

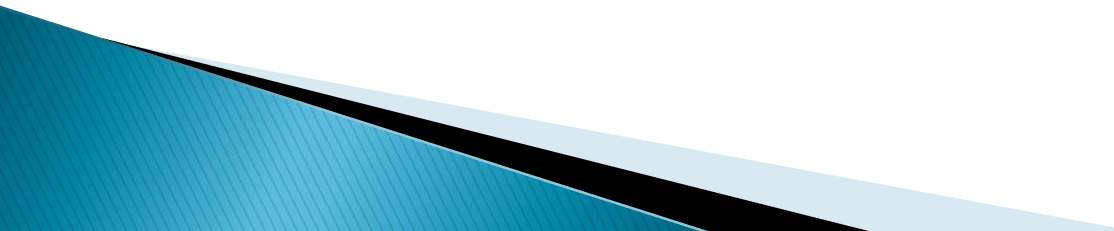
ActewAGL  
(Australian Capital Territory)  
2016–2021 Plan  
Consumer Group Meeting – 28 July 2015

Presentation by AER's Consumer Challenge  
Panel


David Prins and Robyn Robinson



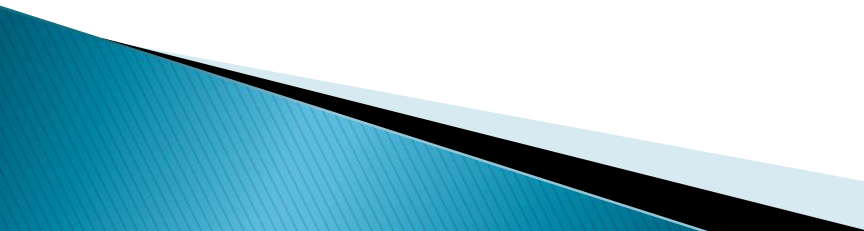
# AGENDA

1. Introduction to the Consumer Challenge Panel
  2. Our initial observations
  3. Your feedback
  4. Next steps
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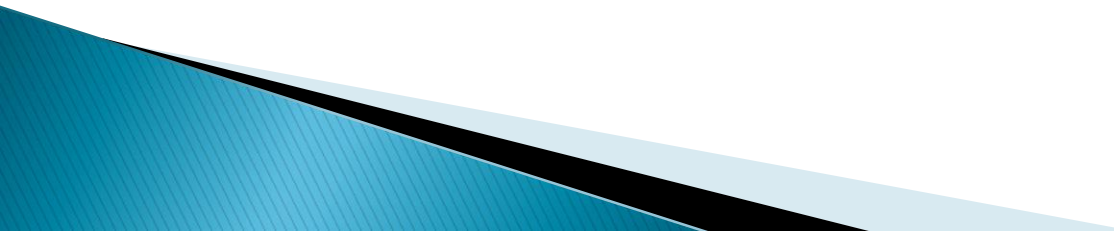
# What is the Consumer Challenge Panel?

- ▶ The CCP assists the AER to make better regulatory determinations by providing input on issues of importance to consumers
  - ▶ We advise the AER on
    - Whether a network business proposal is justified
    - Whether the proposal is in the long term interest of consumers
    - The effectiveness of the business' consumer engagement
  - ▶ We challenge the network businesses, and we challenge the AER
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# Overview of the ActewAGL gas distribution network customer connections

- ▶ Approximately 138,000 residential and business customers and around 40 major customers (each consuming more than 10 TJ of gas per year) are connected to ActewAGL Distribution's gas network
  - ▶ The residential and business consumers account for around 95 per cent of revenue, and 88 per cent of the total load
  - ▶ The 40 major customers account for around five per cent of the revenue and 12 per cent of the load
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## Our initial observations – business performance

- ▶ ActewAGL Distribution has continued its strong reliability and service standard performance, relative to other gas distribution businesses and relative to all of the key performance indicators (KPIs) specified in the 2010–15 access arrangement information
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# Our initial observations – previous period extended, and introduction of NECF

