evoenergy

Community forum

Session 3

20 May 2024

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.

evoenergy

Customer share

Tony Ryan, Vegetation and Inspection Manager, Evoenergy

evoenergy

Welcome

Helen Leayr, Facilitator
Communication Link

Communication Link

Ask.
Listen.
Understand.
Achieve.

Independent facilitation

Facilitation: Helen Leayr

Supporting facilitators:

Rosie Garland

Rennae Sillett

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

Technical housekeeping

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

Today’s agenda

- Welcome
- Recap: demand uncertainty and tariff variation mechanisms
- Revisit revenue recovery options and your feedback from session 2
- General discussion
- Tariffs - presentation and discussion

Working dinner

- Activities to consider options
- Wrap up and session close

Community forum work program

Session 1

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

Session 2

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

Session 3 (midway)

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

We are now midway**!**

Session 4

- Reflect on session 3
- Learn about **network costs** that need to be recovered
- Explore equity and fairness considerations
- Provide feedback on what is important.

Session 5

- Review session 4
- Learn about **network abolishment**
- Explore customer impacts in the recovery of network costs
- Provide feedback on how best to recover these costs.

Session 6

- Learn about **costs to maintain the network**
- Continue to explore equity and fairness considerations in the recovery of network costs
- Consider the costs and different customer impacts.

Review and reflect – Additional session Consider Evoenergy's draft plan
Does it reflect what we told them?
What other feedback do we have?

evoenergy

Recap: session 2

Helen Leayr
Communication Link

DRAFT Community forum summary

Session 2, 9 May 2024

- Learn about revenue recovery options
- Consider options, including managing uncertainty and risk
- Provide feedback

Attendees

- 32 forum members
- 3 observers:
  2 Evoenergy Energy Regulatory Advisory Panel; 1 Australian Energy Regulator
- 9 Evoenergy staff

Presenters

- Megan Willcox, General Manager Economic Regulation
- Gillian Symmans, Group Manager Regulatory Reviews and Policy
- Ashlyn Napier, Principal Regulatory Economist

Facilitator

Helen Leayr, Communication Link

Revenue recovery options

Following presentations to explain the options between a revenue cap and price cap and the potential impact on customers, groups considered a range of impacts for different customers using personas.
In the Slido poll generally, about half the room thought a revenue cap was most appropriate, a third preferred a price cap and the remaining didn't know yet. The group then considered different scenarios and the potential views of different customer types and generally felt the **price cap** was most appropriate for individual customers particularly over a 5-year period.

Managing risk while considering customer values

The group completed worksheets. The groups were asked to consider how to best manage risk while considering customer values. The groups were asked; How should Evoenergy reflect the values you have identified as they consider the revenue recovery options? On balance, what do you think is the best option – consider Evoenergy, the customer and the broader community? The group highlighted the values of fairness and considered the cost impacts on customers, particularly those more vulnerable. There were mixed views on which is most appropriate between the revenue cap or price cap. This will be discussed further in session 3.

Making the transition

The group considered how quickly they would shift your energy use from gas to electricity with consideration of a slow transition (10 years or more), medium transition (5-10 years) and fast transition (in the next 5 years).

A slower transition was the most likely option, followed by a medium transition and a faster transition being the least likely option. Roughly a third of votes were not sure. More than 50% said their view does not change, when asked if there are less customers using gas.

Next steps

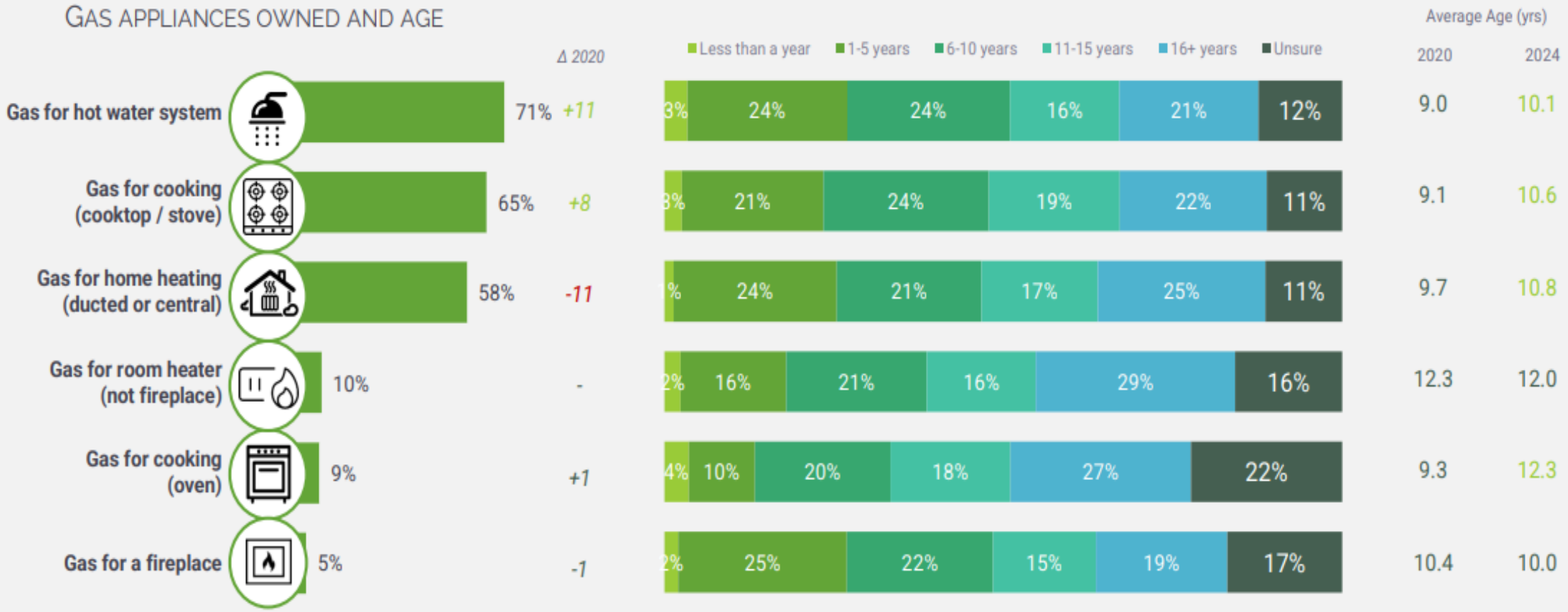
- Session 3, 20 May 2024
- Keep in touch via Slack
- In session 3 revisit tariff variation mechanisms and the responses from the last activity in session 2.

