

# Evoenergy Energy Consumer Reference Council

Meeting 31, October 2019



# WELCOME

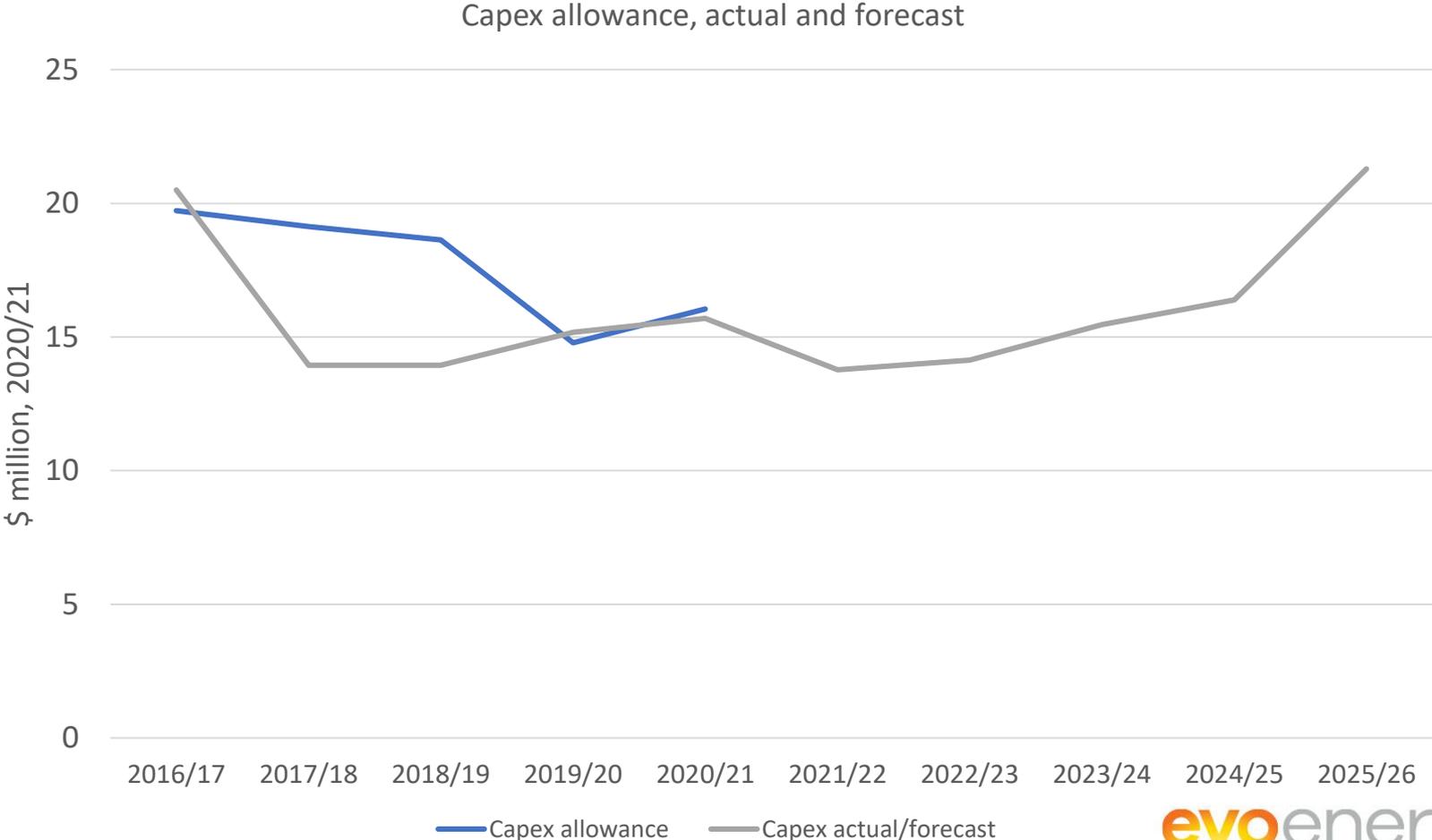
- Introductions
- Review action and ratify minutes from meeting 30
- Member updates