- ▶ The previous five-year term 2010–15 was extended by the AER to a six-year term from 1 July 2010 to 30 June 2016
- ▶ Reference tariffs in place at 30 June 2015 continue without variation for the 12-month extension period
- ▶ A transitional NECF has been in force in the ACT from 1 July 2012 to 30 June 2016, and the full NECF will commence on 1 July 2016
- ▶ NECF creates direct rights and obligations between the distributor and the customers that connect and take gas from the distributor's network
- ▶ NECF establishes a 'triangular' relationship so that customers now have rights and obligations with ActewAGL Distribution in addition to the previous relationship between customers and retailers, and retailers and ActewAGL Distribution.
- ▶ NECF has significant implications for the terms and conditions in the access arrangement and the Reference Service Agreement
- ▶ ActewAGL claims new requirements under NECF will also increase capex and opex. For example, the forecast capex for market expansion includes a step change due to new requirements for energisation of new connections under NECF

# Our initial observations – consumer engagement

- ▶ Through its Gas Consumer Engagement Program, ActewAGL has engaged extensively with consumers, stakeholders and the community on the proposed revisions to the access arrangement
- ▶ ActewAGL claims consumers have told them they
  - value reliability and safety
  - want price stability and certainty
  - want vulnerable customers to be supported
  - are interested in the long-term sustainability of energy infrastructure in the ACT
  - appreciate the opportunities to engage and are keen to be involved in future energy discussions

# Our initial observations – consumer engagement

- ▶ The feedback and comments from consumers, stakeholders and the community have influenced ActewAGL's proposal in several ways
  - The expenditure proposals are designed to allow ActewAGL to continue to provide safe and reliable services
  - The proposed price path minimises price shocks and aims to provide stability in average prices
  - The new tariff structure will allow ActewAGL to promote the efficient use and growth of the network, for the long-term benefit of all consumers
  - The capex and opex proposals recognise the need to take a long-term perspective in managing the network, optimising the use of existing assets and investing to accommodate efficient growth in connections



# Our initial observations – stakeholder engagement

- ▶ *Studies of willingness to pay (WTP) for changes in service levels*
- ▶ *Customer satisfaction surveys*
- ▶ *Major project consultations*
- ▶ *Major customer consultations*
  
- ▶ **Gas Consumer Engagement Program**
  - Briefing, discussion and collaboration with the ActewAGL Distribution Energy Consumer Reference Council (ECRC)
  - Release of a public consultation paper titled '*The Gas Network – Our 5 year Plan*' and subsequent update addendum
  - One-on-one interviews with ActewAGL Distribution's top 10 major customers
  - Hosting of two business and two community workshops
  - Publication of information and presentations on the ActewAGL website
  - Conduct of a survey through the ActewAGL Power Panel
  