evoenergy

Sagacity Research on customer demand

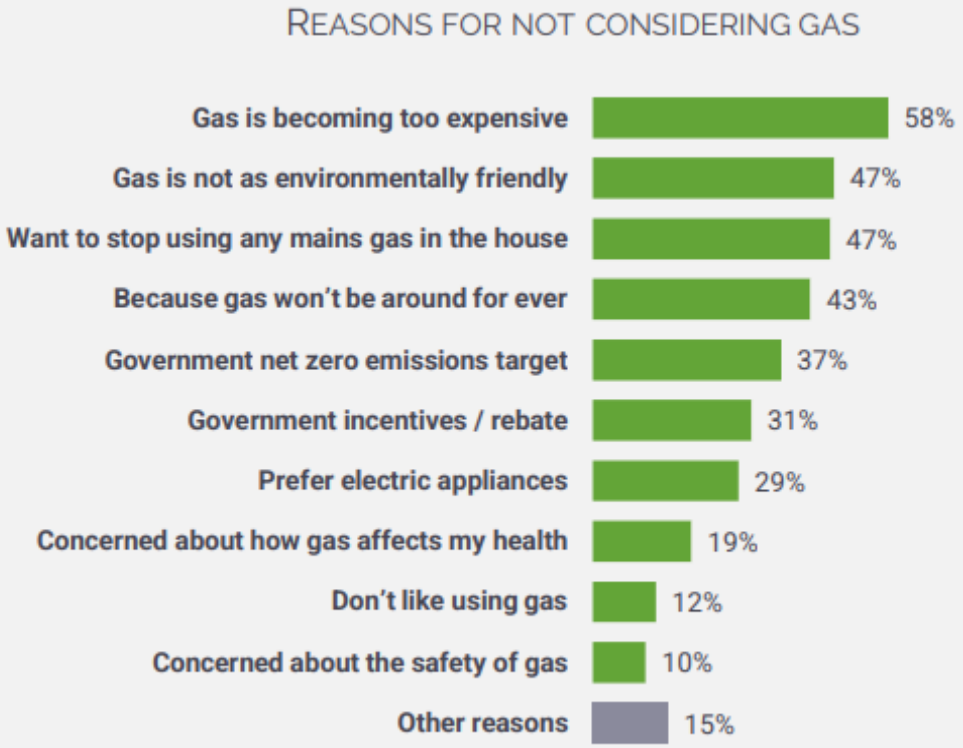
Megan Willcox, General Manager
Economic Regulation

Household gas appliances are getting older and they are being replaced with electric appliances



Source: Future Demand for Gas in the ACT, Sagacity Research 2024

The reasons households are changing gas appliances to electric vary



	Have Solar	Considering Solar	Not considering Solar
Gas is becoming too expensive	57	63	47
Gas is not as environmentally friendly	48	49	39
Want to stop using any mains gas in the house	48	50	26
Because gas won't be around for ever	37	48	55
Government net zero emissions target	37	40	25
Government incentives / rebate	32	34	13
Prefer electric appliances	34	25	15
Concerned about how gas affects my health	21	19	11
Don't like using gas	13	14	4
Concerned about the safety of gas	9	11	16
Other reasons	18	12	6

Often related to making the best use of solar

"Have solar prefer to use it less expensive"
"Solar power recently installed"
"Able to run electric off solar battery"
"Getting Solar system"
"Electric appliances for more benefits of rooftop solar"
"I now have Solar and want to move to an electric system to reduce my overall costs"

Source: Future Demand for Gas in the ACT, Sagacity Research 2024

evoenergy

Recap: managing demand uncertainty

Reporting back on last session

General group discussion

Recap: Options for managing demand uncertainty

The Australian Energy Regulator enforces the National Gas Rules on how Evoenergy can earn revenue

	1 Revenue cap	2 Tariff/price cap
Demand	Prices adjusted for **actual demand**.	Prices based on **forecast demand**.
Customer prices	Prices are **adjusted annually** based on actual demand to ensure network costs are recovered.	Prices are **set for the 5-year** regulatory period and are based on forecast demand.
Customer impacts	Customers pay the amount networks need to recover costs – **no more no less.**	**Customers pay more or less** than the amount networks need to recover costs.
Revenue	Maximum **revenue is set** for the 5-year regulatory period.	**Revenue is variable** for the 5-year regulatory period.
Network profitability	Gas distribution networks cannot earn more than the revenue allowance or less than the revenue allowance, **recouping only efficient costs**.	Gas distribution networks can earn more than the revenue allowance (profit) or less than the revenue allowance (loss), making a profit or loss.

Prices and revenue are updated annually for market factors such as inflation or AER-approved pass throughs.

Revenue recovery mechanism considerations …

Under a price cap Evoenergy bears the risk – we cannot make up for the over or under recovered revenue

Given our costs are largely fixed, and demand will decline, we expect to see year-on-year price increases regardless of whether a price cap or revenue cap applies

There will be changes in total household energy costs (e.g., electricity and fuel)

Other considerations include efficient tariff structures, administrative costs, current regulatory arrangements, desirability of consistency of regulatory arrangements, risk sharing arrangements, and any other relevant factors.

We will revisit this discussion when we can share estimated bill impacts

Feedback on activity 3 – ‘On balance what is the best option for Evoenergy, the customer and the community?’

Revenue cap (Evo, community, consumer) + profit to Evo Provides certainty of service Yearly nudges through change of price - As opposed to the cap price which may shield from price rises (5 year price trap) Encourage less procrastination (people may wait till end of each 5 year period) Evo should be transparent on its prices and encourage information from retailer	Evo - revenue cap Customer - depend on circumstance Community – price cap (5 year)	If you do 5 year, there will probably be a spike it when the next revenue allowance is determined Look at the role of AER in determining it	What incentives to give to people? Different views for Evo. Could lose a lot of money with the price cap, but revenue cap would allow them to do forward planning (over next 5 years).	Price certainty. Then everyone can budget towards the end goal Given Evo is half government owned and the transition is government policy, should Evo not bear the risk, rather than the consumer? I think the focus should be on the needs of the broader community. Financially supporting transition for those who need it. Climate change will affect all regardless of income bracket, but it will disproportionately affect low SES. > Transition addresses causes of climate change and considers broader community Isn’t the whole point of business risk vs reward? Why are the consumers having to carry the risk so business can have the reward Climate change is the demon and we must adjust or the world suffers. So, a lot of financial prioritising needs doing.

What about over a longer period?