# GN21

Chris Bell, Manager, Price Review

# Capex allowance, actual and forecast



# Major capex projects not required 2016-21

Project	Capex not required (\$m, 20/21)	Amount in 2018/19
Watson CTS	1.8	0.7
Inlet piping rectification	4.8	2.2
Belconnen PRS land	0.4	0.4
Hoskinstown to Fyshwick integrity digs	1.1	0.4
Canberra Primary Main integrity digs	1.4	0.4
West Belconnen secondary main	3.8	0
TRS noise reduction	0.5	0
<b>Total</b>	<b>13.8</b>	<b>4.1</b>

Allowance 2016-21 \$88m

Actual and forecast \$80



# Gas tariff strategy

16 October 2019

Lev Yulin

**evo**energy

# Contents

- Overview of tariff setting principles
- Residential and small business tariff structure
- Typical network bills in 2019/20
- Proposed 2021–26 tariff strategy
- Questions / discussion

# Overview of tariff principles

## Tariff setting objectives

- Recover efficient costs
- Promote efficient use and growth of the network
- Treat customers equitably
- Keep gas competitive
- Stability in tariffs over time
- Simplicity and transparency

# Residential and small business tariffs

*The National Gas Rules require tariffs to be cost-reflective, which helps signal to customers the costs of using the network and encourage its efficient use*

## Fixed Charge

***Paid by customers each year to maintain their connection to the gas network***

- Ensures a reliable and safe gas network is available for customers to use all-year-round.*
- Helps cover the fixed costs of natural gas distribution (including metering, safety and maintenance costs)*

## Usage Charges

***Paid by customers for the quantity of gas they use, with lower charges for higher levels of usage***

- Helps cover the incremental costs to deliver natural gas to a customer's premises.*
- Declining block structure based on the declining costs of meeting higher levels of demand*
- Declining usage charges encourage customers to make the most of their gas appliances, and helps customers manage their bills during the winter peak.*

# Residential and small business tariffs

## Evoenergy VRI – Volume Residential Individual Tariff (\$/GJ)

	Fixed charge (\$/annum)	Block 1 first 3.75 GJ per quarter	Block 2 next 40.35GJ per quarter	Block 3 next 135.90 GJ per quarter	Block 4 remainder
<b>2019/20</b>	\$71.22	\$11.35	\$6.418	\$5.817	\$5.621

*Note, this shows Evoenergy network prices only and does not include retail components*

### **Simplified fixed charge introduced in 2016-21**

- Consolidated three charges into single charge
- Reduced fixed charge
- Encourages customers to get connected and stay connected,

### **Declining block charges – greater value for customers**

- Block 2 charges nearly 45% less than Block 1
- Majority of load falls into Block 2

*\*Based on Evoenergy 2019/20 pricing for VRI tariff, and typical consumption of 44.3 GJ per year*

# Typical network gas bills 2019/20

**\$430 per  
year**

**Typical network gas bill for a residential customer in 2019/20**

- **Usage charges: around 83% of bill** for typical customer
- **Fixed charge: around 16% of bill** for typical customer
- fixed charge share has remained unchanged since 2016/17

## Estimated 2019/20 network gas bill by household income quintiles

	Lowest	Second	Third	Fourth	Highest	Typical
Mean weekly income*	\$382	\$871	\$1,482	\$2,279	\$4,345	\$1,872
Gas usage (GJ / quarter)	9.4	9.1	11.1	11.2	13.7	11.1
Annual 19/20 network bill	\$385	\$378	\$430	\$432	\$498	\$430

*\*2012 dollars, based on Australia-wide analysis of gas consumption by income quintiles, from ABS Household Energy Consumption Survey 2012 (4760.0).*

*Bills based on 2019/20 pricing for VRI tariff, and typical consumption of 44.3 GJ per year*

