
Final report to
Queensland Competition Authority

Update demand forecasts for Envestra

CONFIDENTIAL

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EXECUTIVE SUMMARY

Introduction

The Queensland Competition Authority (the Authority) has produced its draft decision on the revised Access Arrangements (AA) submitted by the gas distributors Allgas and Envestra. The draft decision took into account independent forecasts prepared by McLennan Magasanik Associates (MMA) in November 2005 (November MMA forecasts).

The Authority has asked MMA to update its forecasts taking into account any material impact on demand resulting from the following developments:

- Responses by the stakeholders to the draft decisions
- Marketing levels approved in the draft decision which were different to those assumed by MMA.
- Capital expenditure levels approved in the draft decision which were different to those assumed by MMA.
- Any other significant changes which have taken place since the November MMA report.

Developments

MMA has considered the following developments in its update assessment:

- Comments by stakeholders. The main comments relevant to demand forecasting were from Envestra. Envestra did not object to the MMA forecasts in the Volume (residential and C&I or small business) reference tariff, but raised issues about the MDQ forecasts in the Demand reference tariff.
- A material change in the level of marketing approved in the draft decision from that assumed by MMA. The draft decision allowed some \$400,000 pa more marketing expenditure than was assumed in the November MMA forecasts.
- No material impact due to the level of capital expenditure approved in the draft decision.
- Updated economic forecasts available from Econtech. The Econtech forecasts of Gross State Product (GSP) were used in the development of the forecasts for the C&I and Demand markets.
- Price impact guidelines provided in the draft decision.
- Further information on full retail contestability (FRC), cost reflectivity and tariff regulation.

- Re-allocation of one customer from the Demand to a non-reference tariff in calculations
- Updated information about new large customers.

These developments have resulted in MMA updating its forecasts for the Residential, C&I and Demand markets.

Residential market

MMA has included within its updated forecasts the impact on consumption and customer connections of increased marketing expenditure approved in the draft decision. The updated residential forecasts for the AA period 2007 to 2011 are provided in Exec Table 1.

Exec Table 1 Updated Residential consumption (TJ) and customer number forecasts

Residential consumption, TJ	2007	2008	2009	2010	2011
Brisbane	676	682	688	695	703
Northern	23	23	23	23	23
Total	699	705	711	718	726
Resid. customer Numbers	2007	2008	2009	2010	2011
Brisbane	69614	71461	73347	75275	77244
Northern	2,947	2,974	3,000	3,027	3,055
Total	72,562	74,434	76,348	78,302	80,299

The impact of the increased marketing expenditure is assessed to be an increase of some 900 customers and 26 TJ by 2011 over the November MMA forecasts.

C&I market

MMA has updated its C&I market forecasts taking into account the updated Econtech economic forecasts. The updated C&I forecasts for the AA period 2007 to 2011 are provided in Exec Table 2.

Exec Table 2 Updated C&I consumption (TJ) and customer number forecasts

C&I consumption, TJ	2007	2008	2009	2010	2011
Brisbane	1088	1125	1165	1202	1229
Northern	165	169	175	180	183
Total	1253	1294	1340	1382	1412
C&I Customer Numbers	2007	2008	2009	2010	2011
Brisbane	4,467	4,626	4,802	4,963	5,083
Northern	380	391	403	414	422
Total	4,847	5,016	5,205	5,376	5,505

The difference between the updated and November MMA forecasts is relatively small, amounting to some 17 TJ and 30 customers by 2011.

The updated new connections forecast for the Volume market is provided in Exec Table 3.

Exec Table 3 Updated Volume new connection forecasts

New Volume connections	2007	2008	2009	2010	2011
Brisbane and Northern	2237	2548	2619	2655	2667

Demand reference tariff

MMA has updated its forecasts in light of:

- The information about anomalies in large customer movements and contracting provided by Envestra together with discussions with some large customers and re-classification of one customer.
- The updated Econtech forecasts.

The main change has been to assumptions about load factors. In the November MMA forecasts MMA assumed, based on the historical data provided, that load factors were declining. After considering the information provided by Envestra, MMA has decided that it is more reasonable to assume a constant load factor. The MDQ forecasts are therefore based on expected growth in consumption over the period.

