

evoenergy

# Community forum

Session 4

27 July 2024





# Acknowledgement of Country

*Evoenergy acknowledges the Traditional Custodians of the lands on which we live and work. We pay respect to the Elders, past and present and celebrate all First Peoples' continuing connections and contributions to Country.*



# Safety share

Peter Billing, General Manager 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



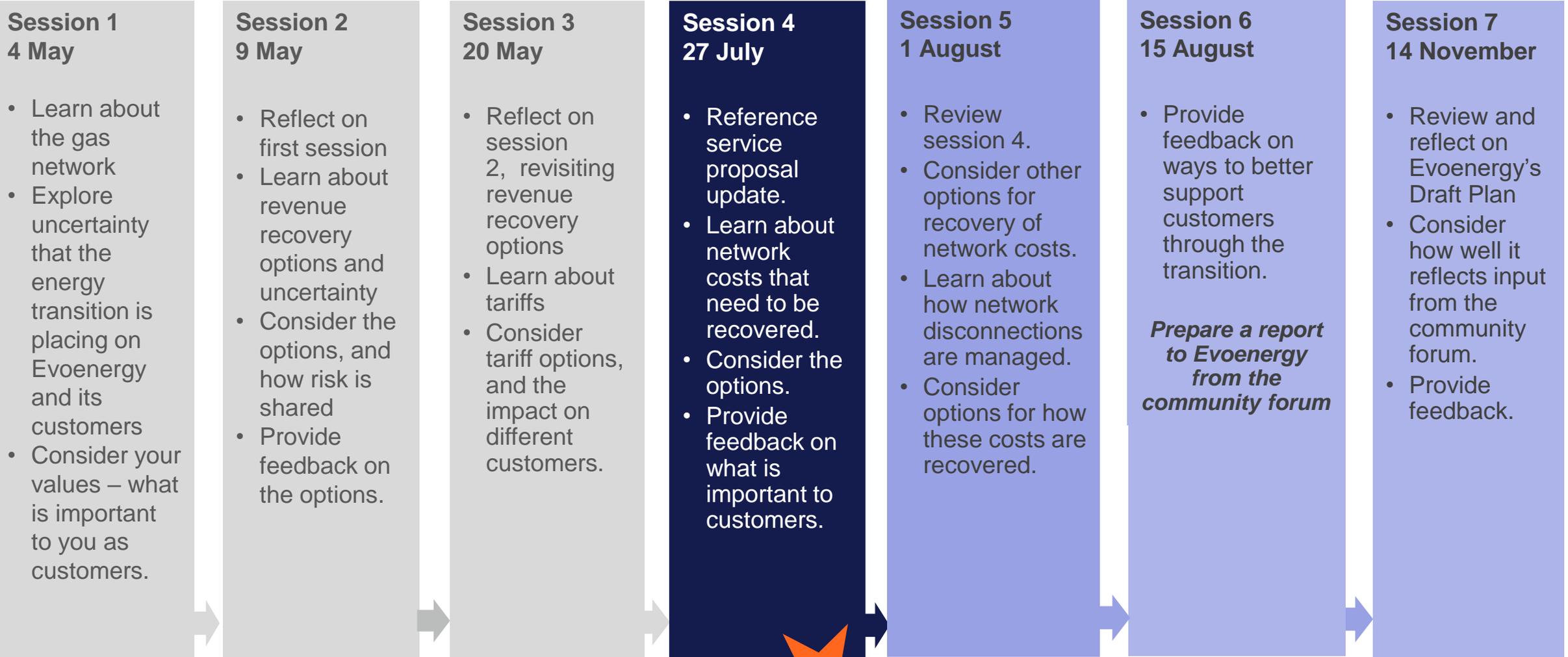
## Agenda

- Welcome
- Reference Service Proposal update
- Recovery of network investment costs
- Activity – consider the challenges

### *Break*

- Presentation on the different approaches
- Activity – feedback on the approaches
- Wrap up and session close

# Updated community forum work program



# Updates since session 3

Helen Leayr  
Communication Link



## Since session 3

- ACT Government release of first Integrated Energy Plan (IEP)
- Lodgement of the Reference Service Proposal (including mid-point engagement report)
- July speakers' series:
  - ACT Gov: IEP1
  - ACTCOSS: Vulnerable customers
  - ECRC Chair: National transition and the ACT
- Forum name



# 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

# Reference Service Proposal

Megan Willcox – General  
Manager Economic Regulation



# Reference Service Proposal preliminary positions

## Approach to recovering revenue (tariff variation mechanism)

We proposed a **revenue cap** which:

- reflects ACT policy direction to achieve net zero emissions by phasing out gas and ban on new connections
- ensures Evoenergy recovers efficient costs approved by the AER to maintain a safe, secure and reliable network through the transition
- allows any required price adjustment to occur incrementally during the period with actual demand outcomes, avoiding potential between period price shocks
- avoids incentives under a price cap to seek to retain gas customers and consumption

## Tariff structure

We proposed to **retain our current tariff structure**, and noted we would consider **rebalancing tariffs** across charge types (supply and consumption charges) and customer types (different consumption blocks), which:

- recognises the current structure is generally working well
- allows us to balance emissions reduction objectives with ensuring a fair and equitable transition

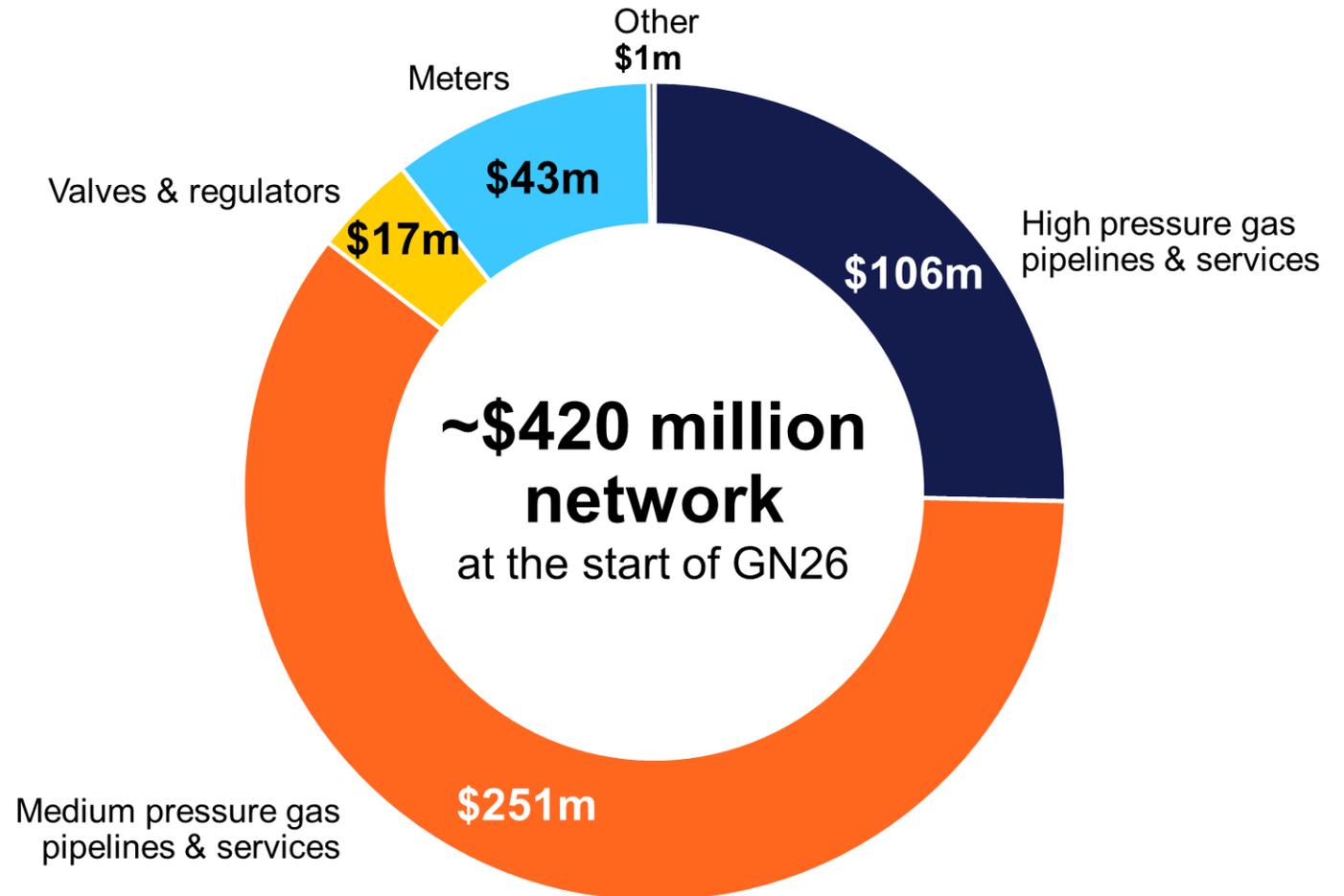
# Recovery of network investment costs: Context

Megan Willcox – General  
Manager Economic Regulation



# In 2026, the value of gas network assets will be around \$420 million

- Most assets **can't be sold off** if unused
- **Excludes** disconnection & decommission costs
- Network must operate **until fully decommissioned**, requiring spending
- In GN21, new assets' **lifespan reduced** to max 50 years



# Recap: Policy context

## ACT context: Integrated Energy Plan

### ACT emissions

64.4% Transport (road & aviation)

19.9% Fossil fuel gas combustion

9.9% Waste including wastewater

2.1% Industrial processes/product use

1.9% Fugitive emissions

1% Agriculture

0.7% Other stationary energy

### 1 2024 – 2030

#### Setting the foundation for success

- ACT Government incentives
- Phase-in ban of new connections
- Mid-point review of IEP in 2027

### 2 2030 – 2035

#### Accelerating the transition

- Behavioral change + education
- Could include regulatory measures

### 3 2035 – 2040

#### Electric Canberra delivering for households

- Focus on phased decommissioning

### National context: Changes to National Gas Objective:

“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.”