# 2021-26 proposed tariff strategy

## 2016-21 Access Arrangement

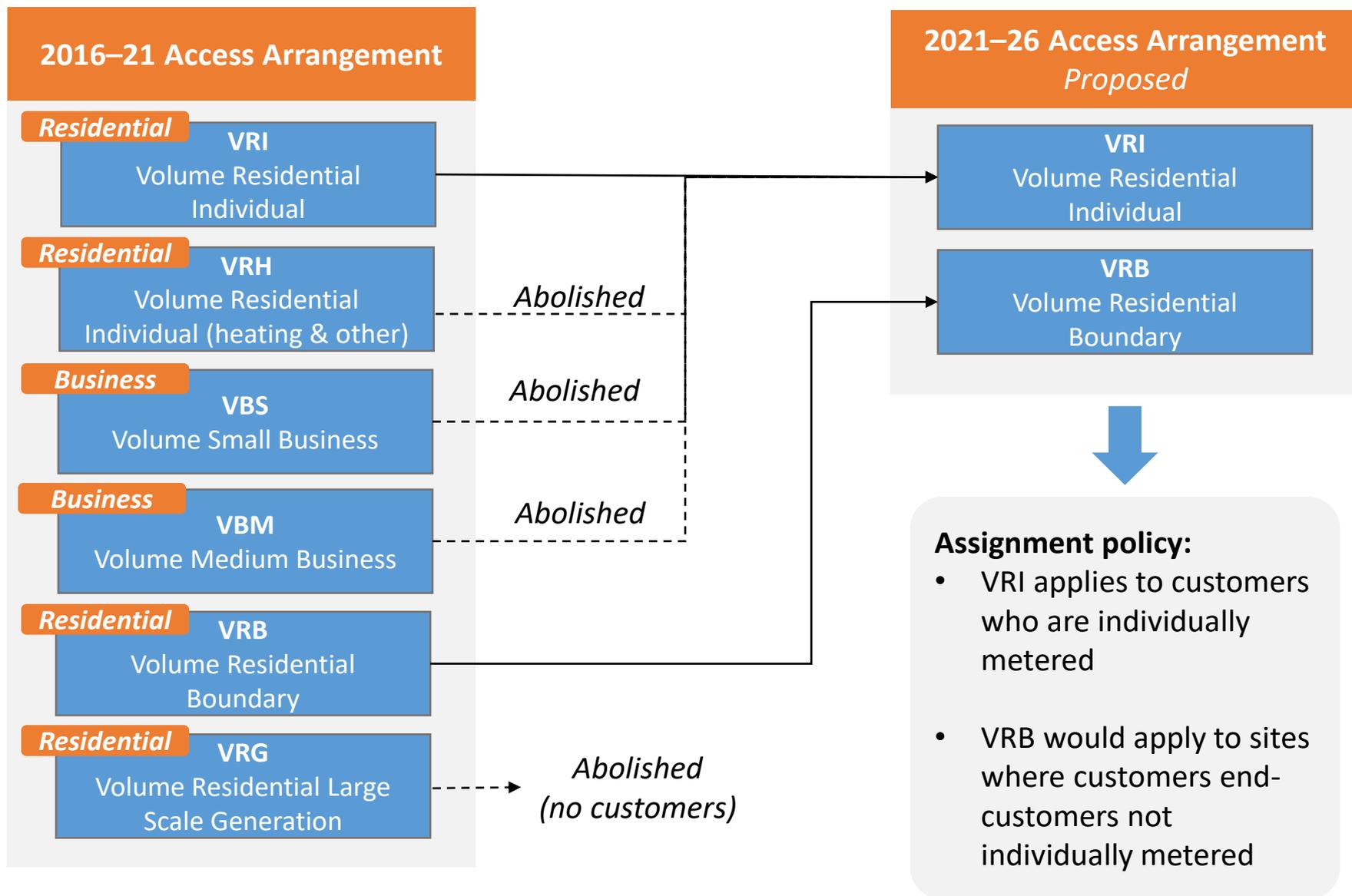
- **New tariffs** introduced to provide greater choice for different customer segments
  - Volume tariffs: Volume Residential Heating (**VRH**), Volume Business Small (**VBS**), Volume Business Medium (**VBM**)
  - Intermediary tariffs: Volume Residential Boundary (**VRB**); Volume Residential Large-scale Generation (**VRG**); Demand Business Large Scale Generation (**DBG**)
- **New charging basis for demand customers** with consumption greater than 10TJ (based on chargeable demand)
- **Reduced fixed charge**
- **New block structure** (2<sup>nd</sup> block reduced in size)