The updated Demand market MDQ forecasts for the AA period 2007 to 2011 are provided in Exec Table 4.

Exec Table 4 Updated Demand MDQ forecasts, GJ

Demand MDQ, GJ	2007	2008	2009	2010	2011
----------------	------	------	------	------	------

Brisbane	15858	16532	17293	17982	18492
Northern	356	375	396	415	430
Total	16214	16907	17689	18397	18921

The updated MMA MDQ forecast is significantly lower in the Brisbane region than the November MMA forecast, due mainly to the changed assumptions about load factor. The Northern forecasts are slightly higher due to different load factor assumptions and are accord reasonably with evidence recently provided by Envestra of higher starting loads there.

A further impact by of the order of 1% by 2011 would be expected if the price reductions indicated by the Authority in its draft decision eventuate. We have not at this stage factored these into our forecasts.

1 INTRODUCTION

1.1 Background

The Queensland Competition Authority (the Authority) regulates the gas distribution businesses or service providers (SPs) in Queensland under the National Third Party Access Code for Natural Gas Pipeline Systems (the Code).

There are two major Queensland gas SPs:

- Allgas (Energex)¹ which reticulates the southern part of Brisbane, Gold Coast, Toowoomba and Oakey
- Envestra which reticulates the northern part of Brisbane, Ipswich, Gladstone, Rockhampton and the Wide Bay area².

Allgas and Envestra are regulated through Access Arrangements (AA) approved by the Authority in 2001 which remain in force until 30 June 2006. A new regulatory period, the second to be regulated by the Authority, is to commence on 1 July 2006. The SPs provided their proposed AAs for the next regulatory period in October 2005.

Demand forecasts play a significant role in the setting of reference tariffs. Under the Code demand forecasts are required to be "...best estimates arrived at on a reasonable basis". The Authority commissioned McLennan Magasanik Associates (MMA) to prepare independent advice regarding demand forecasts for the two SPs covering the period 1 July 2006 to 30 June 2011.

The MMA final reports, which included independent MMA forecasts for key demand parameters for each SP, were provided to the Authority in a final report dated November 2005 (November MMA report).

The Authority produced its draft decision for each of the SPs in December 2005. The draft decision took into account demand forecasts produced by both the SPs and MMA. The MMA demand forecasting reports, after editing for reasons of confidentiality, were provided on the Authority's website at the time the draft decisions were published.

1.2 Update of MMA forecasts

The Authority has commissioned MMA to update its demand forecasts taking into account material changes since the draft decision in four areas:

- Stakeholder comments on the draft decision and especially on the MMA forecasts.

¹ Energex purchased the Allgas gas utility but in the regulatory context the name Allgas is still used. Allgas is still the name of the company and is the name used in this report.

² Supply to the Wide Bay area and also the supply by Envestra to the BP refinery and cogeneration facility are not under consideration by the Authority and not reviewed in this report.

- The impact on demand forecasts of marketing levels approved in the draft decision which were different to those assumed by MMA.
- The impact on demand forecasts of capital expenditure levels approved in the draft decision which were different to those assumed by MMA.
- Any other significant changes which have taken place since the November MMA report.

Collectively these are referred to as “developments” since the November MMA report.

1.3 Approach taken by MMA

MMA’s approach has been to review developments since the November MMA report in each of the above areas to determine whether any material changes or updated information required forecasts to be updated. Only if this was the case have the demand forecasts been updated.

MMA has read portions of the draft decisions and stakeholder submissions relevant to demand forecasts. MMA has also spoken to both the SPs to ensure that MMA fully understood issues raised by the SPs.

This report is an update to the November MMA report and should be read in conjunction with it. Update forecasts are made only for markets and parameters which are considered to need updating. As for its November report, MMA has been asked to prepare its own forecasts rather than reviewing the SP’s forecasts.