2024-2030

# The Integrated Energy Plan

OUR PATHWAY TO ELECTRIFICATION



## ACT Government measures

### Existing

- Sustainable Household Scheme – no interest loan scheme up to \$15k
- Energy Efficiency Improvement Scheme
- ACT utilities concession
- Home Energy Support Program

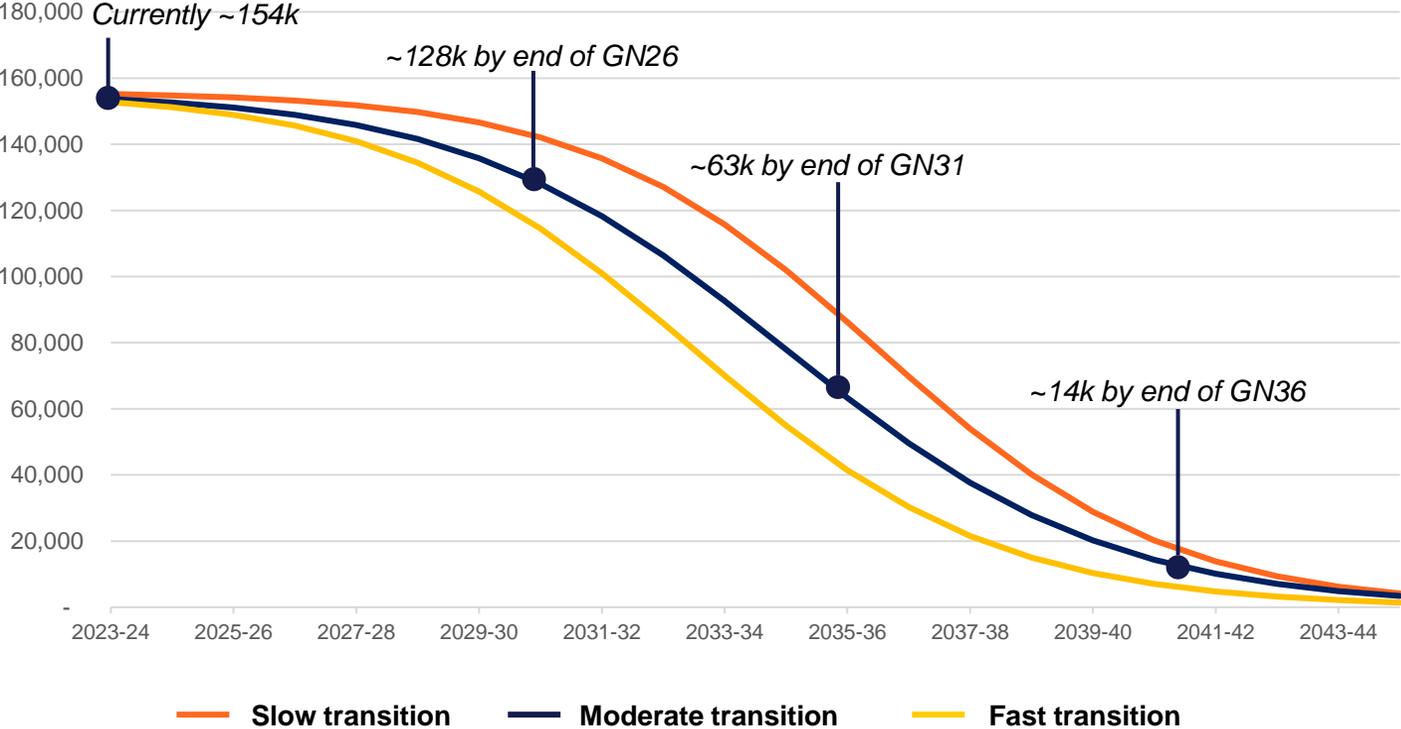
### New

- Independent review of Energy Efficiency Improvement Scheme
- \$5.2m pilot for electrification pathway for households that need support
- Electrify feasible public + community housing by 2030
- Interest free loans to support multi-unit buildings
- Retrofit Readiness Program for apartment and unit owners

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# Recap: Recovering network costs over a declining customer base

## Indicative demand scenarios – customer numbers



- Customer numbers and gas volumes will **decline** over 20 years, approaching zero
- **Fewer customers** will **share** operational, maintenance, and past infrastructure costs

# The ease of the transition will be different for each customer group

## Residential customers

Total \* 154k

Separate houses 96k

Semi-detached 26k

Flat or apartment 29k

*~9% of private dwellings with less than \$650 total household weekly income*

Low-income separate houses

Apartments complexes with gas appliances

Easy to transition

Hard to transition

Moderate - high income separate households

*~38% of private dwellings with more than \$3000 total household weekly income*

Medium density housing complexes

Rental properties

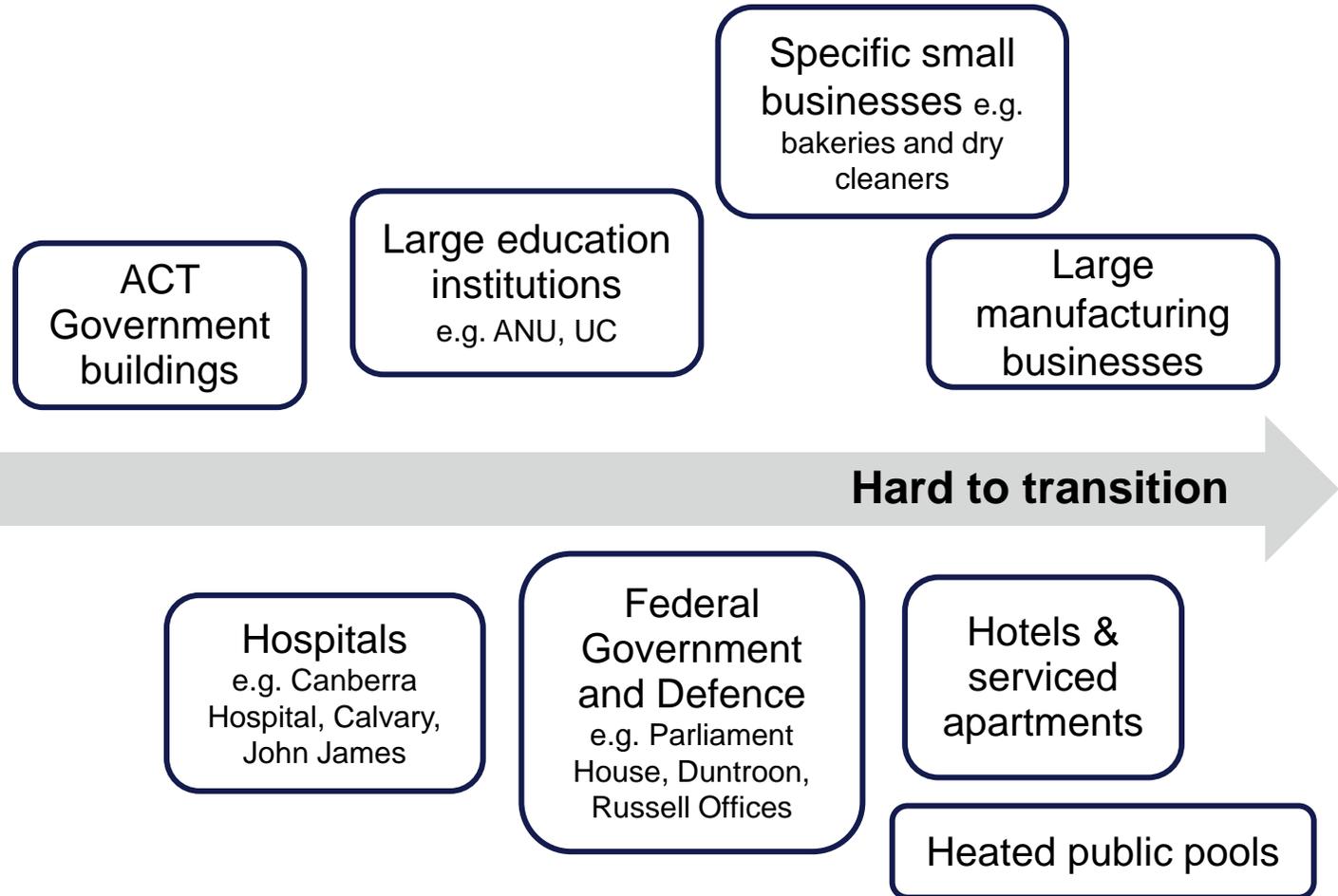
*~30% of dwellings, with 23% incurring rent payments greater than 30% of household income*

