



ATTACHMENT 07.101 RESPONSE TO THE ALINTA/KLEENHEAT COMMENTS ON ATCO'S REVISED PLAN

ATCO 2020-24 REVISED PLAN

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Overview

In response to the ERA’s Draft Decision in April, ATCO submitted the 2020-24 Revised Plan. The ERA invited and received public submissions of feedback on that plan.

ATCO has identified the following two matters that have arisen out of the submissions received, and that warrant the provision of some further clarification:

1. Alinta’s analysis on B3 demand forecast
2. Kleenheat’s queries on the justificaion of AA5 brownfields capex

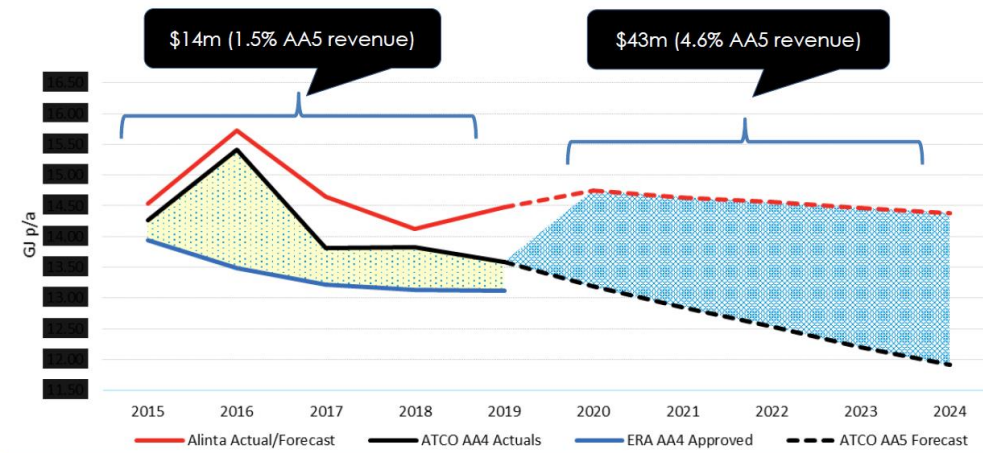
The additional clarification is set out below.

1. Alinta’s analysis on B3 demand forecast

1.1 Alinta – forecast B3 revenue over-recovery

In its feedback to the ERA¹, Alinta presented a higher demand forecast claiming that ATCO may potentially over-recover \$43m in revenue over AA5 as per Figure 3 below:

Figure 3: Estimated revenue over-recovery AA4 and AA5 (\$ nominal)



Note: The % AA5 revenue is calculated on ATCO’s proposed revised revenue¹⁷ of \$931.4m.

Figure 1.1: (Figure 3) Alinta Submission page 5

We note that this forecast revenue over-recovery does not appear credible due to the following:

- Alinta’s historical average GJ per customer is higher than ATCO’s actual AA4 history from 2015 to 2018. ATCO understands this may be due to Alinta including some B2 customers in their residential customer grouping, thereby resulting in a higher average GJ/customer as per figure 3. This means that Alinta’s historical baseline for its forecast as shown above is not comparable to ATCO’s B3 demand forecast and therefore cannot be used to infer a forecast over-recovery for B3 customers.

¹ Alinta’s submission in response to ATCO’s Revised Plan – 15 July 2019 <https://www.erawa.com.au/cproot/20576/2/Alinta0.PDF>

- Alinta’s forecast GJ per customer is increasing from 2018 (actual) to 2019/2020 (forecast). This contradicts the historical decline in B3 average consumption and Alinta has not provided any supporting rationale for a reversal of this trend. This increase seems unlikely given several trends such as smaller dwellings/units, increasingly efficient appliances and competition from competing renewable energy sources.
- Alinta’s forecast GJ per customer over 2020-2024 is higher than ATCO’s 2017 & 2018 actual average consumption per customer. This may be due to the data sources not being comparable (i.e. Alinta includes some B2 customers within its residential customer segment) and result in an unsupported assumption of increasing average gas demand for residential users.

Based on these shortfalls, the B3 average demand outlook presented by Alinta (figure 3) does not appear to form a reasonable basis for comparison to ATCO’s submitted demand forecast. We refer the reader to ATCO’s demand forecast as per the draft decision response which details the assumptions underpinning the demand forecast (refer Core report (Attachment 07.100: CORE Demand Forecast Report - AA5)).

1.2 Alinta - Proposed GJ/Connection

We note that Alinta has proposed a different demand forecast (referred to as “Example Adjusted”) to the ERA as per Table 6 and Figure 4 shown below²:

Table 6: Example adjusted average demand for B3 customer connections over AA5

	2020	2021	2022	2023	2024
ATCO (GJ/connection)	13.18	12.84	12.54	12.19	11.91
Year-on-year change (%)		(2.6)	(2.3)	(2.8)	(2.3)
Alinta Energy (GJ/connection)	■	■	■	■	■
Year-on-year change %		(0.7)	(0.6)	(0.6)	(0.6)
Example Adjusted (GJ/connection)	14.08	13.98	13.90	13.82	13.74
Year-on-year change %		(0.7)	(0.6)	(0.6)	(0.6)

Figure 1.2: (Table 6) Alinta Submission page 6

² Alinta’s submission in response to ATCO’s Revised Plan – 15 July 2019 <https://www.erawa.com.au/cproot/20576/2/Alinta0.PDF>

Figure 4: Example adjusted average demand for B3 customer connections over AA5 compared with ATCO AA4 actual demand

