



16 September 2019

Economic Regulation Authority  
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**Proposed Revised Access Arrangement for the Mid-West and South-West Gas Distribution Systems**  
**Consultation – Demand Forecasts**

Alinta Sales Pty Ltd (**Alinta Energy**) is pleased to provide comment on the *Review of ATCO's AA5 Gas Demand Forecasts (Report)*, commissioned by the Economic Regulation Authority (**ERA**) and prepared by Woollahra Partners.

Woollahra Partners was engaged by the ERA to review the gas demand forecasts prepared by Core Energy Group on behalf of ATCO Gas Australia (**ATCO**) for the proposed Access Arrangement for the five-year period from 1 January 2020 to 31 December 2024 (**AA5**).

Alinta Energy will limit its comments to a few key matters below.

**Declining usage trends and the impact of gas retail discounting**

The Report notes that, whilst the AA5 gas demand forecasting framework has been reasonably applied by ATCO, the inclusion of an implicit trend in the model is not advisable without strong justification; gas demand decline may be more gradual than that implied by the trend and *real evidence of competitive gas retail discounting also works against the decline*<sup>1</sup>.

Without data on household usage and appliance efficiency, Woollahra Partners warns against extrapolating a trend of declining usage over AA5, particularly where evidence of competitive gas retail discounting is shown to work against such a decline.

Alinta Energy has already demonstrated<sup>2</sup> to the ERA that B3 (residential) customers on a discounted product consume more, on average, than customers not on a discount. With an increasing number of customers signing up to discounted products both with Alinta Energy and with other retailers, we would estimate that well over half of all residential customers in Western Australia are on a discounted product.

We consider this increasing trend of customers taking up discounted products would contribute positively towards overall consumption over AA5 and work against the year-on-year decline in usage forecast by ATCO for B3 customers.

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<sup>1</sup> Section 2.5.1

<sup>2</sup> Confidential figures provided by Alinta Energy to the ERA, Aug 2019

The table below compares the year-on-year ATCO forecast decline with that calculated from the Woollahra Partners adjusted forecast:

**Table 1: Year-on-year change in demand for B3 customer connections over AA5**

	AA4		AA5				
	2018	2019	2020	2021	2022	2023	2024
<b>ATCO<sup>3</sup> (GJ/connection)</b>	13.78	13.66	13.33	13.03	12.78	12.48	12.22
<b>Year-on-year change (%)</b>		(0.9)	(2.4)	(2.3)	(1.9)	(2.3)	(2.1)
<b>Woollahra Partners<sup>3</sup> (GJ/connection)</b>	13.78	13.75	13.45	13.22	13.11	12.93	12.73
<b>Year-on-year change (%)</b>		(0.2)	(2.2)	(1.7)	(0.8)	(1.4)	(1.5)

Whilst the average year-on-year decline over AA5 is moderated in the forecast by Woollahra Partners – an average of 1.5% per annum compared with ATCO's 2.2% – it is still much steeper than the average decline forecast by Alinta Energy<sup>4</sup>. However, we note the assertion by Woollahra Partners that decline would be further moderated by incorporating an additional adjustment to account for the increasing trend of customers taking up discounted products and consuming more gas.

The consumption figures provided by Alinta Energy to the ERA provide real and measurable evidence that gas retail discounting works *against* a decline in gas usage and should therefore be considered in any determination of consumption volumes over AA5.

### Gas volumes and AA5 opening demand

From independent analysis, Woollahra Partners has determined<sup>5</sup> that gas demand *appears relatively level irrespective of general economic activity* (such as gross state product and household income) and that *pursing an economic foundation based on energy intensity*, such as household fuel use, would be a better approach.

We agree with this approach and note that whilst Effective Degree Days (EDDs) can be useful in measuring the dynamics of gas demand over time, household gas usage volumes are best determined by measurable customer usage trends, as discussed in the previous section.

Alinta Energy's actual B3 average demand volumes over the current AA4 period indicate the ATCO forecast demand for the AA5 starting point in 2020 is too low. For example, ATCO's 2018 demand of 13.78 GJ is significantly lower than our measured demand<sup>6</sup> for that year.

We therefore consider any usage trends over AA5 should commence from a higher starting point better aligned with actual demand over the current AA4 period.

<sup>3</sup> Table 4

<sup>4</sup> Table 6, Alinta Energy submission on ERA Draft Decision (confidential), July 2019

<sup>5</sup> Section 4.2

<sup>6</sup> Table 1, Alinta Energy submission on ERA Draft Decision (confidential), July 2019

## Summary

Alinta Energy accepts the findings of the review by Woollahra Partners and considers ATCO's average gas demand forecast for B3 customers over AA5 should be adjusted as recommended in the Report.

Specifically:

- The effect of competitive gas retail discounting at a household level, which is shown to work *against* a decline in gas usage consumption, should be considered in the determination of B3 volumes. The consumption figures provided by Alinta Energy to the ERA provide real and measurable evidence that customers on a discounted product consume more than customers not on a discount. As more than 50 percent of households in Western Australia are now on a discounted product, this effect is not insignificant; and
- The B3 demand volume forecast for the start of AA5 in 2020 should be adjusted to better align with actual demand volumes over the current AA4 period. This can be achieved by increasing the 2018 demand to better reflect the actual demand over that year and then applying more moderate usage trends.

Because of its significant role in determining reference tariffs, it is essential that the B3 demand forecast is as accurate as possible. By application of the above, we would anticipate an increase in B3 customer volumes with a more moderate year-on-year decline over AA5, more closely replicating current trends seen by retailers active in the Western Australian residential gas market.

If you have any questions concerning our submission, please contact me on [REDACTED] or [REDACTED].

Your sincerely,



Manager Regulatory Compliance  
Alinta Energy