If actual demand is equal to forecast demand
there is no difference between a price cap and a revenue cap

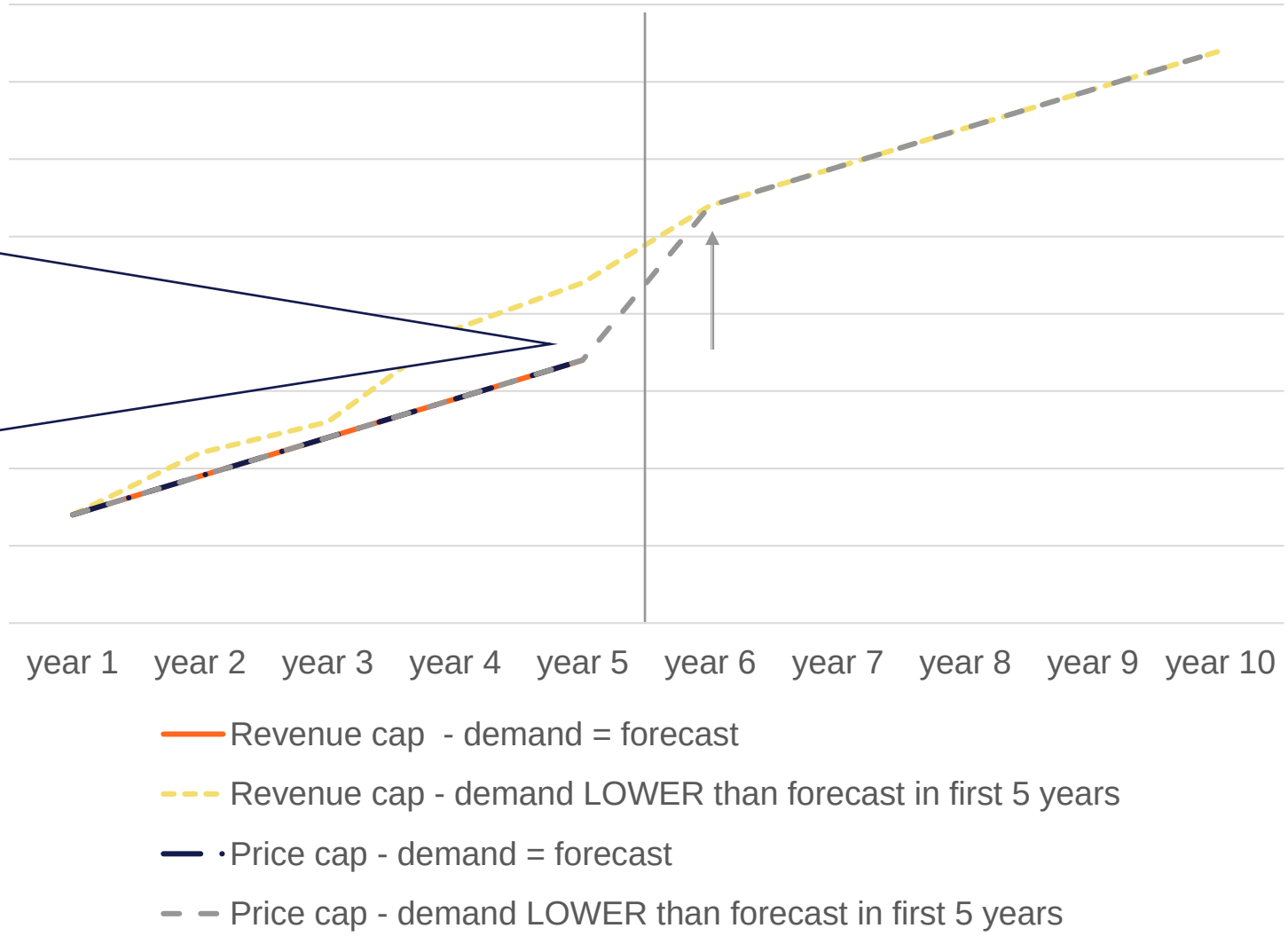
If demand is LOWER than forecast…

- **Under a revenue cap:**
  - Changes in prices will be incremental and there will not be a big step up between two 5-year periods
  - Evoenergy recovers its efficient costs

- **Under a price cap:**
  - Changes in prices will be predictable over the period, but there will be a bigger step up between two 5-year periods
  - Evoenergy may make a loss
  - The AER will reset the demand forecast for the next period

Illustrative change in bill over two 5-year periods

Faster energy transition (i.e. demand lower than forecast in period 1)



What about over a longer period?

If actual demand is equal to forecast demand
there is no difference between a price cap and a revenue cap

