



MEMO

Revisions to demand forecasts for SP AusNet

*Prepared for
SP AusNet*

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Revisions to projections and demand forecasting model

The CIE provided a report to SP AusNet setting out demand projections for SP AusNet's Victorian gas network. This included a model using the methodology set out by the CIE that allowed inputs to be changed, while maintaining the same forecasting method.

Following comment from the AER, the CIE adjusted this model to allow for a number of options that the AER wanted to consider. These options included:

- including Huntly as a new town in adjoining West (for commercial and residential customers);
- adjusting the commercial price elasticity of demand for gas to -0.35 (from -0.77) and the cross-price elasticity with electricity from 0.26 to 0.0;
- using the commercial to residential customer change relationship from 2003 to 2011 rather than a shorter period that excluded anomalies in the data from early years;
- using AEMO weather projections, with a base of 1309 in 2012 and declining by 7.8 each year; and
- using new Victoria Planning projections for dwellings. Note that these are now provided on a five yearly basis so interpolation was used between years.

Following the draft decision, one cell referencing error was found in the updated model that has now been corrected.

The model provided to SP AusNet forms the basis of its revised demand forecasts. SP AusNet's separate submission sets out specific input options chosen in its revised forecasts. Outside of this, the basis of forecasts is the same as that set out in CIE's report previously provided to the AER as part of SP AusNet's original Access Arrangement submission (Appendix 4A, submitted 30 March 2012).

Clarification of Methodology

Use of CSIRO's EDD projections in the demand forecasts

In ACIL's report, they state that

“In our experience it is unusual to use a projection as the basis for weather normalising historical data. It is not clear from CSIRO's report that CSIRO intended its projections to be used this way or that this is an appropriate use for them. A more usual approach would be to base an assumption about normal weather conditions on historical data.” (p27)

This appears to be a misunderstanding of how the CIE has used CSIRO's EDD projections in developing the demand forecasts. CIE's regression analysis is based on historical actual weather data. CSIRO's EDD projections are only used in the projections of future demand.

Given this, no adjustments to the CIE's demand forecasts are required.