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# The ease of the transition will be different for each customer group

## Commercial/industrial customers

<b>Total *</b>	<b>3k</b>
Small to medium commercial	2.9k
Large/industrial	43



# Recovery of network investment costs: Introduction

Andrew Ponsonby – Principal  
Economic Modeller



# Our revenue requirement is made up of:

## Operating costs (opex)

- some are in our control and some are not (e.g. ACT Government's Utilities Network Facilities Tax)

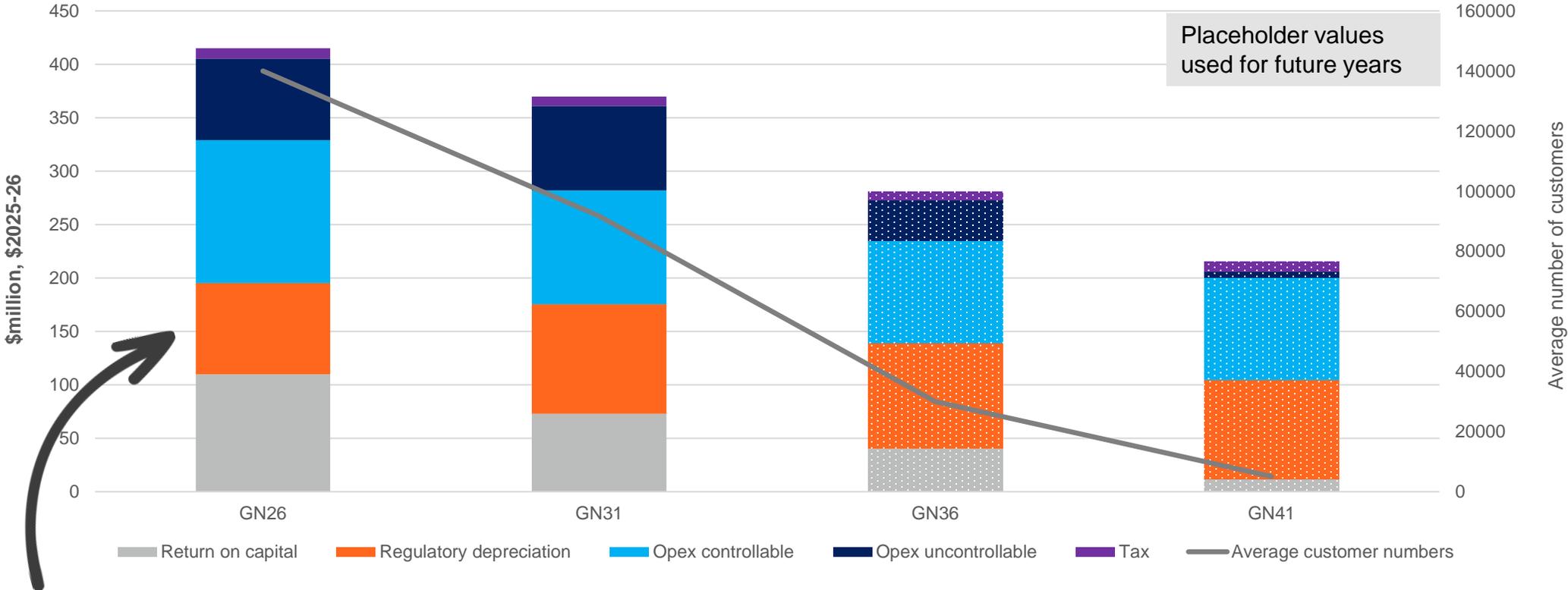
## Infrastructure costs (capex)

- a shareholder return (return on capital) and depreciation allowance for assets over their lives, in exchange for initial spending to build and replace network assets

## Tax allowance

# Customers and demand will decrease faster than costs

## Indicative revenue forecasts

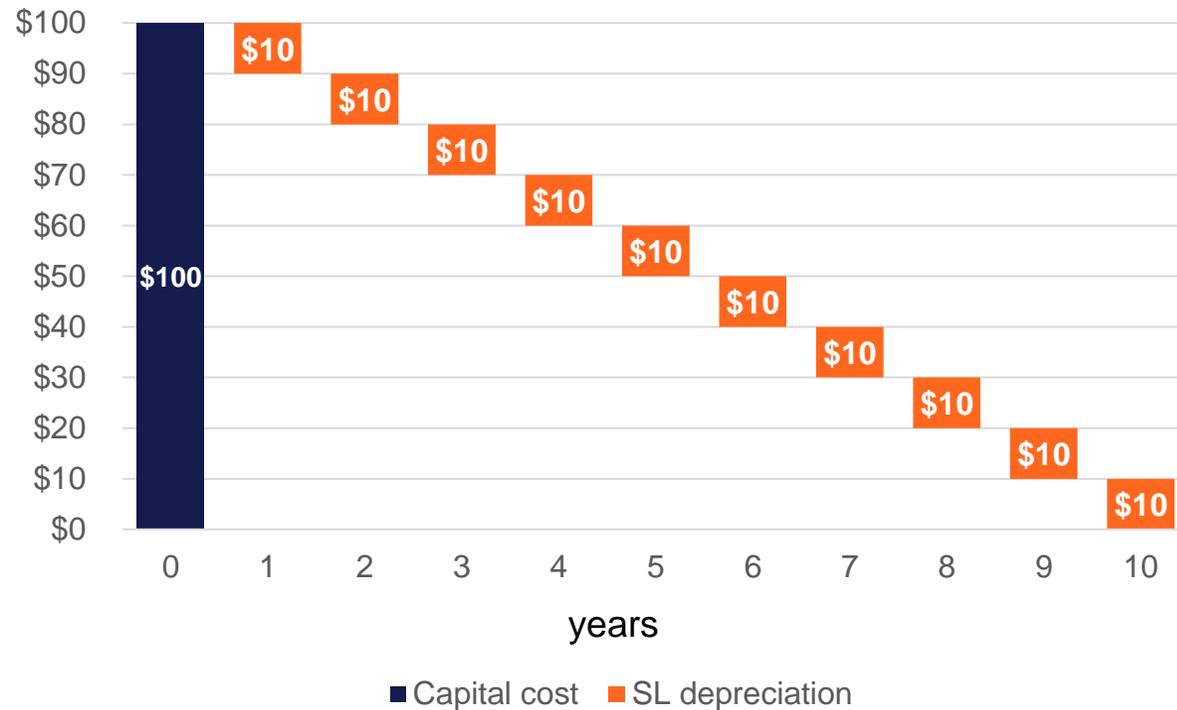


Today's focus: capital base recovery (depreciation)

