

# GN26 Energy Regulatory Advisory Panel (ERAP)

Meeting #6 Summary | Tuesday 24 September 2024, 1.30pm – 4.30pm, via MS Teams



## Attendees

ERAP members Dr Andrew Nance (Chair), Wendy Russell, Louise Benjamin, 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), Leah Ross (Economic Regulatory Manager), Yolanda Mchao (Regulatory Engagement & Project Manager), Lauren Wachniewski (Communications & Engagement Manager), Lev Yulin (Group Manager Regulatory Pricing & Finance), Alexis Hardin (Manager Regulatory Finance & Strategy)

AER (agenda item 3) Arek Gulbenkoglou (General Manager Network Expenditure), Andreas Blahous (Executive Director Reset Coordination & Strategy), Dale Johansen (Director Network Pricing), Bethanie Adams (Assistant Director Network Pricing), Anita Bryant (Assistant Director Network Pricing)

## Agenda

- Capital redundancy provisions in the National Gas Rules
- Community and stakeholder engagement outcomes
- Preliminary 2026–2031 gas demand forecasts
- Preliminary 2026–2031 expenditure forecasts

## 1. Welcome

- The Chair opened the meeting and welcomed attendees.
- No conflict of interest noted.
- Status of outstanding action from meeting #4 noted.

## 2. Safety share

Evoenergy's safety share focussed on psychosocial safety, highlighting ways to manage stress, heavy workloads and difficult interactions that can affect mental health and well-being at work. Some of the hazard management tips included checking in regularly with staff, mindful behaviour especially during busy or stressful periods and speaking up and accessing support mechanisms to address issues early before they escalate. Useful tools and resources are available on the Safe Work Australia website.

## 3. Capital redundancy provisions in the National Gas Rules (NGR)

Australian Energy Regulator (AER) representatives were invited to attend and there was discussion among ERAP, AER and Evoenergy on different perspectives and interpretations of Rule 85 of the NGR on capital redundancy provisions.

ERAP made the following observations and points:

- ERAP's view is that an asset does not have to be near or fully redundant before a cost sharing mechanism can be applied to a network service provider.
- ERAP's view is that Evoenergy's customer engagement should include presenting the capital redundancy mechanism as an option.
- ERAP's view is that Rule 86 provides protection from uncertainty of the speed of the gas transition as it allows capital that has been considered redundant under Rule 85 to be added back to the capital asset base on the basis that the assets are used again or used more than they were when they were removed from the asset base.

Evoenergy noted its views on Rule 85 do not align to ERAPs.

The AER noted its full consideration of the applicability of the provision would be determined at the Draft Decision stage of the GN26 review process (November 2025).

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## 4. GN26 engagement outcomes

Evoenergy highlighted the following points on recent engagement:

- Communication Link prepared a summary report on community forum sessions four to six held in July and August 2024. The report provides a balanced view on the feedback from all participants based on quantitative and qualitative sources of information.
- The community forum prepared its report at session six outlining key priority areas and recommendations, working well together to form collective views following intense sessions on complex topics and difficult issues.
- The forum's recent exit survey results indicate a degree of built capacity and an interest in participating in additional GN26 community forum sessions and future energy engagement opportunities outside the forum, an opportunity for Evoenergy to retain a strong spine of community representatives.
- Discussions with large customers (government and private sector) are underway via forums and one-to-one conversations with Evoenergy staff as part of business-as-usual engagement around electrification, the transition and customer intentions. The Integrated Energy Plan (IEP) does not provide targeted support for large private sector customers and a key theme emerging from these customers relates to the cost of the transition.
- Evoenergy's community forum participants were independently recruited by Communication Link using direct communication and social media to seek expressions of interest from Evoenergy's gas customers (including previous reset engagement participants). Respondents were stratified against ACT regions, income ranges, language and gender diversity, home ownership using the latest census data to ensure a representative balance of members. The forum initially included three NSW representatives.
- Some gaps have been identified in terms of reaching certain customer segments e.g. small/medium size businesses, vulnerable customers and NSW customers, and Evoenergy is considering how to engage with these cohorts.
- Two submissions on Evoenergy's reference service proposal (RSP) were received by the AER, from ERAP and ACT Government.
- Evoenergy's intended release of a Draft Plan for public consultation will be delayed from December 2024 to mid-late February 2025.

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

- Members observed the breadth and depth of Evoenergy's engagement including the deliberative and respectful report writing approach by the community forum at session six and highlighted that while more engagement is required to bridge any gaps, time and resource constraints are a relevant consideration.
- Contextualisation of the profile of the cohorts Evoenergy has engaged with to a broader population like the ACT or Evoenergy's gas network would be useful to cross reference. This would enable identification of any gaps and provide guidance on segments requiring any further engagement e.g. renters, vulnerable groups and NSW customers. Certain cohorts like small/medium size businesses can be difficult to engage deeply with.
- In the absence of presenting alternative options such as capital redundancy to the community forum, Evoenergy's intended presentation of preliminary bill impacts to the community forum at its next sessions might distort the forum's feedback, and as such Evoenergy may not meet the Better Reset Handbook's requirement to equip customers with accurate information.
- Evoenergy will need to ultimately show in its Draft Plan how engagement and feedback received has informed its decisions e.g. Evoenergy's RSP position to switch to a revenue cap following engagement with customers.