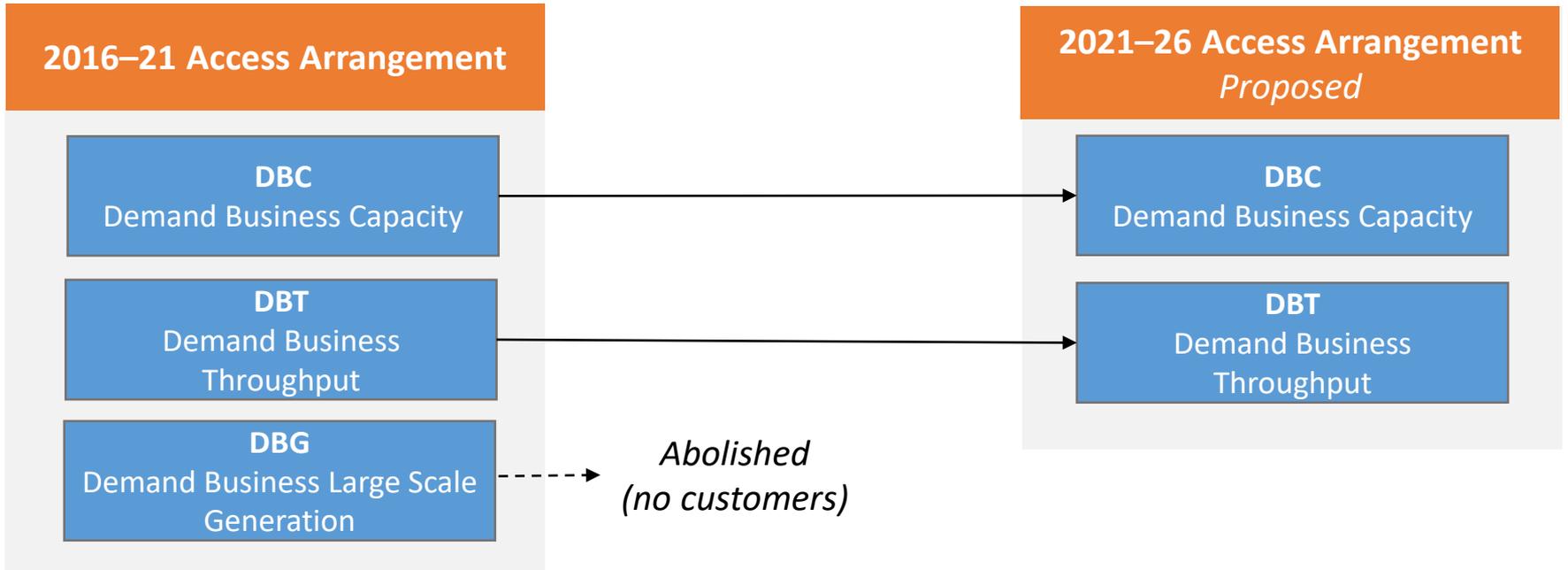
## 2021-26 Access Arrangement (proposed)

- **Simplifying tariffs for residential and small business customers**
  - Better alignment with retail offers; removal of tariffs with little uptake
- **Maintain existing block sizes**
- **Reset of Chargeable Demand** for customers on demand tariffs
- **Simplifying requirements for large customers to change their chargeable demand**

# Simplifying tariffs - volume tariffs



# Simplifying tariffs - demand tariffs



# Simplifying tariffs – demand tariffs

## Reset of customers' chargeable demand

At the start of the 2021-26 period, Evoenergy proposes to reset customer's chargeable demand (CD) to the highest of:

- the contracted maximum daily quantity (MDQ)
- 10 times the contracted maximum hourly quantity (MHQ); and
- the ninth highest withdrawal over the period 1 July 2020 – 30 June 2020

## Simplifying process for customers to lower chargeable demand

Proposed amendments to Reference Service Agreement:

- customer can request lower CD if there is a significant change in their demand, rather than permanent change currently.
- removal of 10 per cent materiality threshold for CD resets.
- simplified requirements for timing of requests to lower CD.

# Questions



# Capital Expenditure Sharing Scheme

16 October 2019

Lev Yulin

**evo**energy

# Overview of incentive schemes

**Incentive schemes have been implemented by numerous regulators overseas and in Australia, including the AER for electricity and gas networks**

## National Gas Rules

An access arrangement may include (and may be required by AER to include) one or more incentive schemes to promote the efficient operation of the network

## What is an incentive scheme?

Financial rewards or penalties provided to a regulated entity, which depend upon some measure of performance (e.g. capex, opex, or service quality)

## Why they may be needed

- Provide uniform incentive to achieve efficiencies over time
- Reduce incentive to bias expenditure forecasts
- Balance opex, capex and service quality incentives
- Improved risk sharing between distributor and customers

