreciation for annual real price increases up to 1.5% has been practically implemented.
- The ERAP offered the following observations on engaging with the community about capital base recovery:
 - It will be necessary to demonstrate to the community the intergenerational impacts of the recovery task (i.e. the enormity of the task in the longer-term to 2045). To this end, ERAP offered suggestions to modify the illustrative scenarios to show the five yearly price impacts and areas of uncertainty more clearly. ERAP also suggested overlaying the value of current ACT Government support (such as the Sustainable Households) against the capital base recovery task.
 - Contextualise the capital base recovery tasks in relation to the value of emissions reductions (i.e. the benefits and costs of emissions reductions) and consider ways to graphically demonstrate the value of emissions reductions against the capital recovery task.
 - Consider how to demonstrate the implications of large customers moving off the gas network early (i.e. loss of large consumption load) on households and hard to shift customers.
 - The ERAP reiterated the importance of capturing community recommendations and sentiment about taking early action and support for vulnerable customers.

Actions

Action 4.1 Evoenergy to circulate the Sagacity Research study for ERAP's consideration (out of session feedback is provided on page 4).

Action 4.2 In planning Stage 2 of the Community Forums, Evoenergy consider: offering an optional, online Q&A session ahead of the next round of Forums to maintain connection and capacity building for participants; and engaging with ERAP members on the approach to the next round of Community Forums.

Action 4.3 Material distributed to ERAP will be taken as read for future meetings to allow for Panel member discussion and contribution.

Action 4.4 ERAP recommended Evoenergy contextualise the capital base recovery tasks in relation to the value of emissions reductions (i.e. the benefits and costs of emissions reductions) and consider ways to graphically demonstrate the value of emissions reductions against the capital recovery task.

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Meeting #4 Out of Session observations and responses on item 4 (demand uncertainty: future demand for gas in the ACT and Queanbeyan-Palerang (presentation by Sagacity Research) (by email 7 June 2024)

ERAP: The definition and use of the term ‘uncertainty’ in the report is not particularly intuitive and may confuse readers.

Evoenergy response: Noted. We are mindful that it is not our place to change the terminology used by third party researchers. However, when making the report publicly available we will note that “uncertainty” is defined as the proportion of customers likely to change existing gas appliances to electric appliances.

ERAP: The Panel is very interested in understanding how the research is intended to be used. We are aware of the strong feedback Evo received from the AER and their consultants in GN21 and feel it would be necessary to address the concerns raised if it is intended to be used in a similar way for GN26.

Evoenergy response: The study commissioned as a pulse check on the community’s sentiments and preferences. In the first instance, the report has been used to inform our engagement and as context i.e. the transition is underway but the timing of the transition is uncertain. We have now engaged our consultants to prepare the GN26 Demand Forecast and the survey will be considered as one of many contextual inputs to our formal demand forecast. We will be engaging with ERAP on our demand forecasts in September and at that time expect to be able to provide more clarity on the role of the Sagacity research in forming the demand forecast.

ERAP: In that context, it would be useful to reflect on the GN21 demand forecasts and to contrast the Draft, Revised and Final demand and customer numbers with the actuals to date (2019-20 were the latest ‘actuals’ used in the GN21 decision).

Evoenergy response: As part of our discussion with ERAP in September we will share actuals against AER approved forecasts. We will also include analysis, reflection and discussion on the changing shape of our demand in our draft plan and proposal. We note the AER's GN21 offer for a mid-period re-opening and think it is important for consumers to understand how this has unfolded. This seems even more relevant in the context of GN26 and consideration of re-openers.

We agree that reopeners are an important consideration in managing demand uncertainty. We are open to considering the role of reopeners for managing demand uncertainty in GN26 and will keep these front of mind as we develop the various elements of our draft plan and AA proposal. We welcome ERAP thoughts on the interrelationships between reopeners and the various regulatory elements as we engage with you on these.