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## 5. GN26 preliminary gas demand forecast

Evoenergy highlighted the following points:

- Consultants, the Centre for International Economics (CIE) have been engaged to assist with the development of the GN26 demand forecast. The forecasts presented are preliminary as CIE are continuing to develop them, test assumptions and scrutinise available data. The forecasts will change over the next 6 to 12 months as more data becomes available including the outcomes of Evoenergy's price elasticity study which will focus on customers' responsiveness to different levels of gas prices in the future, their preferences for different types of appliances and decision points around when they might electrify.
- Evoenergy discussed the performance of demand against the forecast for the current period and indicated that while the decline in customer numbers was later than expected, it has since occurred at a faster rate.
- Evoenergy discussed the forecast methodology and emphasised the considerable uncertainty in the timing and pace of the decline in gas demand over the GN26 period, including challenges in identifying the appropriate starting point for the forecast, given a significant decline in consumption in the latest annual data.
- Evoenergy noted that CIE is mapping the forecast against the IEP scenarios to 2030 and will also consider outcomes of a price elasticity study currently underway ahead of the final demand forecast for the access arrangement (AA) proposal.

ERAP made the following observations and points:

- There will be a need to bring together electricity and gas forecasts soon (e.g. in the next three years) as the IEP stages progress, and more data becomes available.
- Evoenergy should consider social research which challenges economic modelling as it shows that the connection between prices and behaviour differs across different groups e.g. a study at the Australian National University on intentions to move from gas to induction stoves reflected that it had more to do with the cycle of renovation and life factors rather than economic rationale. Consideration should also be placed on modelling constraints in the market to deliver electrification e.g. tradespeople.
- Since actual demand is above the forecast in the first three years of the GN21 period, Evoenergy will have over recovered revenue under the current price cap during this time, illustrating the shift of demand uncertainty risk to customers under a revenue cap. ERAP's view is there are many assumptions being made and a breadth of possible outcomes in forecasting for GN26 and it does not consider Evoenergy's customers to be well equipped to respond or bear the risks.

## 6. GN26 preliminary expenditure forecasts

Evoenergy highlighted the following points:

- Preliminary expenditure forecasts are based on various placeholder assumptions and will continue to be updated ahead of the Draft Plan and AA proposal. Forecasts for GN26 are aimed at minimising expenditure while maintaining the safety, reliability and security of the gas network.
- Engagement with the community forum on a customer support step change elicited mixed views regarding whether Evoenergy or the ACT Government was responsible therefore Evoenergy intends to exclude the step change in the Draft Plan and seek further feedback through the consultation on specific measures it could provide.
- Capital expenditure (capex) has been declining steadily over time, with expenditure for GN21 expected to be 15 per cent below the allowance. The capex forecast for GN26 reflects meter renewal expenditure, with some market expansion (new connections) in NSW, but no major projects planned.
- For operating expenditure (opex), Evoenergy has applied the standard AER base-step-trend methodology, using 2023-24 as the base year. Consultants CEG have been engaged to benchmark Evoenergy's opex performance against other gas distribution businesses. Preliminary results support the efficiency of Evoenergy's base year.

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## 6. GN26 preliminary expenditure forecasts (*continued*)

ERAP made the following observations and points:

- The decline in capex should be shown with reference to 2024-25 when the ban on new gas connections came into effect, to allow for a like for like comparison. Similarly, opex for GN26 should be compared with opex for previous periods excluding ancillary reference services.
- Consideration should be placed on the economic viability of renewing meters rather than purchasing new ones, depending on policy and technical regulation requirements. Discussion with the technical regulator about the standards that are being imposed and whether there is scope for change will be useful as there is an expectation that the meters will become redundant by 2045. Noting the need to find the balance between a reasonable capex program while minimising the operational risk of meter service failure.
- Evoenergy should list the steps it is taking to mitigate risks to customers by minimising expenditure forecasts including no step changes in opex, reducing meter renewal capex as far as possible and discussing the Utilities Network Facilities Tax for gas with the ACT Government.

## 7. Other business

Evoenergy highlighted the following points:

- The preliminary demand forecast, tariff rebalancing options and indicative bill impacts are intended to be presented to the community forum in November 2024.

ERAP made the following observations and points:

- There is a challenge for Evoenergy to seek feedback from customers about a scenario in GN26 which assumes full capital recovery from a diminishing gas customer base without presenting the capital redundancy provision. This might distort the feedback Evoenergy receives from the community forums on customer preparedness to absorb accelerated depreciation when there are intergenerational equity impacts. Customer support for the Draft Plan will be limited as customer preferences will not be adequately reflected.
- At community forum session six, participants showed an impressive ability to process very complex topics and content working well with engagement consultant Communication Link in preparing the forum's report. The process highlighted the importance of involving everyone in the journey.

**The meeting closed at 4.17pm.**

## Status of outstanding action

**Action 4.4** ERAP recommended Evoenergy contextualize 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.

*Ongoing: Evoenergy is considering this and has commenced analysis.*