ActewAGL Distribution Energy Consumer Reference Council

Meeting 4 Minutes 18 March 2015 9:30-12:20

ActewAGL House, Canberra City

Attendees

Allan Williams (Chairman)	
Jerry Howard	Master Builders Association, ACT
Nick Clarke	Engineers Australia, Canberra Division
Jodie Pipkorn,	SEE-Change
Susan Helyar	ACT Council of Social Services
Glenys Patulny	Tuggeranong Community Council
ActewAGL Distribution	
Paul Walshe,	Director, Marketing and Corporate Affairs
Ed Gaykema,	Manager, Gas Networks
Peter Cunningham	Branch Manager, Distribution, Strategy and Compliance
Leanne Holmes	Manager, Economic Regulation,
Suzanne Vo	Commercial Stream Leader, Access Arrangement, Jemena
Kee Li	Customer Engagement & Partnership Advisor, Jemena
Helen Leayr	Consumer Engagement
Kerri Hannaford	Consumer Engagement

Apologies

Kristine Riethmiller	Canberra Business Chamber
Catherine Carter	Property Council of Australia
Marcus Hipkins	North Canberra Community Council
Stephen Devlin	General Manager, Asset Management, ActewAGL Distribution
Robert Atkin	General Manager, Network Services, ActewAGL Distribution

Papers distributed at the meeting

- Agenda meeting #4
- Minutes of meeting #3
- Hard copies of PowerPoint presentations

1. Welcome and introductions

The Chair, Allan Williams, welcomed the Council members and thanked them for their ongoing commitment to the ECRC. Apologies were noted from Catherine Carter of the Property Council of Australia, Kristine Riethmiller, Canberra Business Chamber and Stephen Devlin, General Manager, Asset Management, ActewAGL.

Mr Williams informed the meeting that the focus of the meeting would again be the Gas Access Arrangement submission, as it would for the next few meetings.

2. Review of minutes of last meeting

Minutes were ratified as accurate.

The following matters arising from Meeting #3 were discussed:

- Submissions to AER on electricity determination; Four submissions from ECRC members were submitted, Master Builders Association, joint submission from SEE-Change and ACTCOSS, individual submissions from Glenys Patulny and Wayne King.
- Paper on development of external resources/capacity for long-term informed consumer engagement; Ms Helyar outlined that there has been progress, ACTCOSS is proposing to the community sector, at a meeting next week, that there is the need for an ACT based consumer funded role who would be an advocate for consumers with respect to the energy market. Ms Helyar noted that ActewAGL may be approached for funding and that there were also possible sources of funding at a national level.
- Paper on Weighted Average Cost of Capital (WACC) models and approach; Ms Leayr updated the Council; the paper is being drafted and is expected to be available for the ECRC at the end of April 2015. There will also be a simple fact sheet drafted for the website.
- Strategic infrastructure planning forum for the ACT; recognised by ActewAGL as important and will be addressed post 30 June 2015.
- Future agenda item on ActewAGL Distribution long term strategies in response to new technologies, renewable energies etc; recognised by ActewAGL as important and will be addressed post 30 June 2015.
- Approach ACAT about figures on vulnerable customers – It was noted that Peter Sutherland of ACAT attended the community forum and it was recognised that these statistics or trends are important by ActewAGL. Ms Helyar noted that there needs to be work to understand at what point it would be best to intervene with regard to hardship management to stop a situation from becoming dire.

3. Update on consumer engagement and feedback on the 5 Year Gas Plan.

Ms Leayr outlined that to date there have been two business forums and one of two community forums held. The final community forum will be held in Tuggeranong Thursday 19th March. ActewAGL has also been invited to present to the Tuggeranong Community Council in April . The feedback from the community and business meetings will be considered and fed back into the Gas submission. Ms Leayr provided a summary of the feedback received at the workshops in a powerpoint presentation.