# What is depreciation?

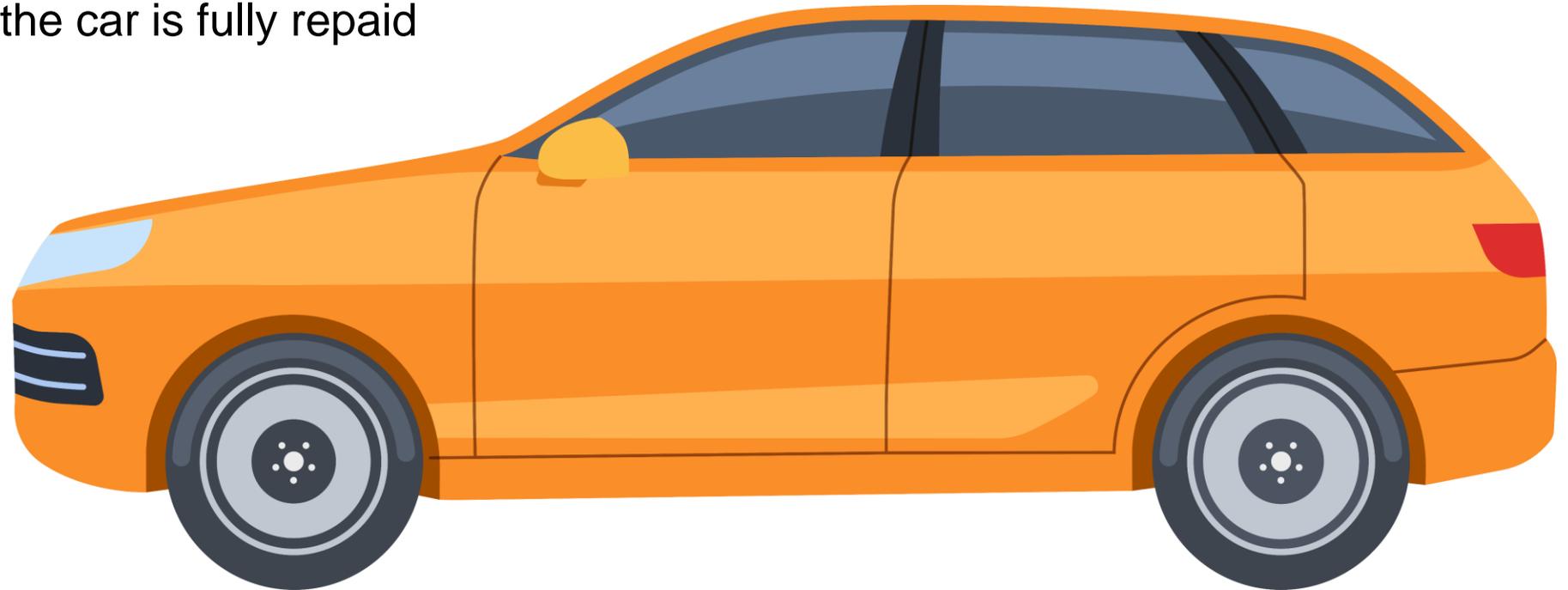
- Gas network owners **invest** heavily in infrastructure, which lasts 50-80 years
- Costs are **recovered** from customers over the asset's useful life, as per regulatory framework.
- Usually, this is done using 'straight-line' (SL) depreciation, recovering value **evenly** each year.
- There are **other ways** assets can be depreciated.

Example of straight-line depreciation



## Consider a new car under lease...

Lease payments must be made until  
the initial cost of the car is fully repaid



# When it works well



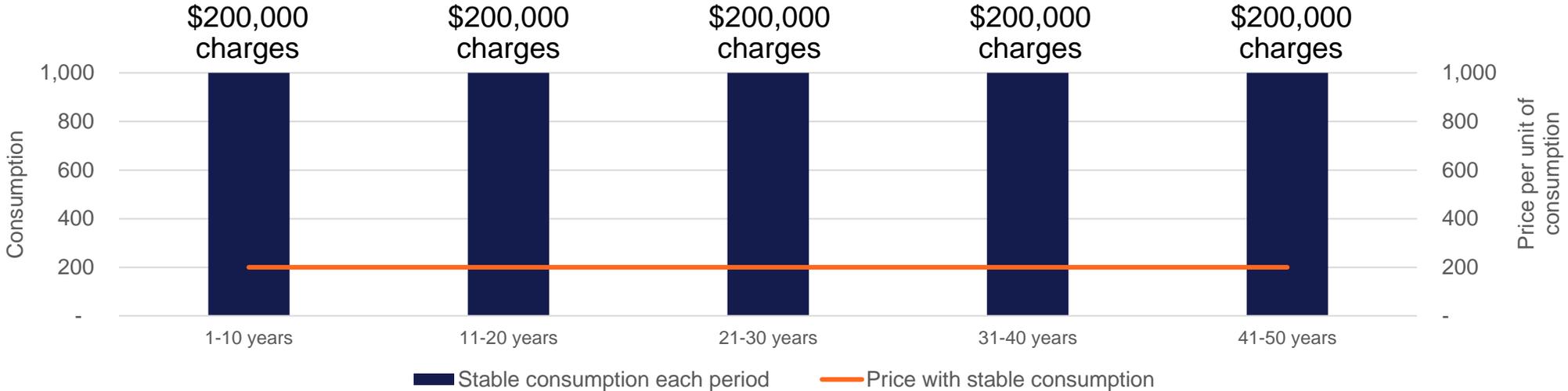
Time available is at least as long as the asset life



Demand is mostly stable

## Example

A \$1 million asset with a life of 50 years:  
Depreciation charge = \$20,000 per year