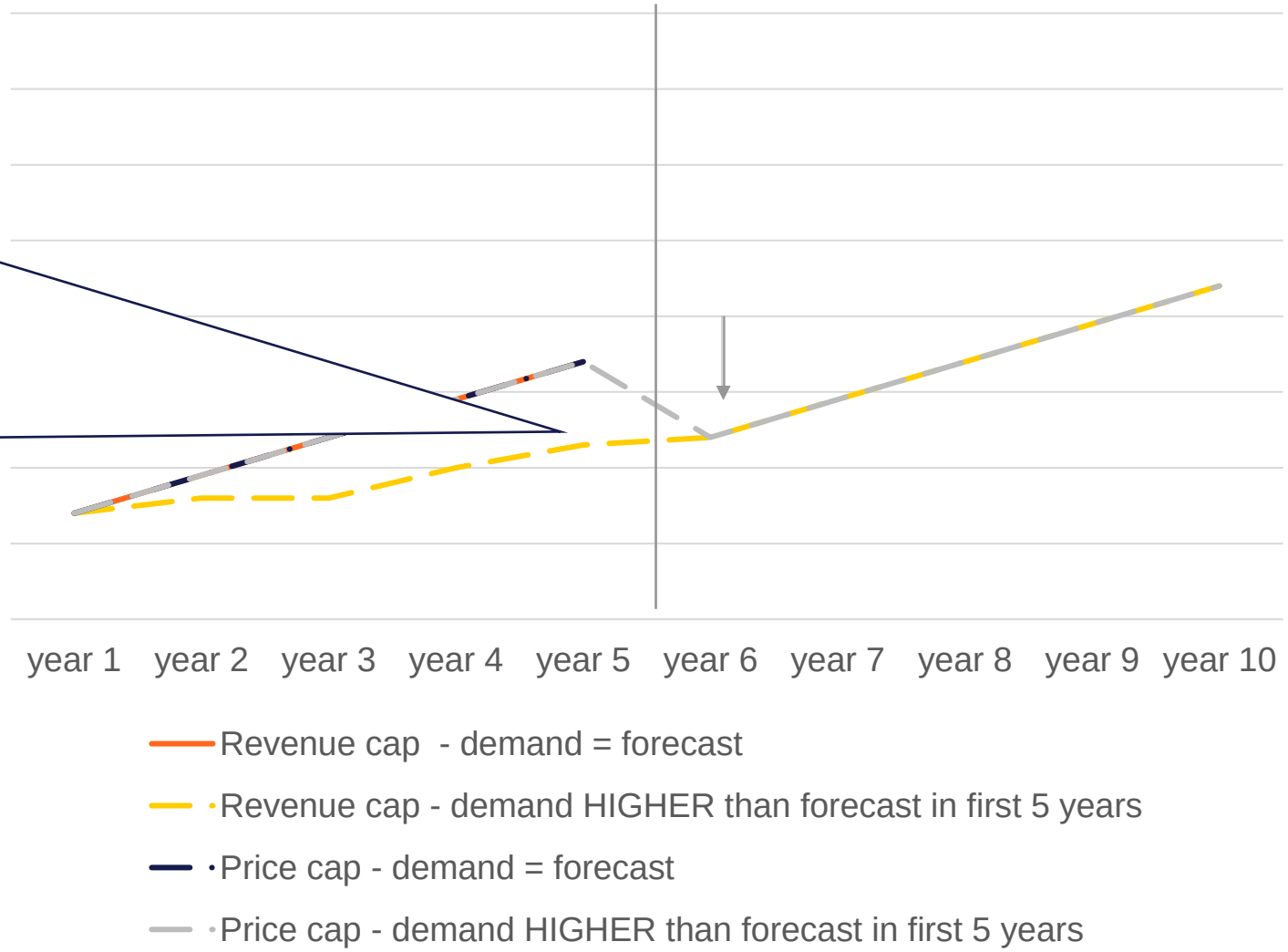
If demand is HIGHER than forecast…

- **Under a revenue cap:**
  - Changes in prices will be incremental and there will not be a big step up or down between two 5-year periods
  - Evoenergy recovers its efficient costs

- **Under a price cap:**
  - Changes in prices will be predictable over the period, but there will be a bigger step down between two 5-year periods
  - Evoenergy may make additional profit
  - The AER will reset the forecast for the next period

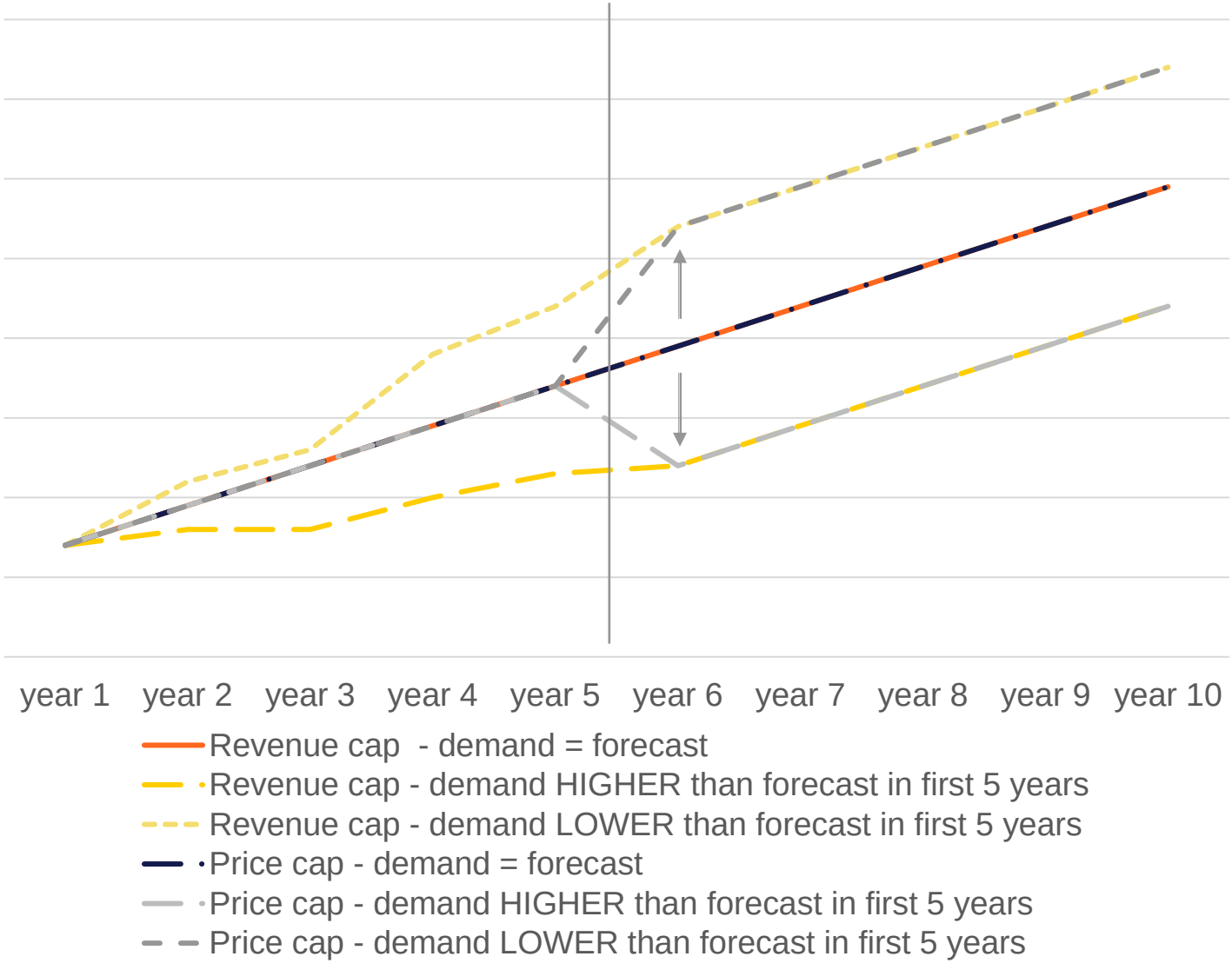
Illustrative change in bill over two 5-year periods

Slower energy transition (i.e. demand higher than forecast in period 1)



What about over a longer period?

Illustrative change in bill over two 5-year periods under both fast and slow scenarios



Now consider for example:

- customer A leaves the network in year 3
- customer B remains connected

Under a revenue cap:

- Customer B will pay more than forecast from year 4 because customer A has left

Under a price cap:

- Customer B will pay the same as forecast in years 4 and 5
- Customer B will experience a step up in year 6 when the forecast is revised for the 2nd period

evoenergy

slido

Discussion

When you consider a longer term view of the price or revenue cap, does your view change on the benefits and and risks of the different approaches? Why?

ⓘ Start presenting to display the poll results on this slide.

What is the best risk sharing arrangement for everyone?