***Importantly, an incentive scheme must take into account the specific circumstances of a regulated business, its operating environment and existing regulatory arrangements.***

# Incentive schemes for gas

## Opex incentive scheme – ‘Expenditure Carryover Mechanism’

- **Currently applies to Evoenergy** (and applies to other gas and electricity networks)
- Evoenergy retains opex underspends and overspends for a fixed period of 5 years, before they pass to consumers
- Approximately 30:70 sharing of gains/losses between Evoenergy and customers

## Capex incentive scheme – ‘Capital Expenditure Sharing Scheme (CESS)’

- **Currently doesn't apply to Evoenergy** (historically not applied to other gas networks)
- AER recently accepted a CESS for Victorian gas distributors; a CESS was also proposed by Jemena in NSW
- Capex under (over) spends are split so that consumers receive (pay) 70%, and businesses receive (pay) 30%.

## Service quality incentive scheme

- **Currently doesn't apply to Evoenergy** or other gas distributors (but applied to electricity distributors)
- AER applied a ‘contingent payment factor’ to Victorian gas CESS, to reduce rewards if service quality deteriorates.

# Questions and discussion

- 1) How well are the existing regulatory incentives operating, and is there broad support for a CESS?
- 2) What factors should Evoenergy consider in the design of its proposed CESS?
- 3) What performance measures should be included in the gas CESS? Is there support for the proposed measures?
  - a) Average duration of unplanned supply interruptions
  - b) Average frequency of unplanned supply interruptions
  - c) Mains and services leaks (per 1,000km of main)
  - d) Meter leaks (per 1,000 customers)
  - e) Poor quality supply (events per 1,000 customers)
  - f) Estimated meter reads (% of reads that are estimates)
- 4) How should the performance measures be weighted to ensure alignment with the capex program? Is there support for the proposed weighting?
  - Performance *strongly* aligned to capex program – 30% weight
  - Performance *moderately* aligned to capex program – 10% weight



**evoenergy**

# GN21 engagement

## Energy Matters



## ACTCOSS workshop



### **GN21 Energy Consumer Advocacy Workshop Outcomes Report**

Building capacity for people on low-income,  
experiencing disadvantage, or at risk of  
hardship to actively engage in the Evoenergy  
Gas Network 2021-2026 Access Arrangement  
review