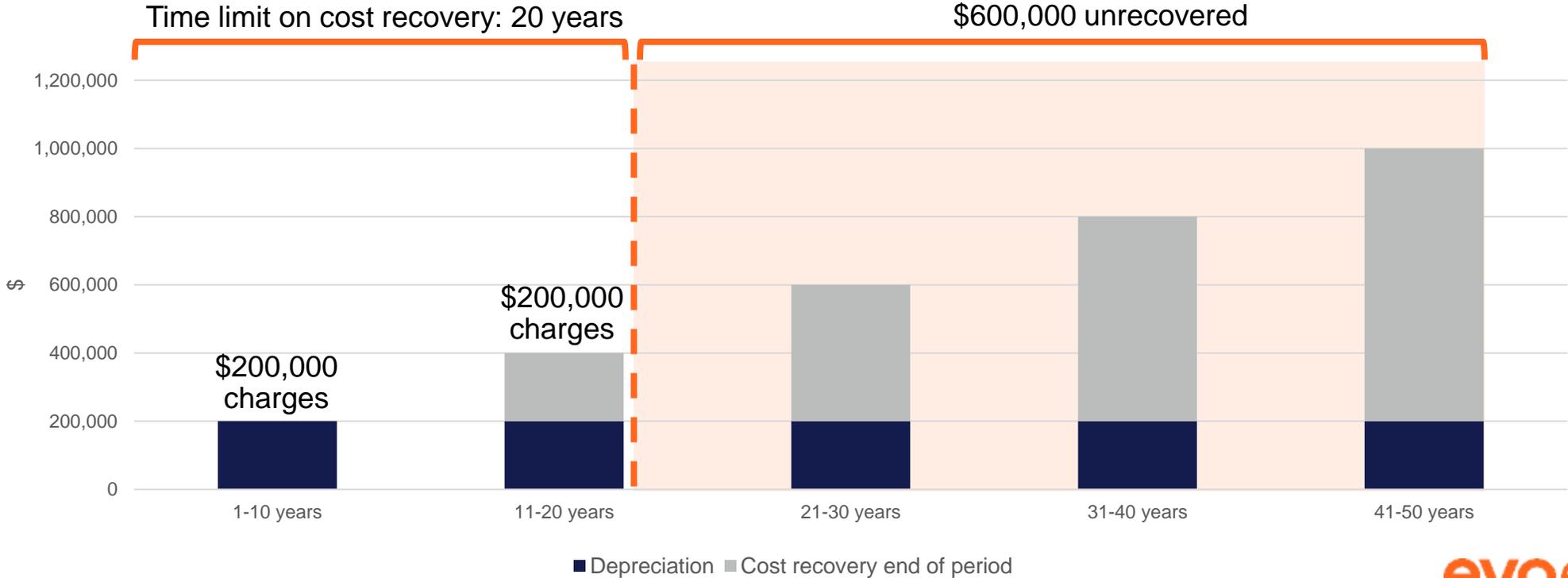


# When time is limited



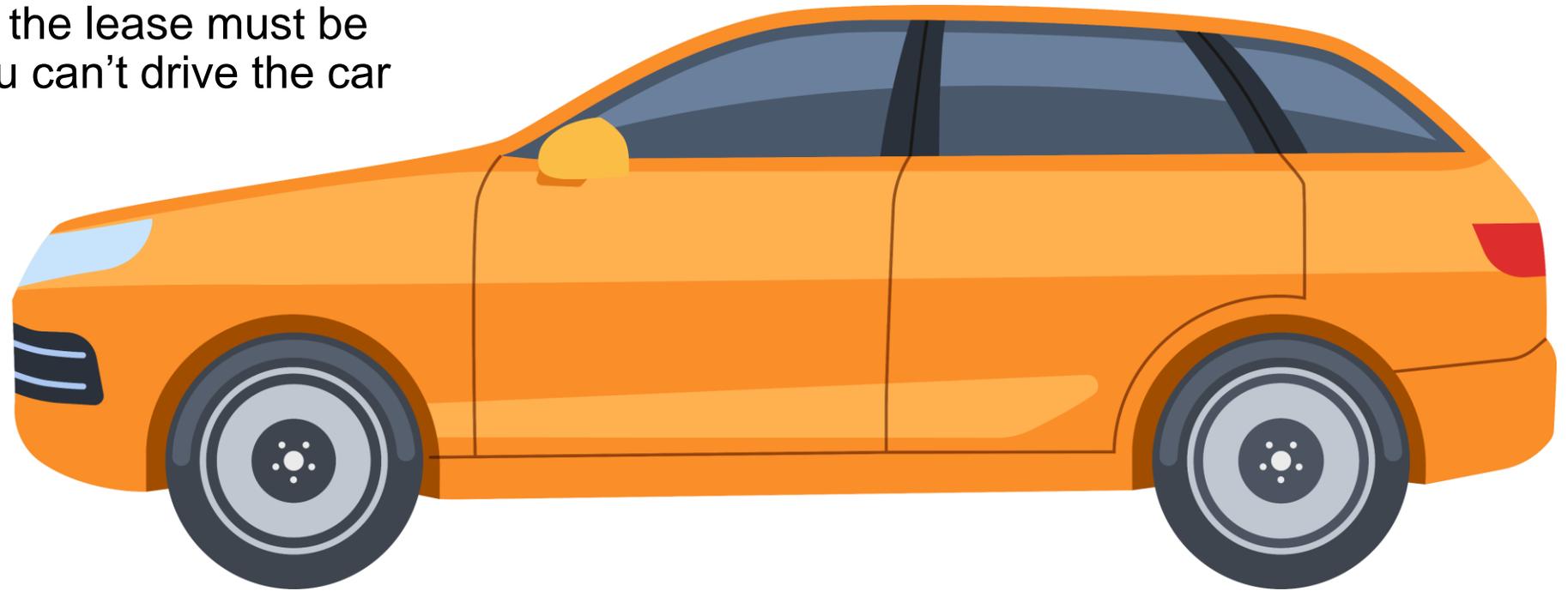
Prevents the full cost recovery

## Example



## Half-way through your lease the Government restricts the use of your car model...

The remainder of the lease must be paid, however you can't drive the car

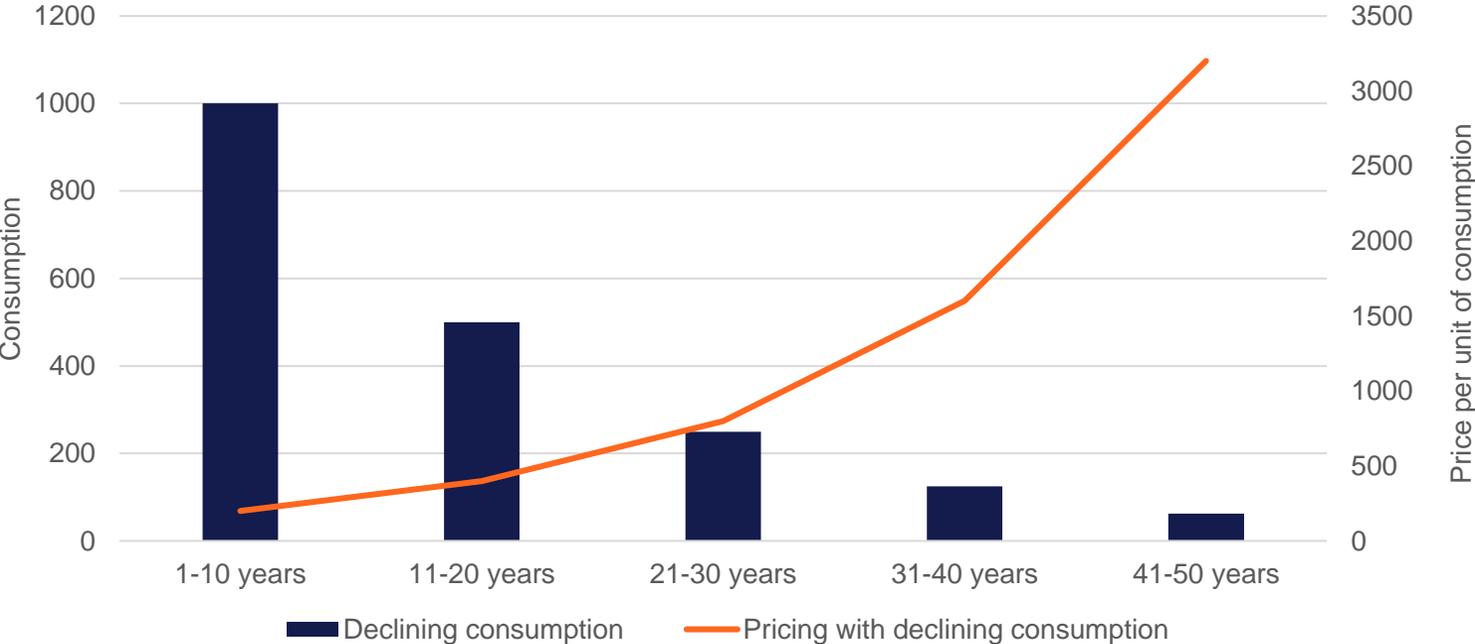


# When consumption declines rapidly



Can result in significant price increases

## Example



- Depreciation to be recovered each period doesn't change
- Volume of consumption we can spread cost across declines

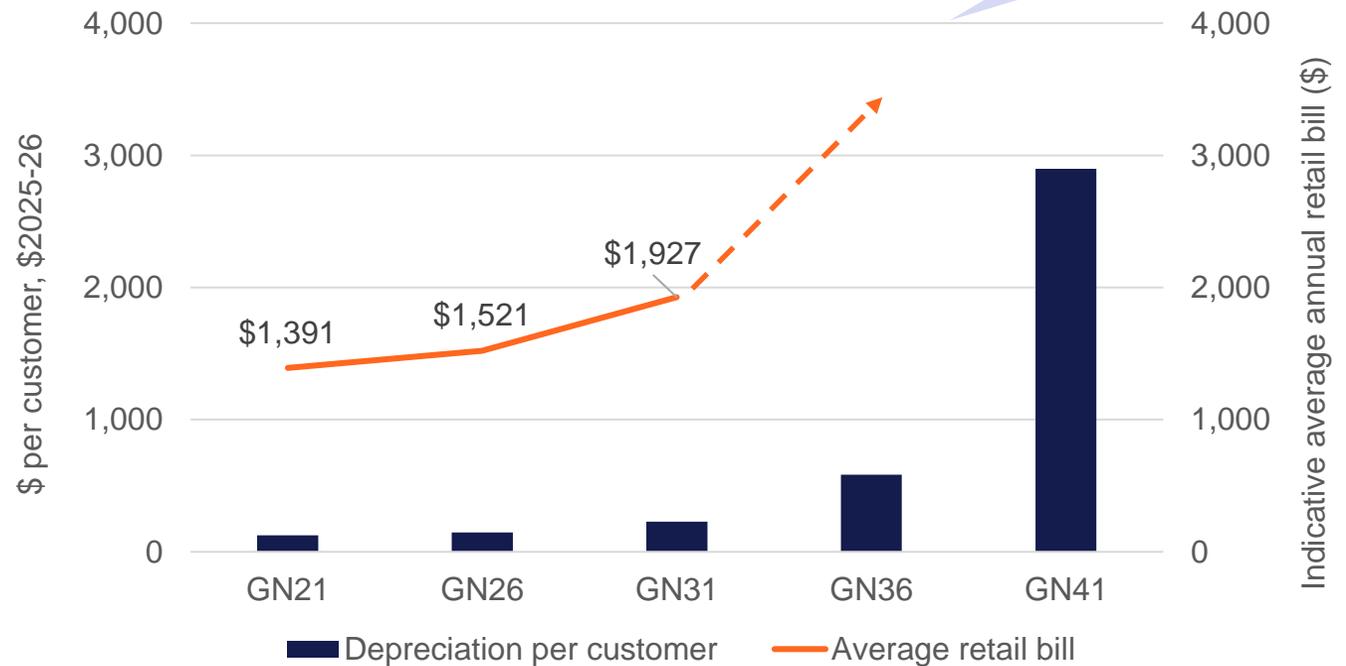
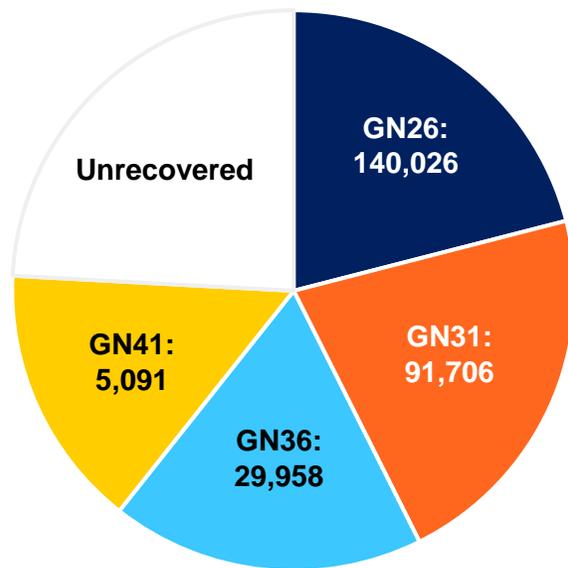
# Status quo: Cost recovery with no change to depreciation approach

