

GN26 Energy Regulatory Advisory Panel (ERAP)

Meeting #5 Summary | Monday 15 July 2024, 1.30pm – 4.30pm, via MS Teams



Attendees

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

Evoenergy John Knox (CEO) (*from agenda item 6*), Peter Billing (General Manager Evoenergy), Megan Willcox (General Manager Economic Regulation), Gillian Symmans (Group Manager Regulatory Reviews & Policy), Bruce Hansen (Group Manager Gas Networks), Yolanda Mchao (Regulatory Engagement & Project Manager), Lauren Wachniewski (Communications & Engagement Manager), Ashlyn Napier (Principal Regulatory Economist) (*up to agenda item 6*), Alexis Hardin (A/g Group Manager Regulatory Pricing & Finance) (*for agenda item 7*)

AER Observer Meg Zerafa (Director, Reset Coordination)

Agenda

ERAP reflections on:

- ACT Government's Integrated Energy Plan 2024–2030
- Evoenergy Reference Service Proposal preliminary positions
- Recent engagement outcomes
- Managing equity and fairness:
 - Disconnections
 - Potential customer support step change
- Options for recovery of gas network costs beyond current regulatory framework

1. Welcome

- The chair opened the meeting and welcomed attendees.
- No conflict of interest noted.
- Status of actions from meeting #4 noted.

2. Safety share

- Evoenergy's safety share described how safety risks regarding permanent disconnections (or abolishments) or services connected to a customer's premises are assessed, an ongoing fundamental part of managing the gas network.
- A low or negligible risk is continuously monitored with a review at least every five years. Evoenergy would not be allowed to operate the network if a risk is rated high or extreme and additional controls would be required to reduce the risk to a minimum intermediate rating. An intermediate rating would require Evoenergy to determine if the risk is *as low as reasonably practicable* (ALARP) to enable continuous monitoring. Risks may increase over time as the number of dormant services increase (no cumulative risk) and customer awareness of safety implications diminishes. As more customers switch from consuming to non-consuming, permanent disconnections would eliminate risks entirely.
- Evoenergy in collaboration with Jemena Gas Networks (JGN) and Zinfra has engaged a consultant to conduct an ALARP review; a report on findings will be finalised in August 2024.

3. Integrated Energy Plan 2024–2030 (IEP1)

ERAP made the following observations on IEP1:

- It is less detailed than the Position Paper and does not highlight the complexities and challenges of the transition.
- There are new commitments such as incentives to electrify social housing and government buildings, but support for lower income households is limited.
- Demand and customer number projections in the Position Paper are not included posing a challenge in determining the demand forecast.
- ACT Government's (ACTG's) commitment to collaborate with Evoenergy, the Utilities Technical Regulator (UTR) and Australian Energy Regulator (AER) to find solutions to capital base and disconnections and decommissioning challenges is a positive step. There is however a need to align the development of the gas meter abolishments policy with GN26 timeframes.

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- Evoenergy advised that ACTG has appointed a consultant to conduct an options analysis for permanent disconnections and decommissioning of services and included Evoenergy and JGN in discussions with the consultant. However, the range of possible outcomes and uncertainty being managed through the process has not necessarily been reduced in a material way so Evoenergy will continue to emphasise their importance in continuing discussions with ACTG.

4. Reference Service Proposal (RSP)

ERAP provided the following reflections and feedback on Evoenergy's preliminary RSP submitted to the AER on 28 June 2024:

- The AER's requirement for engagement to inform the RSP (on the tariff variation mechanism (TVM) and tariffs) is impractical and unrealistic at this stage of the review process. Evoenergy does not have a foundation for an informed view on customer preferences especially when they are considering the transition during these early stages.
- While Evoenergy's RSP is preliminary, the revenue cap position appears to be firm, with no clear support from the community, the Energy Consumer Reference Council (ECRC) and the ERAP. Other network service providers opted for different approaches such as hybrid or a price cap.
- Evoenergy's arguments and analysis for a revenue cap in the RSP:
 - Fail to highlight that a revenue cap shields it from the demand risk allocating the full risk to customers. This is a short-term view about risk as a shift from price to revenue cap is not a five-year decision. The demand forecast therefore becomes more important under a revenue cap and how the information is presented to the community so they can make informed decisions on ACTG's complementary measures. Hybrid would help manage the issues and unacceptable network risk.
 - Understates that there is potential for windfall profit to Evoenergy as costs are not all fixed.
 - Do not address the issues entirely as the TVM is about managing the demand uncertainty and there are other issues with larger bill impacts.
 - Require a bit more nuance especially around the justification of the benefits of a revenue cap as a way to reduce the impact of intergenerational price outcomes under a price cap due to the risk of larger and sharper price adjustments each five-year period when the demand forecast is recalibrated.
 - Lead to a significant change in the nature of the relationship between Evoenergy, the community and the government (need for a whole new agreement; what is the pact being developed). As the transition progresses, there will be a need for more information e.g. factsheets.

