

# Customer Forum (Week 14)

## Augex major projects update



16 May 2019

# Background

- ▶ **In October 2018, the Customer Forum accepted the need for augmentation at Clyde North and Doreen, subject to an external review of non-network options**
  
- ▶ **AusNet Services engaged WSP to undertake this review, which is now complete for the Clyde North project. In summary, WSP found that:**
  - › the root cause of the network issue/constraint was correctly identified
  - › a full suite of options that would address the network need were identified
  - › the level of analysis and assumptions made were appropriate for the value and credibility of each option
  
- ▶ **WSP's report setting out its findings for Clyde North has been circulated to the Customer Forum together with this update**
  
- ▶ **In parallel to the WSP review, AusNet Services refreshed its economic model for both projects to reflect the latest available information including finalised project scopes, costings and forecasts, similar to the process undertaken for the repex major projects**
  
- ▶ **This refresh resulted in:**
  - › The economic timing and project cost for Clyde North remaining at 2023 and \$7.4M, respectively
  - › The economic timing for Doreen changing from 2025 to 2028 (with the project cost remaining at \$4.8M), due to assessment model updates and a summer 2018/19 network reconfiguration that resulted in 2.5 MW of load being transferred off DRN

## Background cont.

- ▶ **As a result of the change to Doreen's timing to outside the 2021-25 period, WSP's review of Doreen non-network options has not been completed**
  - › The same economic model, cost-benefit analysis approach and assumptions that have been reviewed for Clyde North are applied consistently to Doreen
  
- ▶ **The timing of all augex major projects, including Doreen, are sensitive to changes in demand forecasts**
  
- ▶ **Accordingly, to confirm that the timing of Doreen is outside of the 2021-25 period, we have undertaken a sensitivity analysis to determine the extent of increase in the demand forecasts needed to bring Doreen back into the 2021-25 period**
  
- ▶ **The Doreen sensitivity analysis is presented in the following slides, for discussion with the Customer Forum**

# Doreen sensitivity analysis

- ▶ **We are currently forecasting demand growth rate of 2.6% per annum (i.e. based on the demand forecasts developed last year)**
  - › The economic project timing of 2028 is based on this forecast
  - › This forecast is based on the same robust demand forecasting approach used for Clyde North and more broadly across our network
  
- ▶ **While the current forecast is lower than historical growth rate from 2011 to 2019 of 5.8% per annum, the forecasting methodology takes into account the drivers of historical demand when projecting future demand**
  
- ▶ **Furthermore, a comparison between actual 2018/19 demand (70 MW) and the current forecast (69 MW) demonstrates the accuracy of the current forecasts**
  - › POE = probability of exceedance; the economic model predominantly relies upon the 50% POE forecast

Historical Actual MD		2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2011-2019 compound annual growth rate	
		44.5	53.1	62.1	54.5	47.8	58.8	57.4	65.9	70.0											5.8%
Current MD forecast		2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2019-2025 compound annual growth rate	
50% POE										69.0	70.9	72.8	74.7	76.5	78.5	80.4	82.3	84.3	86.0	2.6%	
10% POE										73.6	75.7	77.7	79.7	81.7	83.8	85.8	87.9	90.0	91.8	2.6%	

# Doreen sensitivity analysis cont.

- ▶ A demand growth rate of 4.7% per annum would be required to economically justify the project within the 2021-25 period

Historical Actual MD																			
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2011-2019 compound annual growth rate
	44.5	53.1	62.1	54.5	47.8	58.8	57.4	65.9	70.0										5.8%
Current MD forecast																			
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2019-2025 compound annual growth rate
50% POE									69.0	70.9	72.8	74.7	76.5	78.5	80.4	82.3	84.3	86.0	2.6%
10% POE									73.6	75.7	77.7	79.7	81.7	83.8	85.8	87.9	90.0	91.8	2.6%
MD required to bring DRN 3rd Tx into the current regulatory period																			
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2019-2025 compound annual growth rate
50% POE									69.0	72.2	75.6	79.2	82.9	86.8	90.9	95.2	99.6	104.3	4.7%
10% POE									73.6	77.1	80.7	84.5	88.4	92.6	97.0	101.5	106.3	111.3	4.7%

- ▶ An increase of this magnitude is considered unlikely, given the current forecast of a 2.6% growth rate
- ▶ While an updated demand forecast is not available yet, an updated Victorian Government forecast of residential customer number growth (which is a key input into demand forecasts) is available and indicates the increase in the demand forecast needed to bring Doreen into the current period is unlikely
  - › The residential customer number growth rate that the current demand forecasts were based on was 3.1% per annum (from 2019-25)
  - › The latest residential customer number growth rate (which a new forecast would be based on) is almost unchanged at 3.2% per annum

## Next steps

### ▶ July submission date

- › Subject to the Customer Forum's acceptance of WSP's findings, include Clyde North in the augex major projects forecast submitted to the AER

### ▶ December submission date

- › Update maximum demand forecasts for all projects, including Doreen
- › Reassess the economic timing based on updated maximum demand forecasts
- › Revisit negotiations on Doreen project should the updated forecasts change its economic timing to fall within the 2021-25 period