In our current (GN21) period, we shortened lives of new assets only, and these asset lives still extended beyond 2045

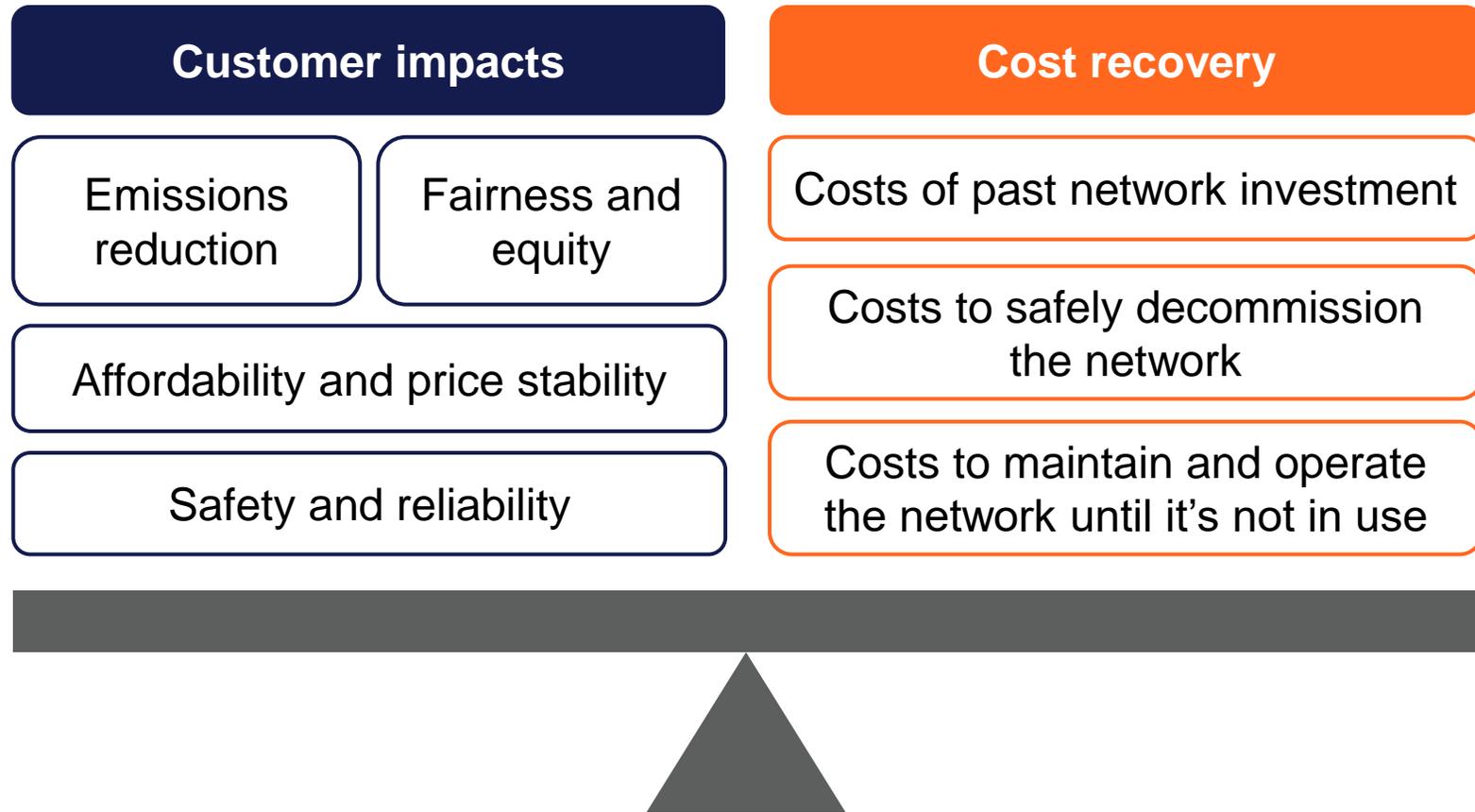
Asset base not recovered and prices increase. **Not a viable option.**

Bill impacts beyond the 2031-36 period will be driven by a range of factors for which we don't know yet

Share of depreciation costs  
(number of customers)



# How can Evoenergy fairly recover asset costs as customer numbers decline?





## **Group activity 1: Consider the challenge**

In small groups discuss these questions:

**What do you see as important for Evoenergy to take into consideration? Reflect on our different customer personas**

**Review our customer values. Which are most important when addressing this challenge?**

**What further information do you need to understand the issues and tell us what you think?**

*Record your answers on our worksheet and be ready to share with the forum.*

# Reflection and discussion

# Morning tea



# Potential approaches to address this challenge

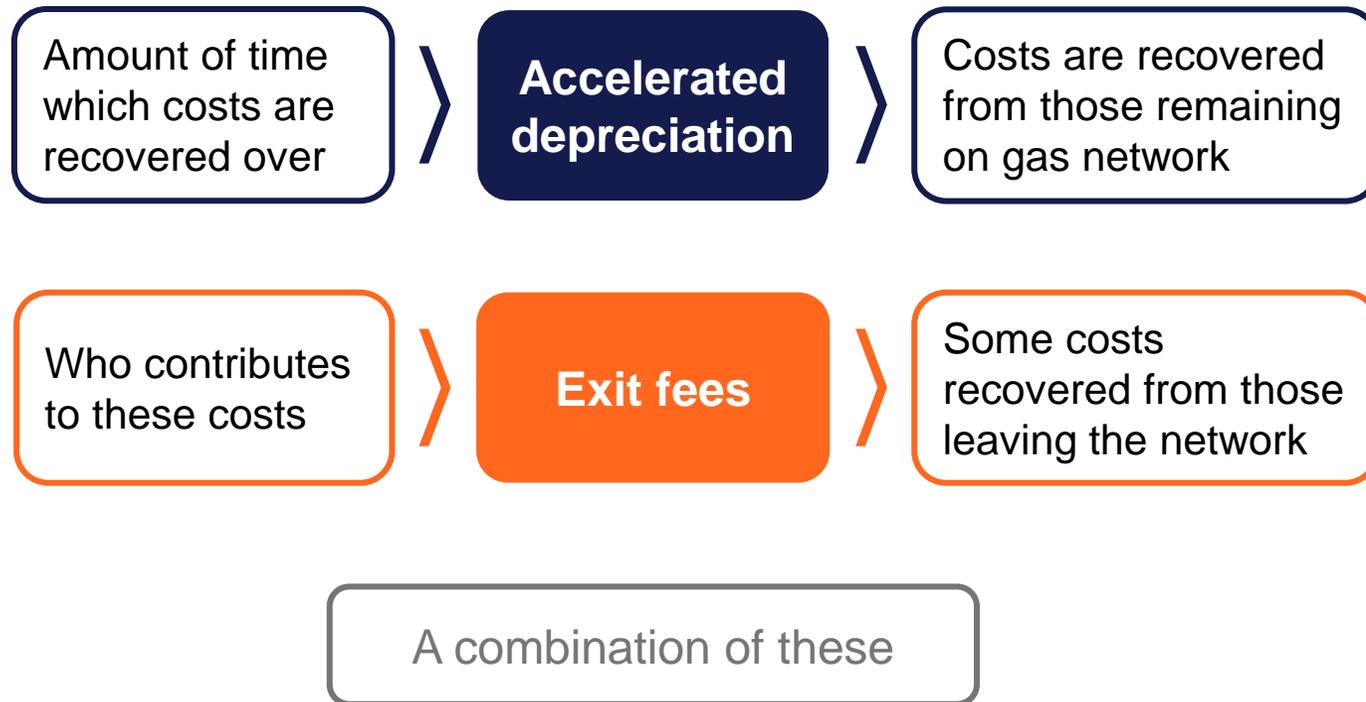
Alexis Hardin – Manager  
Regulatory Finance and Strategy



# Potential approaches under the regulatory framework

<p><b>Accelerated depreciation</b> (AER current approach)</p>	<p>Cost recovery bought forward by shortening asset lives – different approaches for how this can be applied</p>		
<p><b>Compensation for stranded asset risk</b></p>	<p>Cost recovery through customer bills, calculated on probability of stranded asset risk eventuating + assets value</p>	<p>Difficult to measure probability ahead of time</p>	
<p><b>Capital redundancy provisions</b></p>	<p>Remove value of redundant assets and shares costs between network and users</p>	<p>Not relevant in GN26 as assets still being used. Requires mechanism to remove non-contributing assets from the gas service asset base, preventing costs from falling on remaining users during asset redundancy</p>	
<p><b>Exit fees</b></p>	<p>Exit fees levied on disconnecting customers to reflect foregone future contribution to asset costs recovery</p>		
<p><b>Increase fixed charges</b></p>	<p>Fixed costs of supply recovered through higher fixed charges (i.e. customers pay for costs of gas services, regardless of how much gas is consumed)</p>	<p>Potential to drive customers off the network at a faster rate and further increase costs to remaining customers</p>	