Evoenergy provided the following responses on the issues raised by ERAP:

- There was no firm position on the preference for a revenue cap when Evoenergy was engaging with the community, ERAP and ECRC as internal and external stakeholder engagement was still underway.
- While Evoenergy may not have ordinarily chosen to engage on the TVM as early in the regulatory process the demand uncertainty challenge remains the same irrespective of the network bill start point and Evoenergy still intends to re-engage on TVM once the start point for customer bills is more known.
- The incentives inherent under a price cap to grow customer demand are no longer appropriate in the ACT context. There are other regulatory elements which have substantially more material bill impacts in the ACT context such as disconnections and capital asset base recovery.
- The TVM cannot avoid the price increases resulting due to a falling demand. The TVM only addresses the difference between forecasts and actuals. Under a revenue cap, the accuracy of the demand forecast is very important and can be updated yearly, providing more accuracy than forecasting five years ahead.
- Moving forward Evoenergy will seek to provide earlier information to ERAP on its thinking on regulatory elements as positions begin to form.

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5. GN26 engagement outcomes

Evoenergy highlighted the following points:

- The community forum July 2024 guest speaker series has been well attended and indicates expected community interest as the transition progresses. ACTG presented on IEP1 at the first session as the community continues to be empowered to form views on the transition.
- Evoenergy advised that 1:1 conversations with some large customers are already underway, and highlight that cost is a significant barrier to transition plans. Large customer forums will be held in August 2024 to further draw out their intentions to electrify.

ERAP provided the following reflections and feedback on Evoenergy's recent engagement:

- Evoenergy could consider developing consumer factsheets as the initial phase of IEP1 is consumer led.
- Results of the large customer survey should be carefully analysed to ensure data is extrapolated appropriately and nuances such as the inclusion of electricity customers, ACTG sites are explicitly outlined since the needs and intentions of the different customers vary (for example ACTG sites include schools and colleges which are part of ACTG's project to electrify buildings in the next 10 years).
- When engaging with retailers, Evoenergy should ask them about their future debt position as this will change with escalating costs and people transitioning off gas (retailers and others in the energy market might start to react due to material risks).

6. Managing equity and fairness: disconnections strategy

Evoenergy highlighted the following points:

- In addition to safety considerations especially for wadded connections and those that have a gas valve turned off, consideration also needs to be placed on equity and fairness and ACTG's greenhouse gas emission reduction targets, a relatively complex and multifaceted issue.
- Under the current framework, retailers require Evoenergy to temporarily disconnect customers with outstanding bill payments. The service does not include ongoing meter reading costs. This has led to the use of temporary disconnections when customers do not intend continue using gas. Evoenergy preliminary RSP proposes to better define when a temporary or permanent disconnection will apply.
- Permanent disconnections are costly (with an expected escalation through the GN26 period, and further to 2045) while temporary disconnections are less expensive. The current cost of disconnecting is structured around physical temporary disconnections and ongoing costs of maintaining the network.

ERAP made the following observations and suggestions on Evoenergy's disconnections strategy and proposed approach to engagement with relevant stakeholders:

- Seek feedback on the different abolishment services with inclusions and exclusions (e.g. scheduling field crew) to be offered within a particular timeframe. This would mean services would be catered to individual circumstances and reduce costs for certain customers. It would also ensure a safe way to manage those who are left on the gas network.
- Clarify that Evoenergy is engaging with consumers to seek qualitative input and feedback to inform its position and what it would advocate for in specific discussions with ACTG, AER and the UTR on the joint gas meter abolishments policy as they might have different views.
- Consider the possibility of a cost reflective temporary disconnection tariff, depending on the nature of temporary disconnections and when they are deemed to be permanent (the extent to which there is an upside to the electricity network).
- Impose a standing charge on customers who have temporarily disconnected and no longer have a relationship with their retailer, as Evoenergy continues to have a financial relationship with the retailer.

