
Review of demand forecasts for the AGL Gas Networks Presentation of draft report

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Overview of Presentation

- **Review of need for review and process adopted**
- **Overview and review of AGLGN forecasts**
 - Residential market
 - Small Business market
 - Contract market
- **Conclusions and finalizing the review**

Why a Review of demand forecasts?

- **IPART (Tribunal) is the regulator of GNCs under the Gas Code**
- **Code requires that forecasts are “...best estimates arrived at on a reasonable basis”**
- **Tribunal is undertaking a review of revised Access Arrangements to take effect from January 2005**
- **Demand forecasts are important for:**
 - Calculating tariffs
 - Assessing Capex and Opex
 - Marketing budgets
- **Tribunal commissioned MMA to carry out an independent review of demand forecasts**

Review Process

- **Companies provided forecasts and some information**
- **MMA framed detailed questions – historical, forecast, methodology**
- **Responses as reports, spreadsheets, verbal and telephone interaction**
- **Follow up meetings**
- **Brief MMA discussions with some major customers**
- **Company responses and changes**
- **MMA draft report with detailed recommendations**
- **More interactive and cooperative than generally the case**

Scope of GNC Operations and considerations

	Reticulated	Customers	Volume
AGLGN	Sydney, Newcastle, Wollongong, Country NSW	890,000	97 PJ
CEG	Wagga Wagga*	17,000	1.5 PJ

* Others not covered by this review

- **Considerations in review:**
 - Methodology
 - Assumptions
 - Materiality
 - Level of detail and intrusiveness required

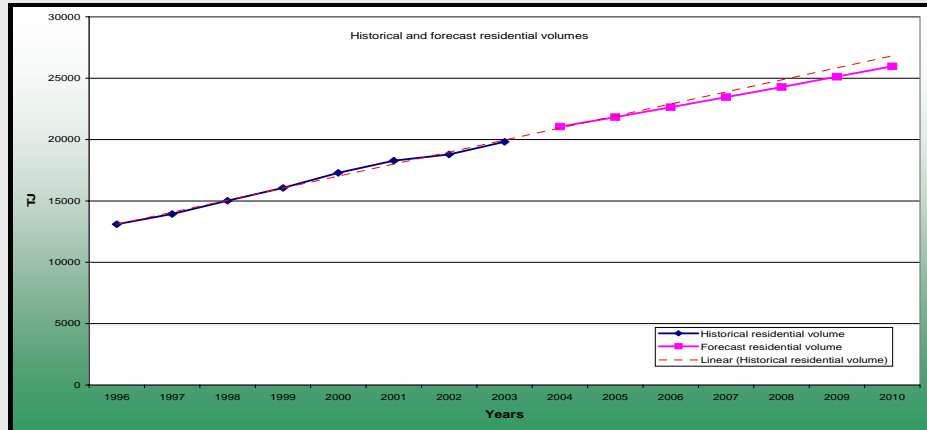
AGLGN Operations in 2002/03 (2003)

	Customers	Volumes	Revenue
AGLGN tariff market	99.95%	32%	85%
AGLGN contract market	0.05%	68%	15%

- **Detailed look at the tariff market:**
 - Residential (about 65% by volume)
 - Small business (about 35% by volume)
- **Contract**
 - Review of methodology for majors and non-majors
 - Discussions with some key majors

Residential Market

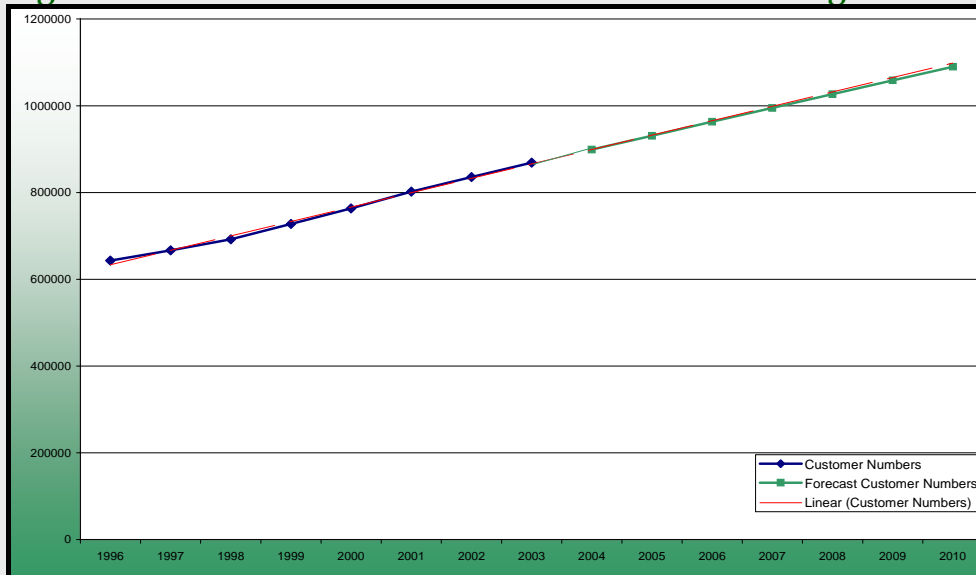
Figure 1: Historical and forecast growth of the residential market, TJ