There are approaches that don't change the total amount recovered but can **change**:



# Cost recovery with changes to depreciation

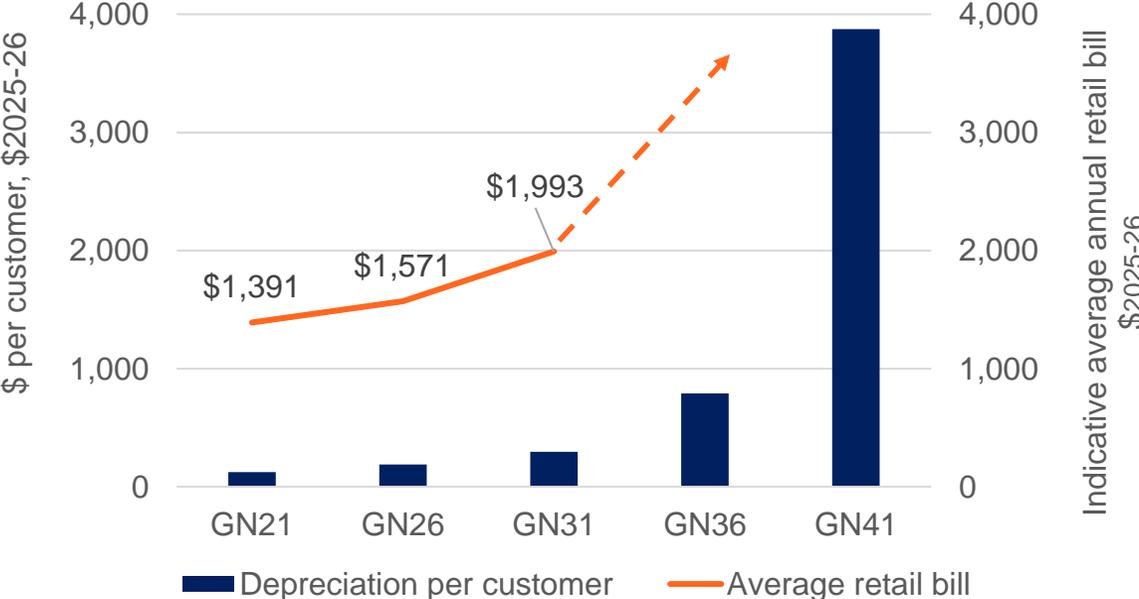
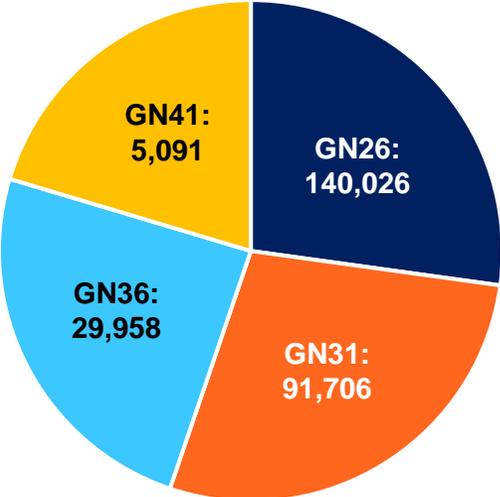
For this discussion, *let's assume:*

- Evoenergy will seek to **recover its total** efficient network investment
- Will be achieved through the **regulatory framework** (no alternative funding available)
- **Won't be significant change** in policy direction to electrify by 2045
- Customer number profile will be **in line with** the moderate energy transition scenario
- 'Business as usual' approach is **not a viable option**
- Non-network component of the retail bill **held constant**

# 1. Straight-line depreciation but shortened asset lives

Asset lives are set to be fully depreciated by 2045

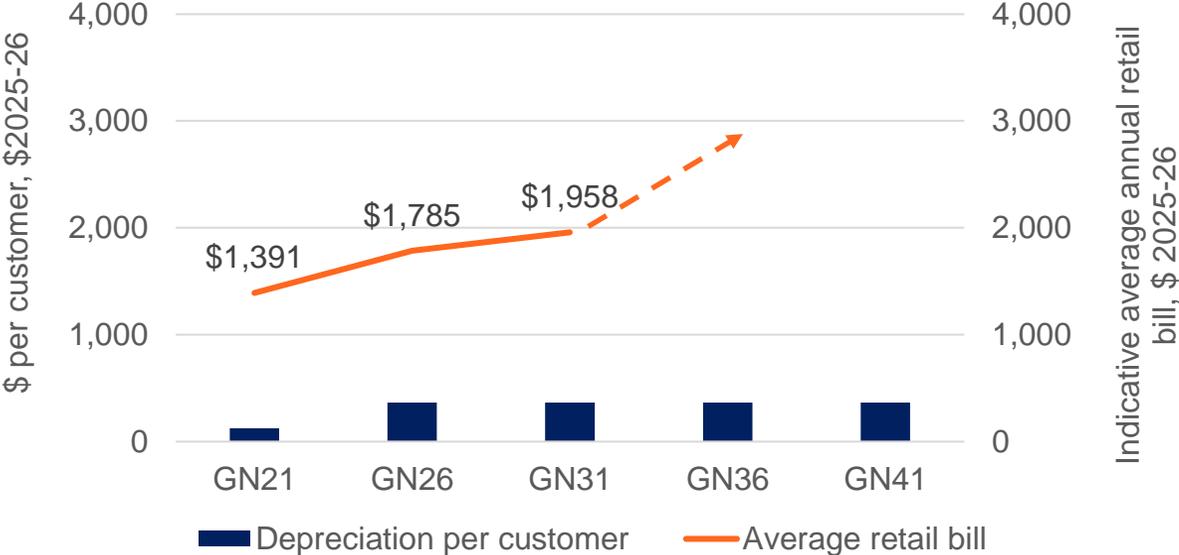
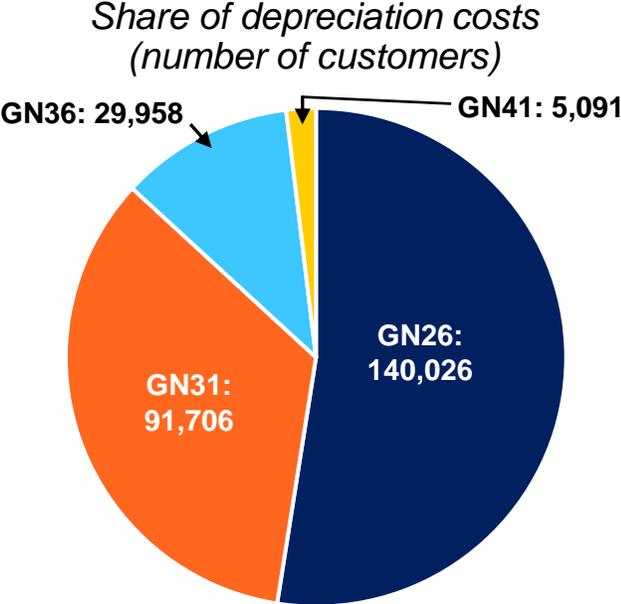
Share of depreciation costs  
(number of customers)