4. Gas business operations further information

Mr Ed Gaykema, Branch Manager, Gas Networks, ActewAGL provided the Council with a presentation entitled 'Expenditure Forecast 2016/17-2020/21'. Mr Gaykema opened his presentation by noting his appreciation of the openness of the ECRC meetings, that the issues raised and discussion were very helpful. The presentation included:

- Building blocks for the overall costs – 49% Capital Expenditure (CAPEX), 42% Operational Expenditure (OPEX), 7% Depreciation and 2% Taxes and charges.
- For every $100 of CAPEX on the gas network - $46 connects new customers, $29 growing our capacity, $25 stay in business, $1 other non-network assets.
- Example provided, if the CAPEX costs increase by $1 million on a long life asset (50 year life) over the five year regulatory period this will result in an additional $0.45 pa of a customer's bill.
- Balance is required for CAPEX. The aim is to have prudent and efficient costs to get the forecasts and estimates right and have the AER approve the expenditure.
- CAPEX priorities for 2016-2021 include: connecting new customers and growing capacity.
- CAPEX expenditure comparison to previous regulatory period indicates that the demand for gas is growing and the connections for gas are growing. Growth areas include: Gungahlin, West Belconnen, Tuggeranong and Tralee.
- For every $100 of OPEX on the gas network - $46 network operations and management, $23 business support costs, $25 government charges and $6 other operating costs.
- The distribution business can be considered like running an energy tanker, it is the cost of running the tanker that is the business of ActewAGL Distribution not the 'fuel' that is inside the tanker.
- Example provided, if the OPEX costs increase by $1 million over the five year regulatory period then this translates to an extra $6.75 pa of a customer's bill.
- OPEX priorities for 2016-2021 include: maintaining the 4,900km network and responding to over 200 incidents that require the network to be 'made safe'.

5. Discussion

- Do existing customers fund new customers? Response: No, the revenue over the next 20 years is considered against the expected costs, the difference has to be covered by a capital contribution from the developer. If the capital contribution

required is very large it may be uneconomic for the developer to offer gas in that new development.

- Are any developers of new areas saying no to the capital contribution? Response: No, the only area we see reluctance is with high rise apartments and this is as a result of current metering laws making it expensive to install gas into high-rise residential.
- The $100 of OPEX shows $46 in network operations and maintenance. If the gas network did not continue to expand would this amount then be saved? Response: There would be a level of savings; that figure would be lower, but decisions not to expand the gas network need to be considered in the context of the pressure that would put on electricity infrastructure to that area and potential augmentation required to the electricity network.
- The information highlights the long term business model and viability considering half of annual investment goes into maintenance, if gas is not viable in the long run can the infrastructure be re-used? Response: This needs to be discussed in the context of the energy needs of the ACT in total, looking at the place of gas, electricity and renewables. All current renewables are reliant on the electricity infrastructure.
- It is acknowledged that the current regulatory timeframe does not allow for a detailed discussion on the long term energy needs for the ACT but this is an important conversation to incorporate into future work of the ECRC. It would be good to know what ActewAGL see as the role of renewables going forward and consumers need to know about the impact of changing to electricity from gas. Response: Yes, this is something that needs to be included in the 5 year plan.
- What will the expected increase in the price of gas be? Response: the wholesale price of gas is expected to increase but the experts cannot give a definitive answer on when or by how much the price might increase. An independent consultant has been engaged to investigate multiple scenarios, including customers shifting to alternate energy sources.
- What impact does the ACT Government's 90% renewables by 2020 target of have on ActewAGL's plans? Response: ActewAGL is considering its role in achieving this target and work is underway to better understand the impact and opportunities associated with wind farms. ActewAGL is also involved in a pilot project with Panasonic in relation to battery technology.

6. Efficiency Benefits Sharing Scheme

Mr Peter Cunningham, Branch Manager, Distribution Strategy and Compliance, ActewAGL provided the Council with a presentation entitled 'Efficiency Benefit Sharing Scheme' (EBSS). The presentation included:

- The EBSS guidelines were introduced in November 2013 to provide a continuous incentive for Network Service Providers (NSPs) to pursue efficiency improvements in OPEX and to share efficiency gains between NSPs and network users.

- The EBSS works by allowing network businesses to retain underspends for a total of six years, regardless of the year in which they underspend. Consumers then benefit from lower forecast OPEX in future regulatory periods which leads to lower prices.
- The NSP keeps the benefit or incurs the cost of delivering actual OPEX lower (higher) than forecast OPEX in each year of a regulatory control period.
- The Carry Forward amount is treated as an additional 'building block' when setting the NSPs next regulated revenue.
- Over expenditure results in penalties. Under expenditure results in incentives.
- ActewAGL currently have a positive carryover for gas for the next regulatory period.