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- Consider any possible damage to customers' gardens when permanently disconnecting to minimise negative feedback that might impact the abolishment policy.
- Put weight on the user pays principle for GN26 as this would be fairer to remaining customers, instead of socialising the costs. Revisit the appropriate approach in the longer term, as other more efficient solutions may become available and once wider-scale network decommissioning becomes feasible/economic. Develop a user pays approach for the next five years including a remediation policy, with a review when Evoenergy learns more about the pace of the transition.
- Guiding principles for developing a position on disconnections should not only focus on safety and equity, but also on the long-term interests of customers outlined in the National Gas Objective around price, and the mandated delivery on government policy.
- ERAP indicated support for permanent disconnections where appropriate and the user pays approach for the next five years, given socialisation would lead to cross subsidies and those left behind carrying significant costs. Behavioural economics would also play a part regarding what customers are willing to do based on incentives or obligations that fall into that.

7. Managing equity and fairness: consideration of opex customer transition support step change

Evoenergy highlighted the following points:

- Expenditure forecast is under development and will be provided to the ERAP at the next meeting in September 2024.
- The proposed customer support step change would be part of the opex or opex allowance and is aimed at providing ACT customers with support through the energy transition.

ERAP made the following observations and suggestions on Evoenergy's consideration of a customer support step change for engagement with the GN26 community forum:

- Evoenergy is in a different position to other networks due to IEP1 and as such should identify a gap or deficit that is not already met by ACTG's measures and seek funding for a specific program that is bespoke and adds value to ACT customers. Vulnerable and low-income customers are accounted for in the IEP1. Identifying and defining a gap will take time as it will require consideration of the progress and evolution of government policy and support measures so a staged engagement approach will be more appropriate. As customers leave the network, there is a utilisation benefit of their electrification and market failures therefore Evoenergy would want to improve the utilisation of the electricity network and not necessarily add to costs in a way that will not be recovered. Examples of possible support options include:
 - call center staff upskilling to respond to an increase in the volume of customer calls
 - informing customers about demand forecasts under a revenue cap
- Evoenergy will need to keep the AER informed of the possibility of a step change early and foreshadow in its Draft Plan noting that AER acceptance relies on proper justification and community support.

8. Options for recovery of gas network costs beyond the current regulatory framework

The ERAP provided the following reflections and feedback on Evoenergy's proposed scope on long term asset cost recovery options:

- On the factors under consideration:
 - *Precedent for future industry structures* is not as important as Evoenergy is in a unique position as available options are broader as it is a gas and electricity network provider. Evoenergy is expected to provide a safe and reliable service for those left behind and needs to be incentivised to remain to the end.
 - *An efficient or optimised capital asset base for the electricity network* (utilisation of the network) could be a factor as there are efficiencies to be gained if incentives are well placed.

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- *Flexibility* on the time period over which Evoenergy might recover any unrecovered costs as a jurisdictional scheme from the electricity network.
- There is a broader social benefit as reflected in the value of emissions reduction and putting a sense of scale of what Evoenergy is trying to achieve and putting a scale around what is outside the regulatory framework. Strength of the ACTG balance sheet is a factor and including consistency with policy.
- Evoenergy should look at a breakdown of asset types in the capital asset base and current asset lives that extend beyond 2045 as it will need to understand the maximum pain point that it can inflict under the AER of recovering via accelerated depreciation. Also, identification of the buckets of money, not just the unrecovered capital costs now, but also future costs that it cannot put a figure on e.g. decommissioning. Then work out which costs would be practicable for electricity customers to pay for.

Evoenergy provided the following responses to ERAP's questions and suggestions:

- In response to an ERAP question on the residual scrap value of the assets, Evoenergy advised that there may be some small residual scrap value for the materials, however there is a capital investment involved and labour costs to install the assets, and additional labour required to extract the assets. JGN is working on a decommissioning network plan that will consider various options.
- In response to ERAP suggestions that Evoenergy shareholders forego recovery of the network costs, Evoenergy advised that at this point of the transition, the options under consideration are those which could achieve full recovery of the capital asset base and decommissioning costs.

9. Other business Nil. Further feedback or suggestions from the ERAP can be provided to the chair out of session.

The meeting closed at 4.37pm

Outstanding actions

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.