1 Revenue cap

Your *bill could be more or less than forecast*, depending on whether demand is lower or higher than the forecast.

Evoenergy recovers its costs - no more and no less.

2 Price cap

Your bill will be similar to the forecast and is based on forecast demand. *You might pay more or less than what it costs to supply you.*

Evoenergy earns *profit* if customer use more gas, and makes a *loss* if customers use less gas.

3 Hybrid

This approach shares the demand risks between Evoenergy and customers.

There are a range of settings that could be used to set a hybrid mechanism.

slido

What are your thoughts on a hybrid approach?

ⓘ Start presenting to display the poll results on this slide.

slido

What other information do you need on this issue when we revisit later in the program?

ⓘ Start presenting to display the poll results on this slide.

evoenergy

Evoenergy's services and tariffs

Lev Yulin, Group Manager Regulatory Pricing and Finance

The services provided by Evoenergy's gas network

Anticipated changes in demand over the next 5 years

Transport and delivery of gas to households and businesses

Meter reading services (including installation, maintenance and read of meters)

Ancillary activities (abolishment, disconnections, special meter reads, hourly services charge, reconnections, disconnections and reconnections)

Over 98% of Evoenergy's revenue comes from these services

Interconnection service

Negotiated service

We'll learn more about abolishments and disconnections, as well as the costs of the services in later sessions

evoenergy

Recap: How our revenue was calculated for the current five-year period

Maximum allowed revenue in current regulatory period (1 July 2021 – 30 June 2026)

~$335 million / ~$67 million per year

=

Evoenergy's costs are largely fixed

~$380 million value of assets
(this is also referred to as the regulated asset base (RAB) or capital asset base

~$38 million per year	**Operating costs**	The ongoing costs needed to maintain and operate the network
+		
~$18 million per year	**Return on assets** (value of assets x rate of return)	The value of the network assets
+		
~$10 million per year	**Return of assets** (depreciation)	The return of capital over the useful life of the assets
+		
<$1 million per year	**Tax allowance**	Income tax liabilities
+		
<$1 million per year	**Revenue adjustments** (incentive schemes)	Adjustments for performance against incentive schemes

Gas network tariffs

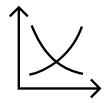
Network tariffs are paid by retailers for using the gas network to deliver gas to customers

Tariffs determine **how** customers are charged for using the gas network

The AER approves the structure of Evoenergy's tariffs, and requires that they:

- Signal the costs of using the gas network
- Reflect the gas usage characteristics of different 'classes' of customers
- Consider customers' ability and likelihood of responding to price signals
- Enable the recovery of efficient network costs

Why are network tariff structures important for 2026−2031?



Customer responses to tariffs are likely to increase

Emissions considerations

Fairness and equity across customers

Increased demand uncertainty

evoenergy

Gas network tariffs and your bill

Wholesale gas — 35%

Evoenergy network tariffs — 30%

Gas transmission costs — 16%

Retailer costs — 19%

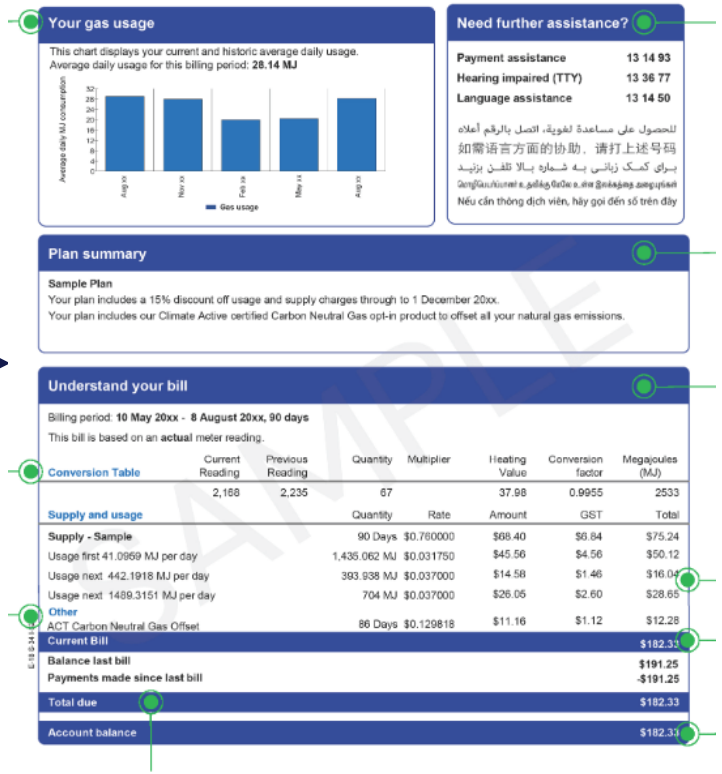
Gas Retailers

ActewAGL · origin · EnergyAustralia · red energy

and others

Gas retail tariffs

Gas Bill



Retail tariffs may have a different structure to network tariffs

ACT Government data, 2022

Evoenergy’s network tariffs

Customers are grouped based on their usage of the gas network

Customers using **less** than 10,000 GJs a year

Volume individual tariff **~150,000 customers**
for individually metered homes and businesses

Volume boundary tariff **9 customers**
for large multi-unit buildings with a common meter

An average residential customer uses around 35 GJ per year
An average small to medium business uses around 250 GJ per year

85% of gas volumes
95% of revenue

Customers using **more** than 10,000 GJs a year

~40 customers

Capacity and throughput tariffs
for very large commercial customers billed based on the volume of gas used or the maximum volume of gas used over an hour or a day