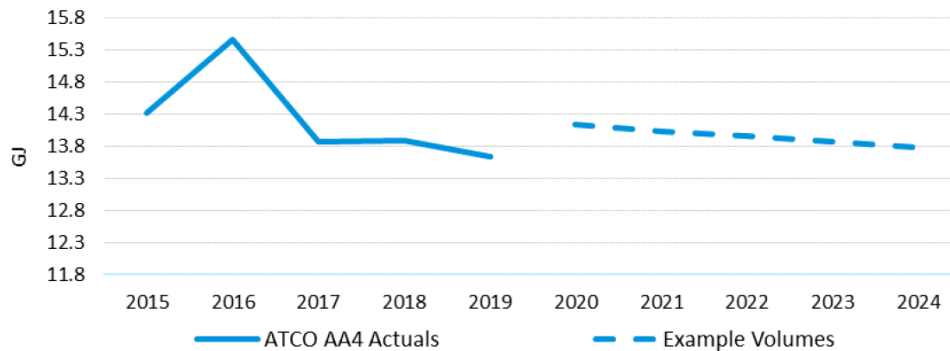


Figure 1.3: (Figure 4) Alinta Submission page 6

ATCO’s disagrees with Alinta’s proposed demand forecast due to several key discrepancies as outlined below:

- Alinta’s demand forecast commences at 14.08 GJ/customer in 2020 (table 6). This is higher than ATCO’s 2018 average consumption of 13.81 GJ/customer (weather normalised).³ As noted previously, there is no supporting rationale for such an increase and such an uplift seems highly unlikely given market trends such as smaller dwellings/units, increasingly efficient appliances and competition from competing renewable energy sources.
- Alinta’s proposed decline in average B3 consumption per customer of 0.6% p.a. is remarkably low compared to the long-run decline in average B3 consumption. From 2009 to 2018, average demand per B3 connection has declined at an average of -2.6% p.a. (weather normalised).⁴ Alinta mentions that factors such as increasing retailer competition and discounts would lead to higher demand. We note that the Core demand forecast already incorporates price elasticities and therefore ATCO does not consider a decline of 0.6% p.a. in average gas demand to be achievable over AA5.

Based on these factors, the proposed average demand for B3 customers as presented by Alinta (figure 4 and table 6) does not appear reasonable and would lead to a significant revenue under-recovery by ATCO over AA5. ATCO considers the expert report by Core, which was updated for the Draft Decision Response to remain appropriate for the purpose of estimating the AA5 demand forecast.

<https://www.erawa.com.au/cproot/20576/2/Alinta0.PDF>

³ Attachment 07.100: CORE Demand Forecast Report - AA5, page 42

⁴ This aligns with the Core Energy model (MWSWGDS Demand Forecast Model_DDR (CONFIDENTIAL).xlsx provided as part of ERA15) using the average customer base

2. Kleenheat's queries on the justification of AA5 brownfields capex

2.1 Clarification of residential brownfields capex

In its feedback to the ERA, ⁵Kleenheat queried the treatment of residential brownfield growth capex [Items 1 a) I and II on page 2 of Kleenheat's submission].

ATCO seeks to clarify that the justification for residential brownfields capex is as a regulatory obligation, consistent with the AA4 Final Decision:

- In the AA4 Final Decision residential brownfields capex was accepted as a regulatory obligation (NGR 79(2)(c)(iii)) due to the condition in ATCO's distribution licence [para 729 of the AA4 FD]
- In ATCO's AA5 initial submission, we sought to justify residential brownfields capex as a regulatory obligation (NGR 79(2)(c)(iii)) due to the condition in ATCO's distribution licence [See Attachment 12.42 (page 2 & Table 6.1)] but also incorrectly described the justification of residential brownfields capex as meeting the incremental revenue test (NGR 79(2)(b)) in the AAI (section 12.8.1).
- In ATCO's AA5 revised submission, we have clarified that the residential brownfields capex is justified under NGR 79 as a regulatory obligation (NGR 79(2)(c)(iii)) due to the condition in ATCO's distribution licence, which is consistent with the approach in the AA4 final decision
- ATCO notes that nothing has changed in ATCO's distribution licence since the AA4 final decision that would now mean that brownfield expenditure can't be justified as a regulatory obligation

2.2 Clarification of mains extensions capex

In its feedback to the ERA, Kleenheat questioned whether all brownfield residential new connections fall within the 20 metre range of a gas main [Item 1 a) IV on page 2 of Kleenheat's submission].

ATCO confirms that the capex forecast related to new residential connections justified under NGR 79(2)(c)(iii) are all expected to be within 20 metres of a main. This is because over the past 3 years ATCO has completed an average of 30 requests per annum where the connection is outside the 20 metres. This makes up less than 5% of brownfield connections. Given the small (immaterial) number we have not explicitly called these out in the AAI.

In the event that a prospective residential customer is more than 20 metres from the main, then a mains extension will be required. ATCO will conduct an individual financial analysis on the mains extension to ensure prudent investment per NGR 79. If required, ATCO will seek capital contributions for connections that are outside the standard installation and return a negative present value as described in the brownfield business case [See Table 6.1 in Attachment 10.123]. Given the small number of main extensions related to brownfields, ATCO has incorporated this small number within the greenfields capex forecast. ATCO has included an estimate of the associated capital contributions it will receive over AA5 based on the historical average and incorporated this into the growth capital contribution estimate [Table 10.15 of the AAI].

⁵ Westfarmer Kleenheat's response to ATCO's Revised Plan – 9 July 2019 <https://www.erawa.com.au/cproot/20582/2/Wesfarmers-Kleenheat.PDF>