7. Discussion

- Will the AER use the same framework to look at efficiencies for gas and electricity? Response: Yes. The AER assesses each submission on its own merits therefore the negative assessment electricity has should not affect the gas submission.
- It needs to be taken into account by the CCP that the ACT has high housing costs and an increased need for heating. A pricing response will make a difference but there need to be other considerations. Response: Yes and the AER also agree that pricing is not the best way to help vulnerable customers and there is the need to look at other mechanisms.

8. Revenue requirements

Ms Suzanne Vo, Commercial Stream Leader, Access Arrangement, Jemena, provided the Council with a presentation entitled 'Process for setting tariffs/ Indicative Price Paths'. The presentation included:

Process for setting tariffs

- Recap on the breakup of wholesale (25%), network (50%), retail (20%) and green & carbon (5%) costs by the AER. And recapping the network fixed and variable components of a residential bill (around 35%) and retail fixed and variable (around 65%) for the ACT.
- Three steps to tariff setting, 1. Building block revenue requirement, 2. Average price path set for 5 years and 3. Tariffs set in annual pricing process.
- Weighted average cost of capital (WACC) = weighted average of the cost of debt and the cost of equity.
- Key driver for the revenue requirement – for every 0.5% reduction in the WACC, our revenue requirement over the 5 year period falls by around $10 million. The right balance needs to be struck to run the business efficiently and ensure the customers are not paying too much.

- Examples provided on the AER and the Networks businesses having divergent views on setting the WACC.
- It is expected that there will be approximately a 25% decrease in demand for gas per residential and business customer over 2015 – 2021.

Price Path

- The network price path depends on the revenue requirements and the demand forecast, declining demand puts upward pressure on prices.
- Setting an average price path takes into consideration, minimising customer billing impact, creating customer price stability and recovering efficient costs for providing network services.
- It was noted that there had been considerable volatility in pricing during the last regulatory period, particularly 2011 – 2015. This had occurred due to the impacts of new legislation the costs of which were passed directly onto consumers.
- Three price path options were proposed. CPI assumed to be 2.5%:
- The forecasts for the 2016-2021 period are: costs per customer are falling, network charges to remain relatively stable, customer numbers to increase and total demand to fall.
- The indicative billing impacts for residential and small businesses were shown for each option.

9. Discussion

Process for setting tariffs

- Concerned about the business model of selling gas and encouraging gas appliances into a market where the demand for gas is declining.
- Is there an option for ActewAGL to expand its offering, for instance, sell energy efficient houses? Response: The regulatory framework that the business operates in has a lot of restrictions; there is a review soon to see if more flexibility can be introduced.
- Interest in seeing projections over 50 years, such as demand continuing the drop or flatten. If it is continuing to drop then at what point do we consider option such as electric vehicles?
- Concern over option 2 (relatively higher prices at the start of the period, lower later in the period), as it is appears to be gouging from the customers and passing the risk to them.
- Option 3 (relatively lower prices at the start of the period, higher later in the period) was considered to be the preferred option by the Council members.
- Can more scenarios be considered? Response: yes, that is possible, it is not a significant cost to run different scenarios and these three represent a good benchmark of the potential options

- The impact of a warm winter was discussed by members as a real possibility and they were interested in the impact.
- Is the CPI figure of 2.5% reasonable given it is now below 2%? Response: the CPI figure can be changed to 2%. There can be a forecast for the five year period but the AER use the actual CPI at the end of each year.
- If prices are increased then this may encourage increased efficiency by consumers.

Other matters discussed

- Future planning should include options such as areas like West Belconnen adopting all renewable energies and there is great opportunity to have a conversation on the possibility of augmenting poles and wires and what impact this would have. Response: The planning needs to be done by considering the energy load required by the ACT, rather than a conversation of gas versus electricity.
- One issue is that the infrastructure build leaves a 50 year liability however electricity poles and wires can be utilised for renewable energies, whereas the opportunities to re-use gas infrastructure may be more limited.
- It is more efficient to put infrastructure in first rather than trying to retrofit it.

10. Other matters

The focus for meeting #5 will be on tariffs as progress is made towards finalising aspects of the Submission to the regulator..

Mr Williams closed the meeting at 12:20