- Recently growing by almost 6% pa (most from customer numbers, small increase in average usage)
- Initial increase back to normal weather
- Forecast to slow a little, both customer numbers and average usage

Residential Customer Numbers

Figure 2: Historical and forecast residential customer growth

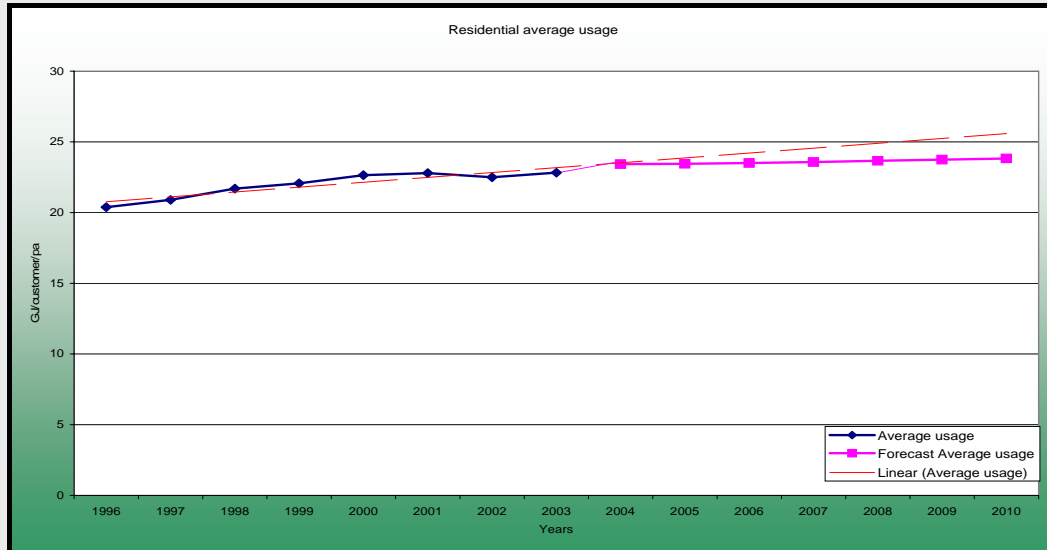


Review and Recommendations

- **Used BIS Shrapnel for new housing and penetration estimates**
- **Customer growth slowing mainly due to E to G, projects**
- **Methodology reasonable, some assumptions need review**
- **Main MMA recommendation: use latest BIS Shrapnel forecasts**