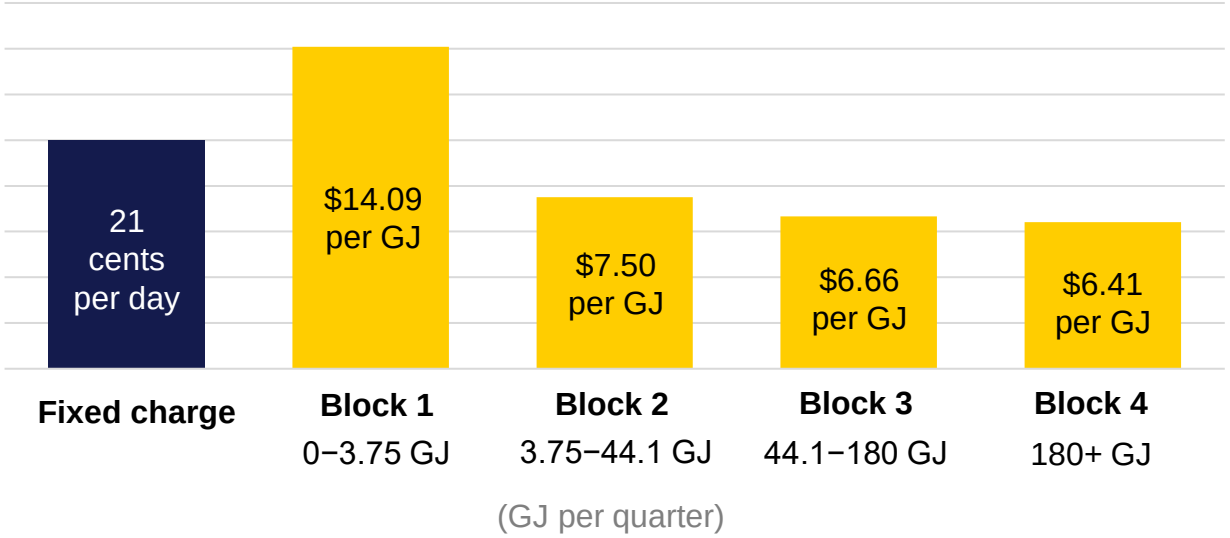
15% of gas volumes
5% of revenue

Evoenergy’s network tariffs

Structure of Evoenergy’s Volume Individual Tariff
(applies to most residential and business customers)

Fixed Charge	A fixed charge paid daily, regardless of how much gas is used.
cents per day	Helps to cover the fixed costs of maintaining the network.
Consumption Charges	A charge based on the volume of gas consumed.
dollars per gigajoule (GJ)	The price per GJ **decreases** the more gas is used (the **‘Declining Block Structure’**)

Evoenergy gas network prices 2023-24



Evoenergy’s network tariffs

Explanation of the current structure

Relatively higher Block 1 charge

- Keeps fixed charge lower
- Supports usage-based pricing
- Reflects high fixed network costs

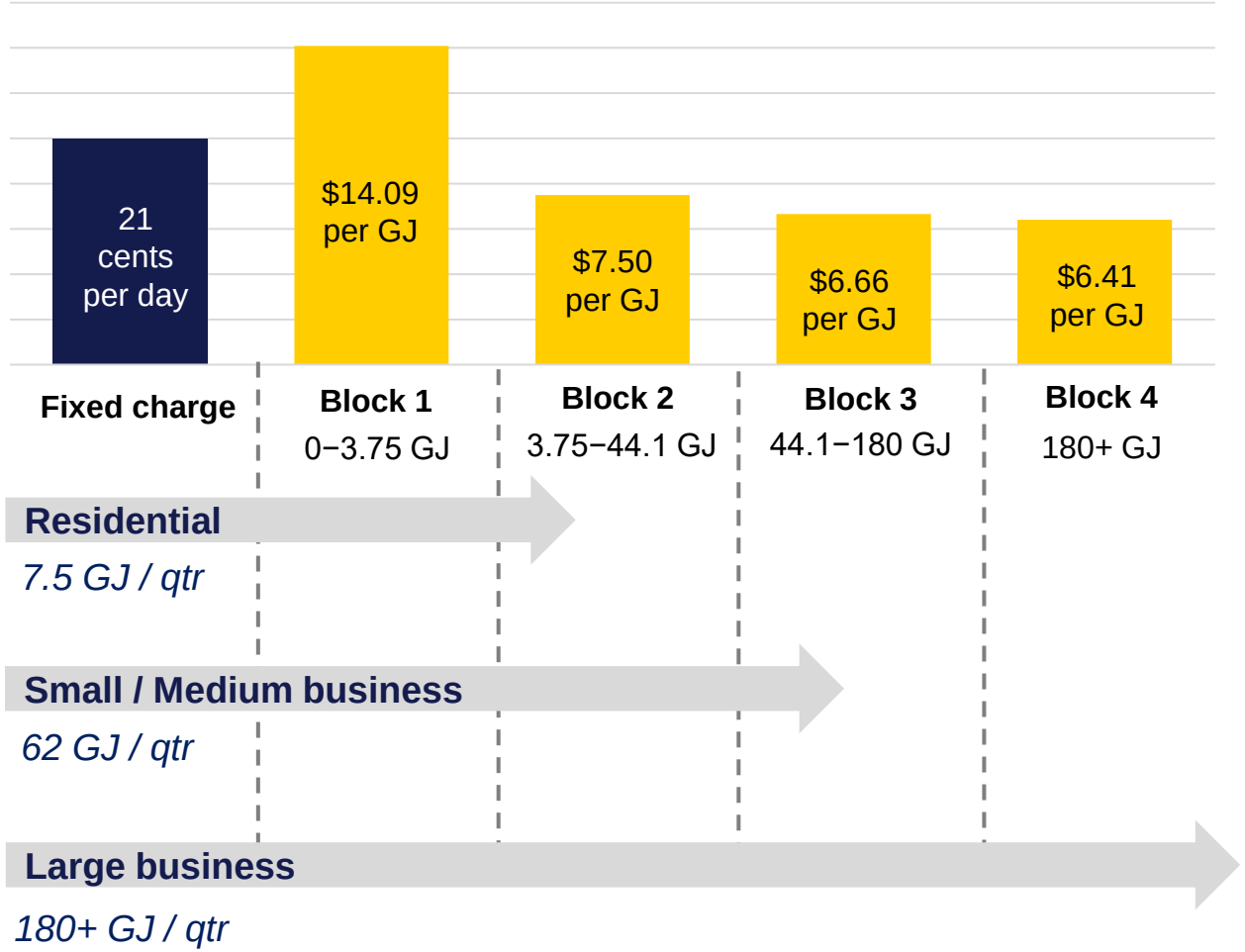
Reduced Block 2 charge

- Stabilises bills year-round, reducing winter bill shock
- Historically encouraged gas uptake

Lower Blocks 3 and 4 for larger customers

- Costs don't rise significantly with higher gas usage
- Businesses use and pay more overall

Evoenergy gas network prices 2023-24



Is this still the right balance for 2026-31?

Consumption charges (blocks) are shown in GJ per quarter.

Quarterly consumption levels are shown as annual averages for residential and small/medium business customers.

Tariff principles for 2026–2031

Evoenergy has identified the following principles to guide its tariff approach

Simplicity and consistency	Simple tariffs are more likely to be adopted by retailers and understood by customers
Cost reflectivity and efficiency	Tariffs should signal Evoenergy's costs of operating the gas network, which are largely fixed
Equity across customers & over time	Tariffs should fairly share network costs across customers, who may be impacted differently as the ACT transitions away from gas
Value of emissions reduction	Tariffs should recognise the value of emissions reduction and ACT Government targets
Long-term price stability & endurability	How will tariffs influence customers' choices and demand for gas? What impacts will this have on long-term prices?

evoenergy

Questions?