September 2019

# GN21 engagement

## Actsmart business expo

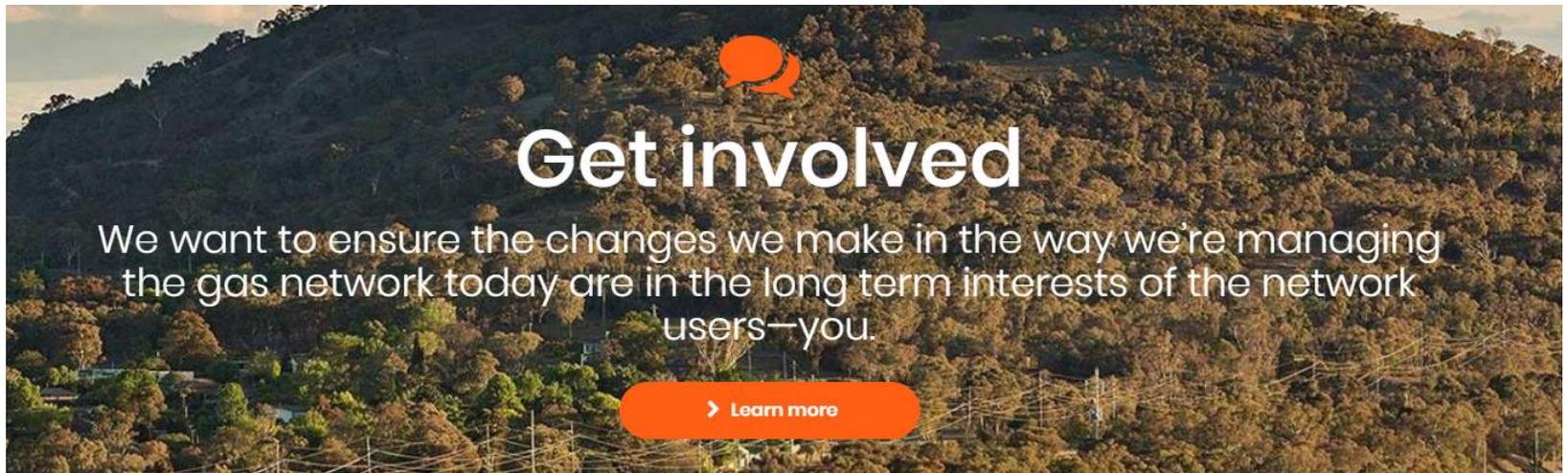


- Face-to-face consultation
- GN21 survey
- Hydrogen Test Facility visit

# GN21 engagement

Website is live

- <https://www.evoenergy.com.au/about-us/about-our-network/gas-five-year-plan>



# GN21 engagement

## Citizens' Jury

- Oct 19<sup>th</sup> & 20<sup>th</sup> and November 2<sup>nd</sup> & 3<sup>rd</sup>
- 30 Jury members
- Some sessions open to observers

<https://www.eventbrite.com.au/e/evoenergy-2019-citizens-jury-observer-sessions-tickets-76630466789>



**evoenergy**

A background image showing a person wearing safety gear, including a white hard hat and a high-visibility orange safety vest with reflective strips. The person is wearing a dark long-sleeved shirt. The image is overlaid with a semi-transparent dark blue filter. The text 'Customer Service Incentive Scheme' is centered in white.