**Evoenergy's costs are recovered but prices are higher**

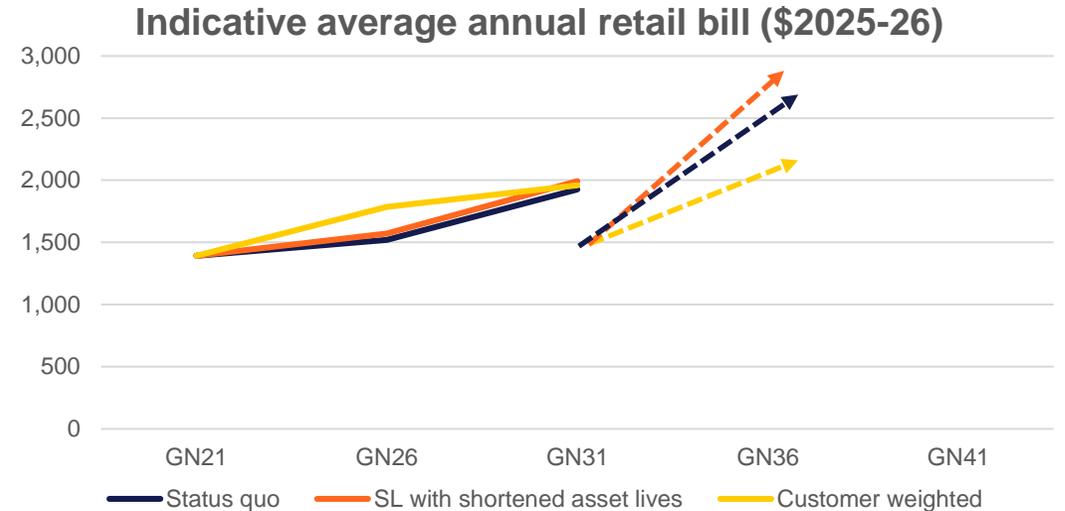
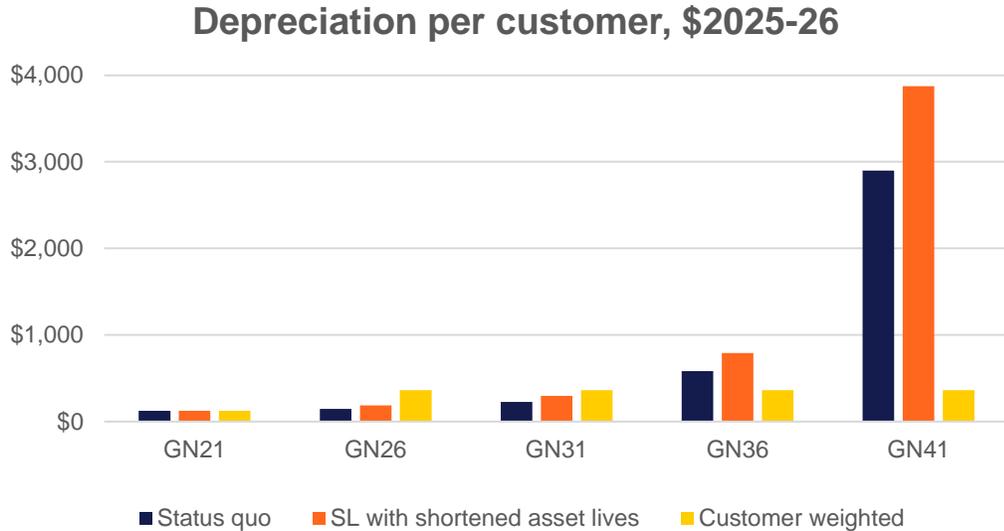
# 2. Customer-weighted depreciation (same per customer per year)

Weighted by number of customers using the network each period, with more depreciation recovered when customer numbers are high, so each customer pays equal share annually.



**Evoenergy recovers its costs. Customer bills step up next period, then increase at more moderate rate than other options.**

# All approaches together



**Status quo:** lowest price impact in GN26 but asset costs not recovered

**Straight line with shorter asset lives:** modest price increase in GN26, steeper increases after. Asset cost likely not recovered due to very high GN36 prices.

**Customer weighted:** higher price increase in GN26, slower increase after. Asset cost more likely recovered.



## **Group activity 2: Consider the approaches**

In small groups discuss these questions:

**What are the strengths and weaknesses of each approach? Why?**

**Review our customer values. What should Evoenergy prioritise as they consider these different approaches?**

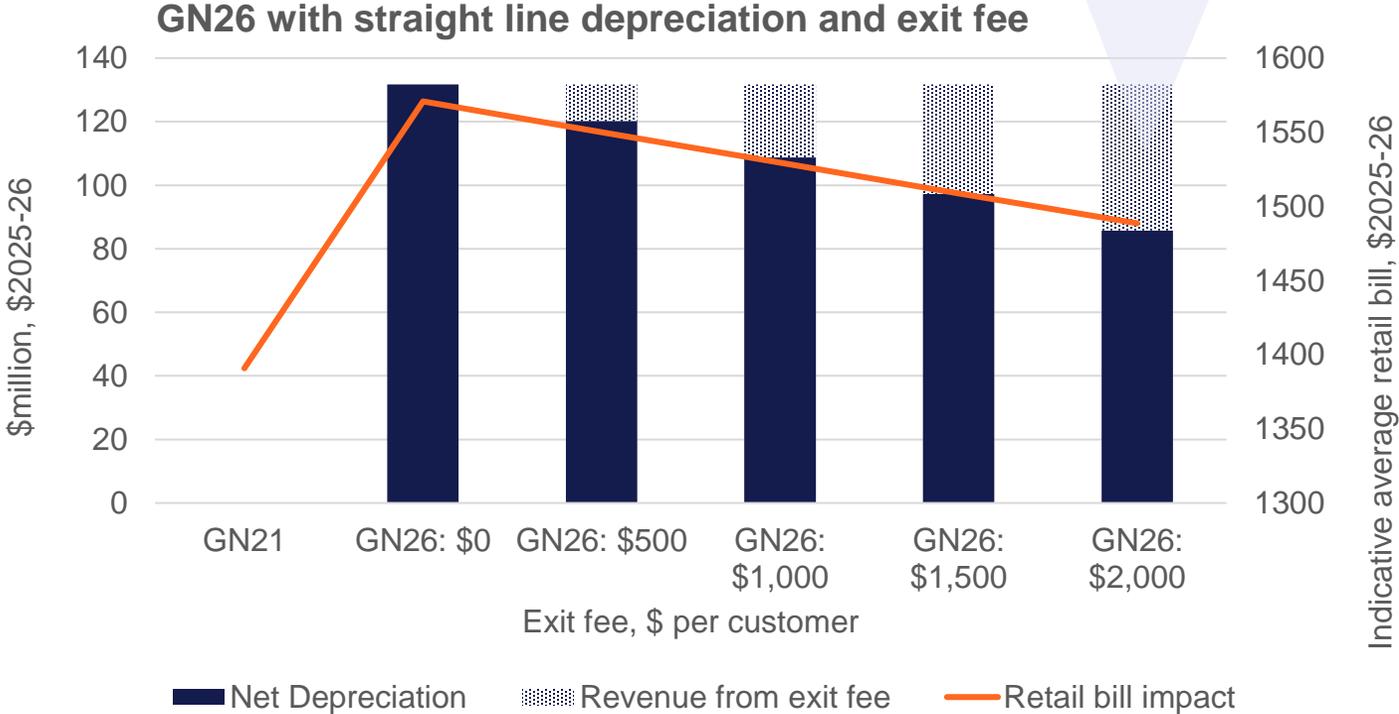
**What further information do you need to understand the issues and tell us what you think?**

*Record your answers on our worksheet and be ready to share with the forum.*

# Another option is to introduce an exit fee to recover costs from those leaving the network

- The fee could be **higher** for customers **leaving early** and then decline over time
- Conceptually, it would be like a **break-fee** on a mortgage
- As exit fee **goes up**, customers **pay less**

An exit fee of \$2,000 per customer could reduce the average retail bill in GN26 by 5% (or \$82)





## **Group activity 3: Consider an exit fee**

In small groups discuss these questions:

**What are the strengths and weaknesses of having an exit fee?**

**Review our customer values. What should Evoenergy prioritise as they consider an exit fee?**

**What further information do you need to understand the issues and tell us what you think?**

*Record your answers on our worksheet and be ready to share with the forum.*

# Reflection and discussion

## Session 4, 27 July 2024

- Reference Service Proposal update
- Recap revenue recovery
- Consider the challenge and approaches

### Attendees

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

### Presenters

- Megan Willcox, General Manager Economic Regulation
- Andrew Ponsonby – Principal Economic Modeller
- Alexis Hardin – Manager Regulatory Finance and Strategy

### Facilitator

Helen Leayr,  
Communication Link

## Recovery of network investment costs: Introduction

### Group activity 2: Consider the depreciation approaches

*What are the strengths and weaknesses of each approach? Why?*

*Review our customer values. What should Evoenergy prioritise as they consider these different approaches?*

*What further information do you need to understand the issues and tell us what you think?*

### Group activity 3: Consider an exit fee

*What are the strengths and weaknesses of having an exit fee?*

*Review our customer values. What should Evoenergy prioritise as they consider an exit fee?*

*What further information do you need to understand the issues and tell us what you think?*

## Potential approaches to address this challenge

### Group activity 1: Consider the challenge

*What do you see as important for Evoenergy to take into consideration? Reflect on our different customer personas*

*Review our customer values. Which are most important when addressing this challenge?*

*What further information do you need to understand the issues and tell us what you think?*

## Next steps

- Session 5, 1 August 2024
- Update session 4 dashboard summary based on today's feedback
- Keep in touch via Slack

## Next forum: Session 5

- Consider any other ideas participants may have to respond to the challenge
- Understand and consider approaches to recovery of costs associated with disconnections

1 August 2024, 5 – 8pm

**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**