- ▶ Engagement with major customers and retailers

# Energy Consumer Reference Council membership

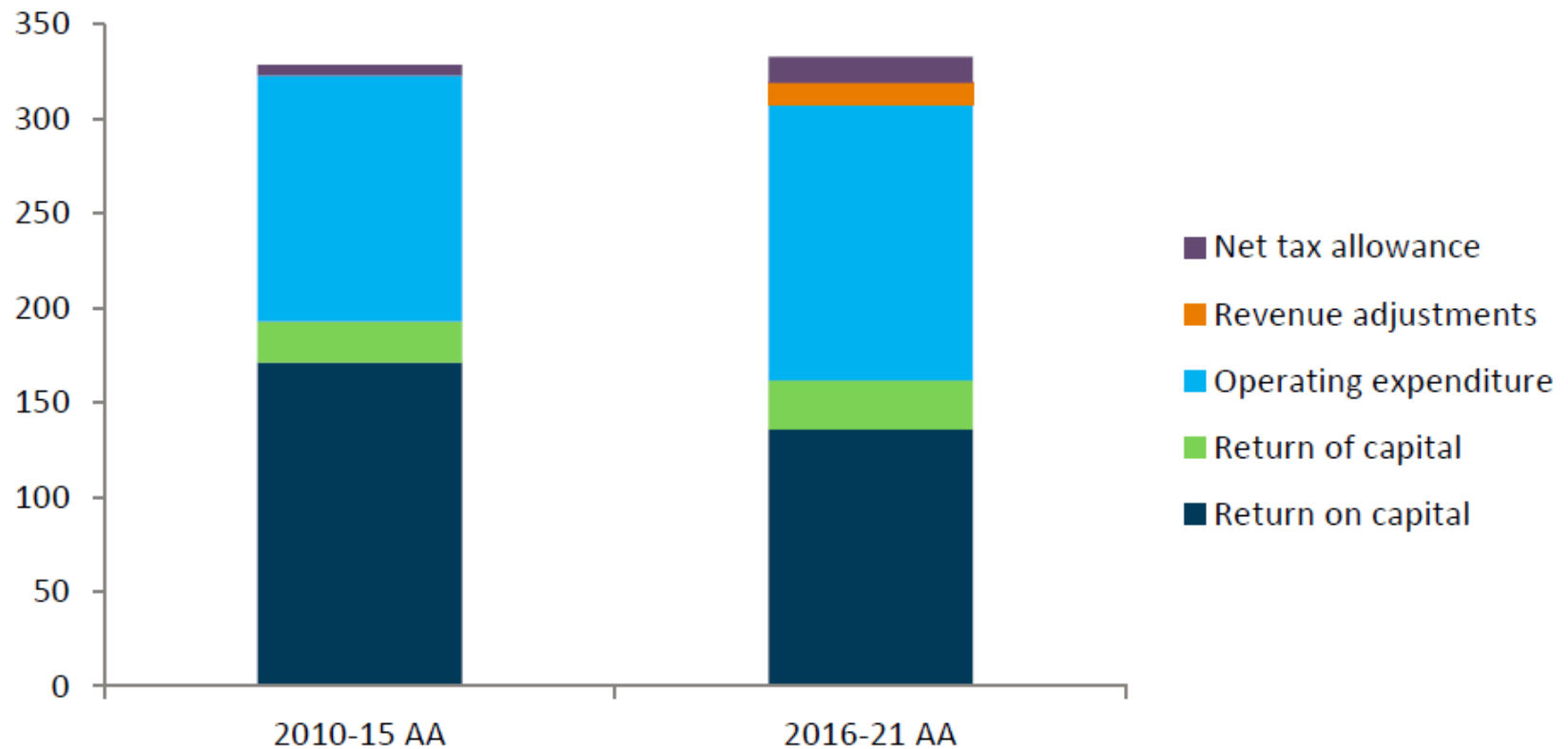


# Our initial observations – overview of business proposed revenue requirement

- ▶ ActewAGL's forecast revenue requirement for 2016–21 is \$332.9 million (\$2015/16), which is around one per cent higher (in real terms) than the revenue approved by the AER for 2010–15
- ▶ ActewAGL claims this is the forecast revenue required so they can continue
  - to deliver the safe and reliable services that consumers want
  - to meet expected growth in connections
  - to manage the network in a sustainable way, and
  - to meet all relevant regulatory obligations and requirements

# Our initial observations – overview of business proposed revenue requirement

Figure O.7 Revenue requirements 2010-15 and 2016-21 (\$million 2015/16)



# Our initial observations – price path

- ▶ The proposed average price path is a reduction (CPI – 2.23 per cent) in 2016/17 followed by CPI increases for each of the remaining four years of the 2016–21 period
- ▶ ActewAGL claims
  - This is the lowest sustainable price path
  - It takes account of feedback from consumers, via the Energy Consumer Reference Council (ECRC) and community engagement, on their preference for a stable price path with minimal price shocks

# Our initial observations – new tariff structures

- ▶ New pricing options to cover different types of residential customers include:
  - Small residential customer – such as those using gas for cooking only
  - Medium residential customer – homes that use gas cooking and hot water
  - Large residential customer 1 – homes with some gas heating as well as hot water or cooking
  - Large residential customer 2 – customers that have whole of home gas heating, hot water and cooking
- ▶ New small and medium business customer price packages to recognise the different requirements of these customers to residential customers.
- ▶ Boundary metering prices for residential and small commercial operators located within high rise dwellings and office blocks.