Residential Average Usage

Figure 3: Historical and forecasts average residential usage per customer

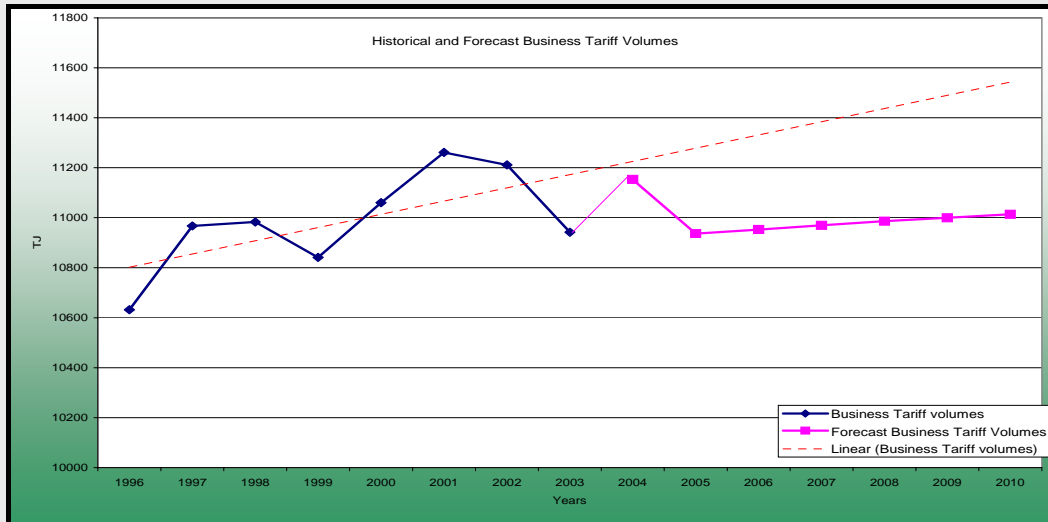


Average Usage review and recommendations

- **Forecast reduction in average usage growth due to:**
 - Weather (estimated reduction by 3 HDDs out of 536)
 - Impact of Basix (Government regulation for new houses)
- **MMA main concerns :**
 - Assumptions about Basix
 - Base year assumptions
 - Continuing growth methodology

Small Business

Figure 4: Historical and forecast small business volumes



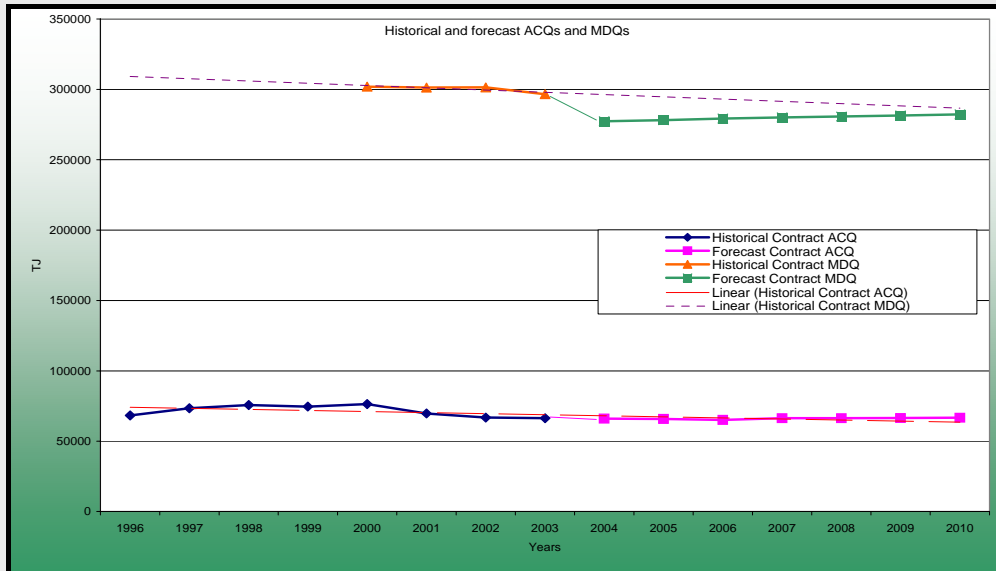
Note: The forecast reduction in 2004/05 is due largely to the expected transfer of over 200 TJ from the tariff to the contract market in that year

Small Business Review and recommendations

- **Growth has been slow and expected to stay slow**
- **Initial move back to normal weather**
- **Expected transfer of > 200 TJ in 2004/05**
- **MMA concerns:**
 - Handling of project areas
 - Real rather than theoretical transfers

Contract Market

Figure 5: Contract market, recent history and AGLGN forecasts



Contract Market Review and recommendations

- Separated into majors and non-majors
- Majors – bottoms up and assumptions about MDQ
- Non-majors by ACQ trend analysis and load factor translation into MDQ
- ACQ has been flat (after one major bypass) and expected to remain reasonably flat
- MDQ expected by AGLGN to drop initially as customers take “rational” approach to contracting MDQ

Contract Market Review and recommendations

- **MMA concerns and recommendations:**
 - Investigate other trend forecasting relationships for non-majors
 - Possible double-counting in trend analysis and inclusion of known opening and closing plants
 - Real rather than theoretical changes to MDQ contracting - need evidence

Conclusions and next steps

- **The review has been carried out with significant input from AGLGN**
- **MMA generally considers the AGLGN methodology to be reasonable**
- **Some assumptions need further work/justification: latest BIS Shrapnel, penetrations, Basix impact, starting year usage**
- **Actual rather than theoretical changes to contract customer behaviour**

Next Steps

- **AGLGN and other stakeholders respond to draft report and recommendations**
- **After responses and any changes to forecasts MMA will advise whether it considers the (changed) forecasts meet the Code requirements**
- **If the Tribunal feels the (revised) demand forecasts do not meet the Code requirements it can ask MMA to prepare its own forecasts**