# Customer Service Incentive Scheme

16 October 2019

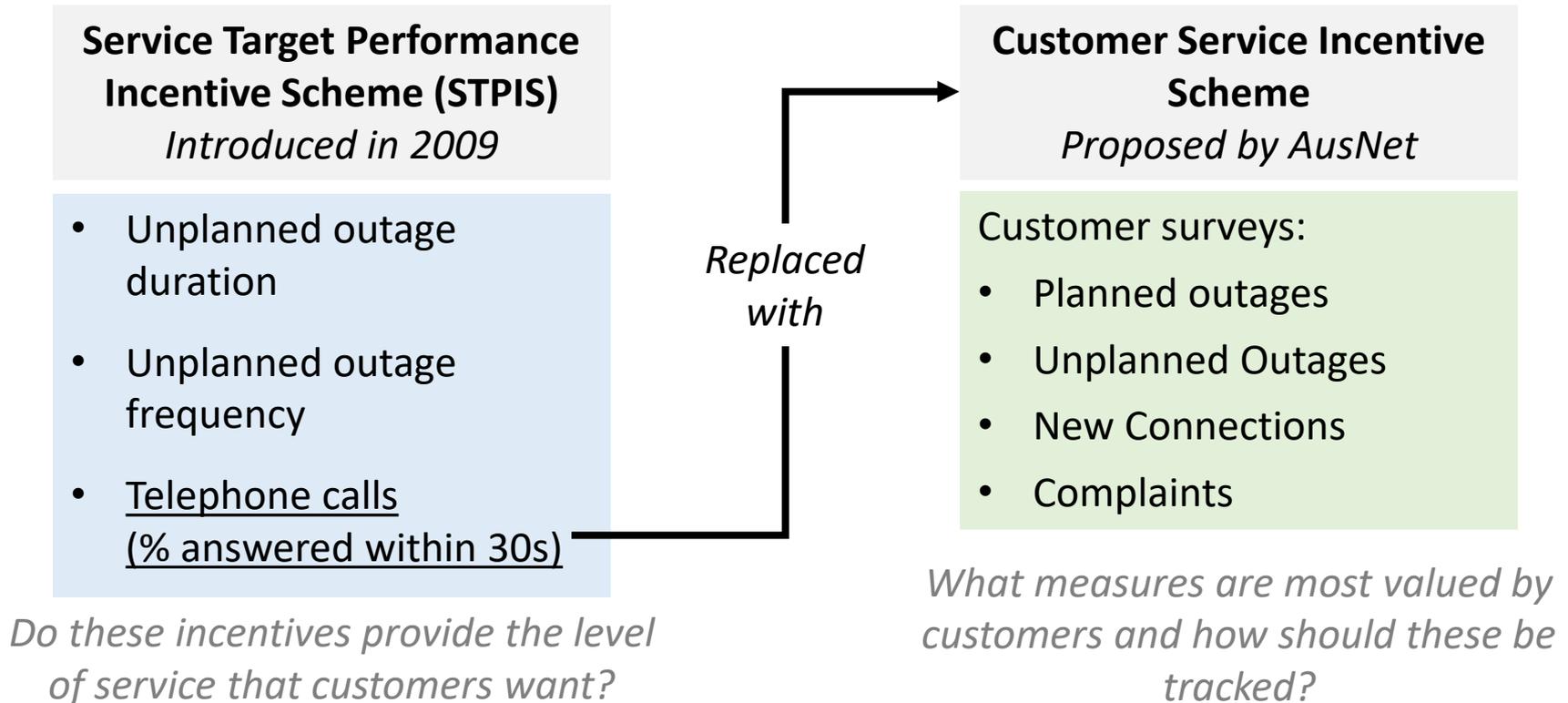
Lev Yulin

**evo**energy

# Customer Service Incentive Scheme (CSIS)

- AusNet and its Customer Forum proposed a customer service incentive scheme (CSIS).
- CSIS is proposed to improve the delivery of customer service by electricity distributors
- AER is considering using the small scale incentive scheme framework in the National Electricity Rules (NER) to trial a CSIS.
- Other countries have developed similar schemes including in the UK and US

# Potential CSIS design



***If a CSIS is implemented, its design should be flexible to the distributor's operating environment and customer preferences***

# Objective of the AER's consultation

Distributors should be driven by customer preferences

We want to align the interests of distributors and their customers



The Regulatory framework drives some distributor behaviour

We have created incentives for distributors to provide cost effective and reliable supply

Distributors also have an incentive to answer telephone enquiries quickly



Should we add a new incentive to the framework?

A customer satisfaction incentive scheme would financially incentivise distributors to maximise customer welfare

Source: AER, Issues Paper: Small Scale Incentive Scheme for Customer Service, page 2.

# AER consultation process (CSIS)

AER has commenced consultation on the merits of better incentivising improvements in customer service.

Milestone	Indicative date	
Issues Paper Released	22 July 2019	} <b>Publicly available</b>
Submissions on Issues Paper	19 August 2019	
<b>Workshops</b> <ul style="list-style-type: none"><li>• <i>Sydney, Brisbane and Canberra</i></li><li>• <i>Melbourne and Adelaide</i></li></ul>	<b>6 November 2019</b> <b>13 November 2019</b>	
Draft scheme published	December 2019	
Submissions on draft due	January 2020	
Final scheme published	March 2020	

*Potential for trial CSIS under small scale incentive scheme framework in the National Electricity Rules*

<https://www.aer.gov.au/networks-pipelines/guidelines-schemes-models-reviews/customer-service-incentive-scheme>

# CSIS issues paper submissions

- 15 submissions received, including from distributors and consumer groups
- Submissions generally supportive of improving customer service incentives and investigating a CESS

## **Evoenergy submission:**

- Supportive of scheme for improving customer service incentives
- Need more time to consider design of a CSIS for ACT
- CSIS should allow for different schemes across distributors
- Costs of implementing CISS should be less than benefits to customers from improving customer service

# Questions and discussion

## **Next steps:**

- AER workshops to consider key aspects of a potential CSIS (6 and 13 November 2019)
- As the AER review progresses, Evoenergy will consider if a CSIS might be appropriate for ACT, and how an ACT CSIS may be designed

## **Some questions for discussion:**

- 1) Do existing incentive schemes and consumer protections provide sufficient incentives for delivering customer service in the ACT?
- 2) Are there any service quality measures, not covered by the existing framework, which could be considered in the ACT?
- 3) Are customer surveys a good basis for an incentive? What are some alternative measures, and what are the risks?
- 4) How should the incentive be set (e.g. financial rewards / penalties)? How do we determine the value customers place on service quality?
- 5) Are there any other considerations Evoenergy should take into account?



evoenergy

# Accreditation and Authorisation

Michael Dentrinos, Accreditation Officer

The background of the slide is a photograph of a person wearing safety gear, including a white hard hat and a high-visibility orange vest over a dark shirt. The person is wearing a safety harness with a white plastic buckle. The image is overlaid with a dark blue gradient that is most prominent on the left side, where the text is located.

# Engagement update

Giuliana Baggoley, Customer Interaction Manager

# Annual Planning Report Workshop

- November 6<sup>th</sup> 12pm-2pm, ActewAGL House
- APR applies to DNSPs such as Evoenergy who have dual function assets and publish combined TAPR and DAPR.



evoenergy

# Other business

Next meeting December 11th

# Evoenergy