Group activity 1: feedback on tariff principles

Working in small groups discuss these questions and record your thoughts on our worksheet.

What tariff principles do you think are particularly important? Why?

Is there anything missing from the principles?

Record your answers on our worksheet

Tariff principles for 2026–2031

Evoenergy has identified the following principles to guide its tariff approach

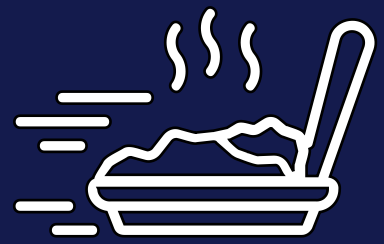
Simplicity and consistency	Simple tariffs are more likely to be adopted by retailers and understood by customers
Cost reflectivity and efficiency	Tariffs should signal Evoenergy's costs of operating the gas network, which are largely fixed
Equity across customers & over time	Tariffs should fairly share network costs across customers, who may be impacted differently as the ACT transitions away from gas
Value of emissions reduction	Tariffs should recognise the value of emissions reduction and ACT Government targets
Long-term price stability & endurability	How will tariffs influence customers' choices and demand for gas? What impacts will this have on long-term prices?

evoenergy

Reflection and discussion

evoenergy

Dinner break

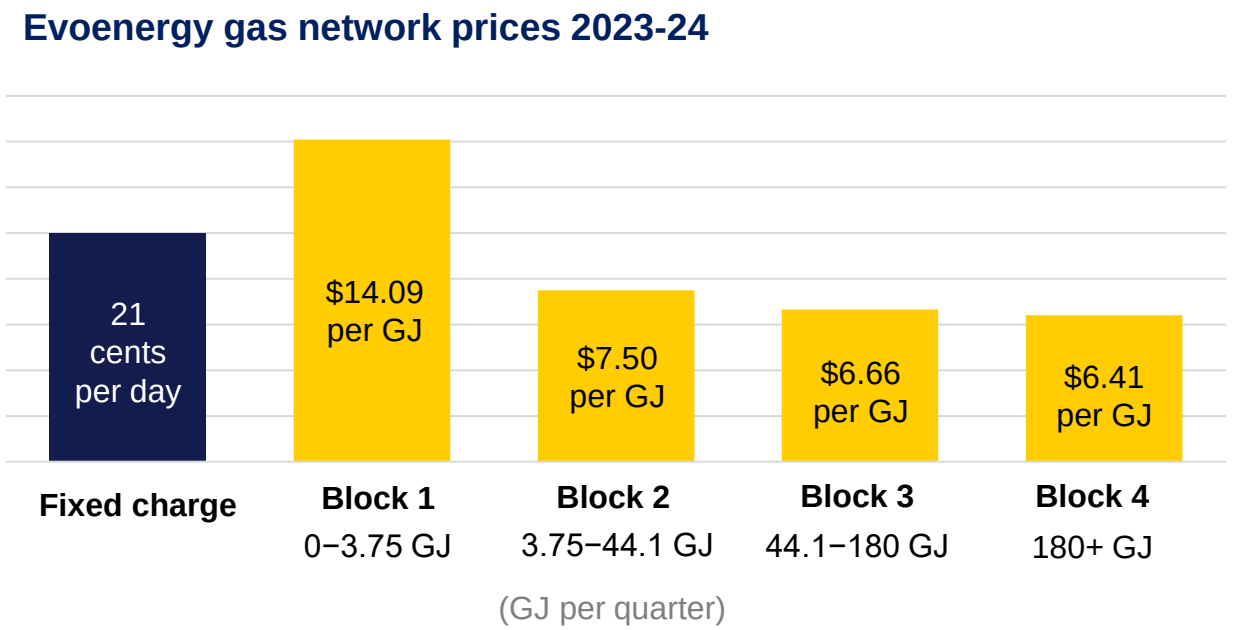


Considerations for tariffs during 2026−2031

Tariffs determine **how** customers are charged for using the gas network and which types of customers pay more or less

Key questions

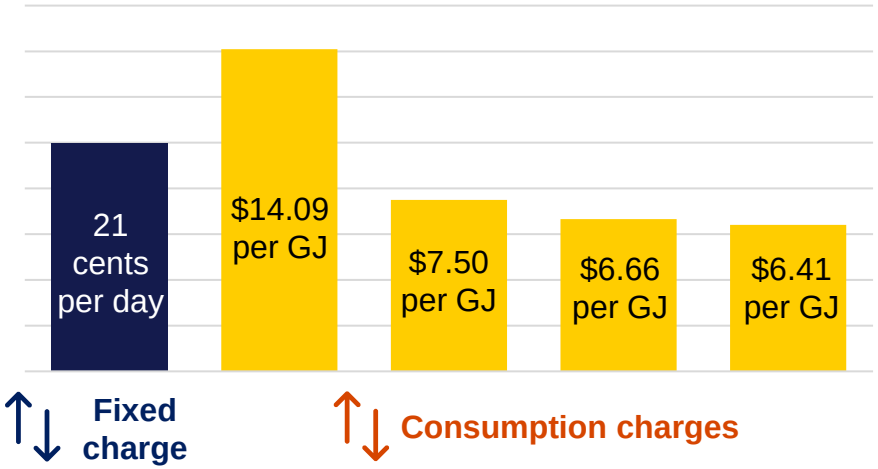
- What are your thoughts on the tariff structure?
- How should tariffs share network costs across different types of customers?



Considerations for tariffs during 2026–2031

(A) What is the right balance of fixed charges and consumption charges?

Current structure (2023-24)



Changes to tariffs involves trade-offs

Decreasing one charge, requires increasing other charges to recover the same amount of revenue to operate the gas network

Should the tariff have:

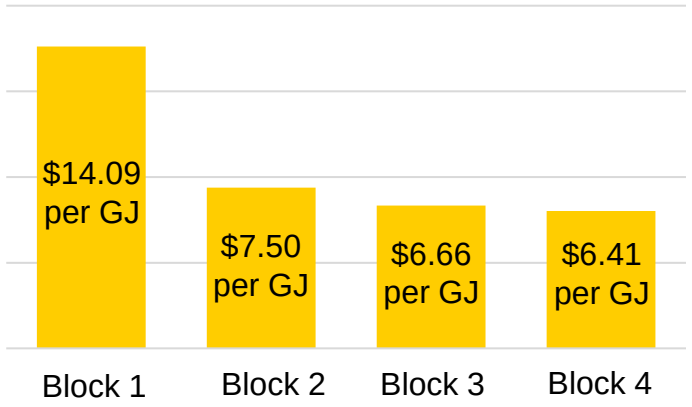
- a lower fixed charge and higher consumption charges;
- a higher fixed charge and lower consumption charges; or
- the current balance of fixed and consumption charges?