# Our initial observations – new tariff structures

	Anticipated change in price of gas distribution	
<b>Customer segment</b>	<b>FY16/17</b>	<b>FY17/18 – FY20/21</b>
Gas cooking	Decrease	Relatively steady
Gas hot water and/or cooking	Relatively steady	Relatively steady
Gas heating and/or hot water/cooking	Relatively steady or decrease depending on consumption	Relatively steady
Gas whole-of-home heating and/or hot water/cooking	Decrease	Relatively steady
Home business	Relatively steady or decrease depending on consumption	Relatively steady
Small business	Decrease	Relatively steady
Medium business	Decrease	Relatively steady
Major customer	Increase	Increase

# Our initial observations – customer numbers and consumption

- ▶ During the current access arrangement period
  - Customer numbers have grown steadily over the period, at an average rate of three per cent per year
  - Average consumption per connection has declined over the period, for both residential and business customers
  - Total annual consumption has been declining since 2011/12, following a long period of steady growth. total throughput is estimated to have declined by 9.2 per cent, from 8.5 TJ to 7.7 TJ, over the four years 2010/11 to 2014/15
- ▶ The declining trend observed in the past three years is forecast to continue in the 2016–21 period, from 7.58 PJ to 7.12 PJ



## Our initial observations – rate of return

- ▶ ActewAGL proposes a weighted average cost of capital (WACC) of 7.15 per cent (nominal vanilla), significantly lower than the 10.08 per cent adopted for the 2010–15 access arrangement
- ▶ We may compare this with the AER's Final Determination for the ActewAGL electricity distribution business on 30 April 2015 of a rate of return of 6.38% for 2015–16.

## Our initial observations – opex

- ▶ Actual and estimated opex over the 2010–15 period is \$133.9 million (\$2015/16), compared with the AER approved opex of \$129.9 million
- ▶ Controllable opex has been below the AER approved amount over the period
- ▶ For 2016–21: forecast opex (excluding debt raising costs) of \$143.8 million, 11 per cent higher (in real terms) than the approved amount, and seven per cent higher than actual opex for 2010–15

# Our initial observations – capex

- ▶ Actual and estimated capex over the 2010–15 period is \$90.8 million (\$2015/16), 8% below the AER approved capex of \$98.7 million

Table O.4 AER approved and actual capex over the 2010-15 period (\$million, 2015/16)

	AER approved	Actual/estimate	\$ variance	% variance
Market expansion	40.87	43.31	2.44	6
Capital contributions	0.35	3.31	2.96	834
Net market expansion	40.51	40.00	-0.51	-1
Capacity development	28.21	27.67	-0.55	-2
Stay in business	28.60	22.61	-5.99	-21
Non-system capex	1.36	0.52	-1.84	-62
<b>Total capex (net of capital contributions)</b>	<b>98.69</b>	<b>90.80</b>	<b>-7.90</b>	<b>-8</b>

## Our initial observations – forecast capex

- ▶ Forecast capex of \$115.7 million, which is six per cent higher than the allowance for 2010–15 (after adjusting for the change in capitalisation of overheads and input price growth)

# Our initial observations – forecast capex

**Table O.15 Forecast capex 2016-21 (\$million, 2015/16)**

	2016/17	2017/18	2018/19	2019/20	2020/21	Total
Market expansion (net cap-cons)	11.72	12.70	12.80	12.51	12.05	<b>61.78</b>
Capacity development	3.21	5.56	2.91	6.99	1.22	<b>19.89</b>
Stay in business	7.23	8.18	8.60	4.59	4.83	<b>33.43</b>
Non-system	0.21	0.11	0.22	0.00	0.00	<b>0.55</b>
<b>Total</b>	<b>22.38</b>	<b>26.55</b>	<b>24.53</b>	<b>24.09</b>	<b>18.10</b>	<b>115.65</b>

**Table O.16 Annual average capex in each access arrangement period (\$million, 2015/16)**

	2010-16	2016-21	% variance
Market expansion (net of capital contributions)	8.49	12.36	46
Capacity development	6.63	3.98	-40
Stay in business	5.61	6.69	19
Non system assets	0.09	0.11	26
<b>Total</b>	<b>20.81</b>	<b>23.13</b>	<b>11</b>

# Our initial observations – forecast capex

**Table 6.2 New connections volumes (thousands)**

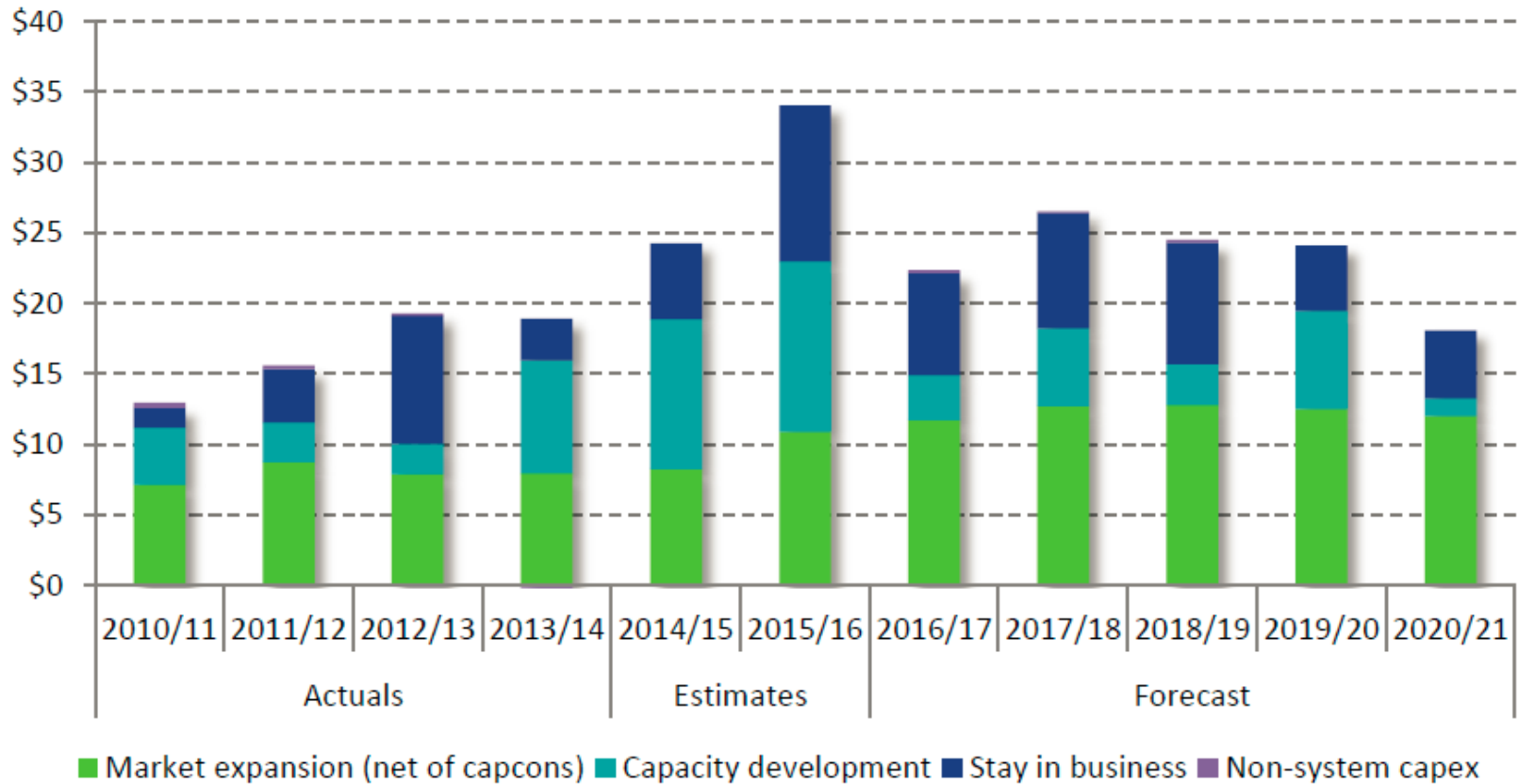
	2010/11	2011/12	2012/13	2013/14	2014/15 <sup>4</sup>	2015/16 <sup>5</sup>
New estates	1,972	1,691	1,931	1,642	1,763	1,530
Electricity to gas	785	802	861	624	628	781
Medium density	1,340	553	892	1,360	923	1,368
Industrial & commercial	25	71	114	102	117	120
<b>Total</b>	<b>4,122</b>	<b>3,117</b>	<b>3,798</b>	<b>3,728</b>	<b>3,431</b>	<b>3,799</b>