	Residential customers	Commercial customers	Whole of network
Lower fixed charge (Higher consumption charges)	• Lower bills for small customers • Encourages small customers staying connected	• Higher bills for large customers • Discourages staying connected	• Less cost-reflective prices • Revenue/prices more variable with changing consumption
Higher fixed charge (Lower consumption charges)	• Higher bills for small customers • Discourages small customers staying connected	• Lower bills for large customers • Encourages staying connected	• More cost-reflective prices • Revenue/prices more variable with changing connection numbers

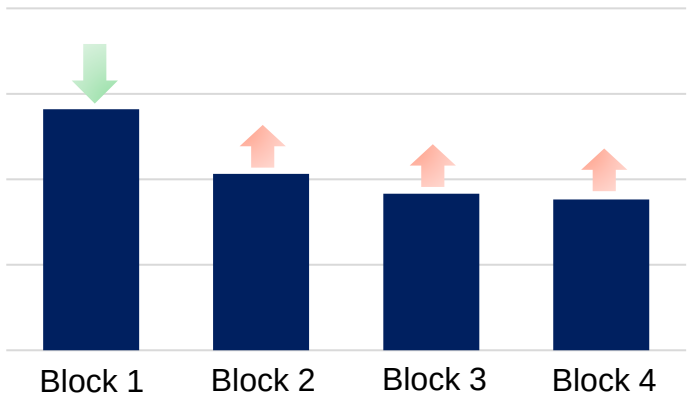
Considerations for tariffs during 2026–2031

(B) What is the right balance of the consumption block charges?

Current structure (2023-24)



Example: a ‘flatter’ structure?



Changes to tariffs involves trade-offs

Decreasing one charge, requires increasing other charges to recover the same amount of revenue to operate the gas network

Should the tariff have:

- the current declining block structure;
- a ‘flatter’ structure; or
- something else?

Impacts of a ‘flatter’ structure

Residential customers

- Lower bills for average residential customer
- Encourages gas consumption / staying connected

Commercial customers

- Higher bills for average commercial
- Discourages gas consumption / staying connected

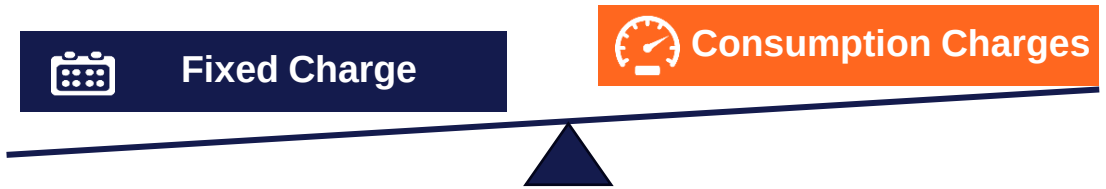
Whole of network

- Less cost-reflective prices
- Revenue/prices more variable with changing consumption
- Better signals value of emissions reduction for large users

Summary

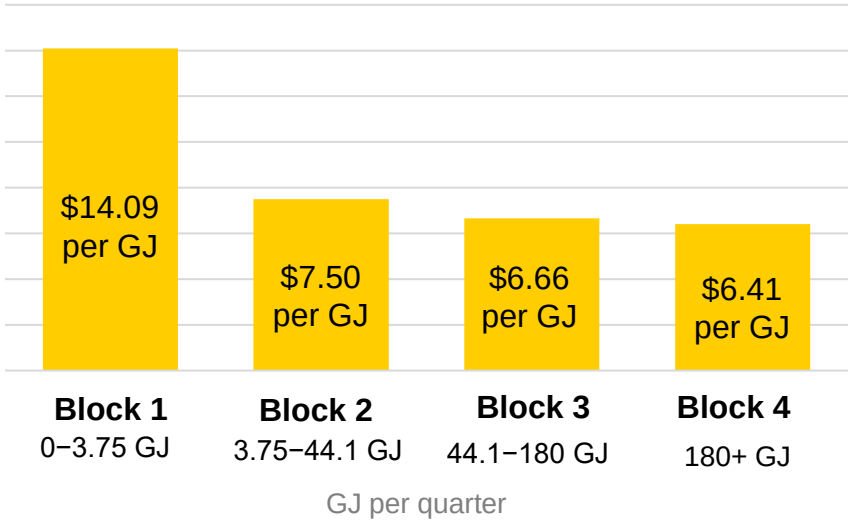
Key questions
- What are your thoughts on the tariff structure?
- How should network costs be shared across different types of customers?

(A) What is the right balance of fixed charges and consumption charges?



Higher fixed charges are more cost-reflective but have a bigger impact on smaller customers.

(B) What is the right balance of consumption block charges?



Evoenergy's costs don't increase significantly with gas usage, but the current balance means large customers face a much lower price for additional gas they use.

evoenergy

Questions?

Group activity 2: feedback on tariff principles

Working in small groups discuss these questions and record your thoughts on our worksheet.

What are your thoughts on the tariff structure?

- the balance between fixed charges and consumption charges
- having a flatter consumption block charge
- are there other changes we should consider?

How should network costs be shared across different customer types?

- Consider the implications for different personas - business and residential.

Record your answers on our worksheet

evoenergy

Reflection and discussion

evoenergy

Session review and reflection

DRAFT Community forum summary

Session 3, 20 May 2024

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

Attendees

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

Presenters

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

Facilitator

Helen Leayr, Communication Link

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

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

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

Next steps

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

evoenergy

Midway checkpoint

What areas of the gas network and the planning for 2026/21 would you like to understand better?

What are some of the priorities that you think Evoenergy should be considering as it plans for 2026/31?

slido

Midway checkpoint

ⓘ Start presenting to display the poll results on this slide.

evoenergy

Midway checkpoint

What areas of the gas network and the planning for 2026/21 would you like to understand better?

What are some of the priorities that you think Evoenergy should be considering as it plans for 2026/31?

Next forum: Session 4

- Reflect on session 3, including revisiting revenue recovery options
- Learn more about network costs that need to be recovered
- Explore equity and fairness considerations and provide feedback on what is important.

Saturday 27 July

We will keep in touch via slack.

Heads, hands, heart checkout

Head: Something you are thinking about

Hands: Something you want to do

Heart: Something you are feeling.

Slido.com
#2383153

Thank you