**Table 6.12 Forecast new connections**

	2016/17	2017/18	2018/19	2019/20	2020/21	Total
E-G	781	781	781	781	781	3,905
New estates	1,629	1,752	1,752	1,752	1,548	8,433
I&C	123	126	129	132	136	646
Medium density	1,521	1,686	1,686	1,686	1,584	8,163
<b>Total</b>	<b>4,054</b>	<b>4,345</b>	<b>4,348</b>	<b>4,352</b>	<b>4,049</b>	<b>21,148</b>

# Our initial observations – forecast capex

Figure O.9 Capex over the two access arrangement periods, composition of actuals, estimates and forecasts (\$million, 2015/16)



## Our initial observations – capital base

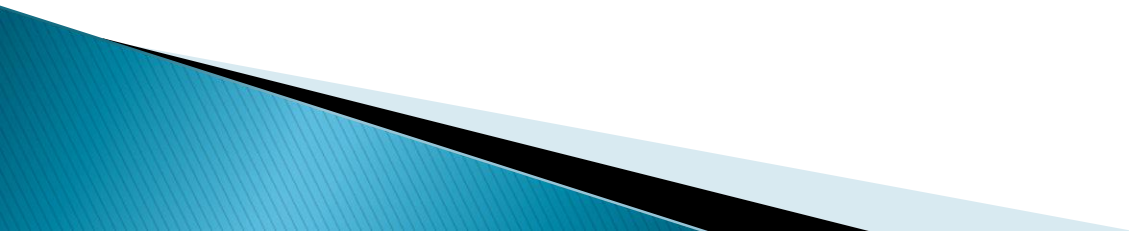
- ▶ ActewAGL Distribution has calculated the value of the opening capital base at 1 July 2016 as \$367.5 million (nominal)



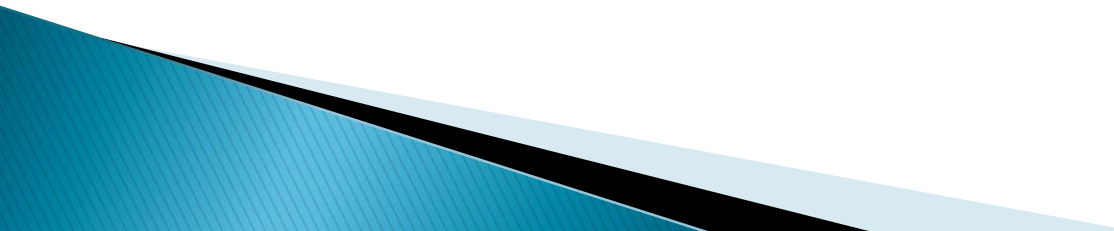
# Our initial observations – incentive mechanisms

- ▶ ActewAGL Distribution has been subject to an opex incentive mechanism in the 2010–15 access arrangement period
- ▶ A total carryover amount of \$11.7 million (\$2015/16) from 2010–15 has been added to the revenue building blocks for 2016–21
- ▶ ActewAGL Distribution proposes to retain an incentive mechanism for opex for the 2016–21 access arrangement period
- ▶ The proposed efficiency benefits sharing scheme (EBSS) will provide a continuous incentive for ActewAGL Distribution to seek opex efficiencies and will ensure that the benefits are shared with customers

**Your feedback:**



## Next Steps ...

- ▶ CCP members will be meeting with ActewAGL
  - ▶ CCP members invite feedback on any aspect of the proposal
  - ▶ Submissions to the AER are due by 10 August 2015
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**THANK YOU**