This report is laid out as follows:

- Chapter 2 provides the initial forecasts, by market, and then reviews whether there have been material developments in the four areas discussed above.
- Chapter 3 evaluates the likely impacts of the developments on the forecasts, by market, and provides the updated MMA forecasts. To aid comparison the Envestra forecasts from the Access Arrangement Information and, for the Demand tariff, most recently supplied by Envestra are provided in Section 3.4.

1.4 Conventions:

As in the November MMA report, all the analysis has been carried out using financial year data. Unless otherwise specified all results and tables refer to financial years.

This report to the Authority contains information which may be considered confidential by Envestra. MMA recommends that Envestra be asked to specify which information it considers needs to be removed from any public report.

Tables and percentages may not appear to completely reconcile in some cases. This could be for a number of reasons including rounding and use of trend estimates.

This report has generally relied on the historical data provided by Envestra.

2 NOVEMBER MMA FORECASTS AND SUBSEQUENT DEVELOPMENTS

This Chapter of the report initially provides the forecasts by market and key parameter contained in the November MMA report for Envestra. It then reviews whether the developments are such as to require updates to the November MMA forecasts.

2.1 November MMA forecasts

Envestra has included two reference tariffs in its revised Access Arrangements, a Volume reference tariff for residential and small business or commercial and industrial (C&I) customers consuming less than 10 TJ pa and a Demand reference tariff for customers consuming more than 10 TJ pa. Both reference tariffs apply to two regions, Brisbane (including North Brisbane and Ipswich) and Northern (Gladstone and Rockhampton). For the Volume reference tariff the key demand parameters are customer numbers and consumption. For the Demand reference tariff the key demand parameter is the maximum daily quantity (MDQ) contracted, by region.

2.1.1 Volume reference tariff

The relevant November MMA forecasts for the Volume reference tariff are provided below disaggregated between Residential and C&I markets. New connection number forecasts (taking into account net customer number growth plus disconnections) are also provided.

Table 2-1 November MMA Volume tariff customer number and connection forecasts

Customer Numbers	2005	2006	2007	2008	2009	2010	2011
Brisbane							
Domestic customer numbers	67000	68046	69434	71101	72807	74555	76344
C&I customer numbers	4,357	4,351	4,540	4,701	4,817	4,940	5,056
Total Brisbane Volume customer numbers	71357	72397	73974	75802	77625	79495	81400
Northern							
Domestic customer numbers	2913	2926	2947	2974	3000	3027	3055
C&I customer numbers	371	370	383	394	402	410	418
Total Northern Volume customer numbers	3284	3296	3330	3368	3402	3437	3473
Total new Volume connections		1536	2105	2370	2375	2435	2481

Table 2-2 November MMA Volume tariff consumption forecasts, TJ

Consumption	2005	2006	2007	2008	2009	2010	2011
Brisbane							
Domestic consumption	673	673	673	673	673	675	677
C&I consumption	1058	1055	1099	1135	1161	1189	1214
Total Brisbane Volume	1,731	1,728	1,772	1,808	1,834	1,864	1,891
Northern							
Domestic consumption	24	23	23	23	23	23	23
C&I consumption	161	160	166	171	174	178	181
Total Northern Volume	185	183	189	194	197	201	204
Total Volume consumption	1916	1911	1961	2002	2032	2065	2096

2.1.2 Demand reference tariff

The relevant November MMA forecasts for the Demand reference tariff are provided below. We have included the MMA consumption forecast for Envestra demand customers as these are a major input into the MDQ forecasts.

Table 2-3 November MMA Demand tariff consumption and MDQ forecasts, TJ

Consumption and MDQ	2005	2006	2007	2008	2009	2010	2011
Demand consumption total	3136	3083	3202	3330	3434	3544	3647
Demand MDQ total	16.84	16.74	17.55	18.43	19.18	19.99	20.78
MDQ Brisbane, TJ	16.47	16.50	17.29	18.15	18.90	19.70	20.48
MDQ Northern. TJ	0.38	0.24	0.26	0.27	0.28	0.29	0.30

2.2 Submissions from stakeholders

2.2.1 Envestra

Chapter 8 of the Envestra response to the draft decision³ dealt with demand forecasts. In this response Envestra:

- Stated that it believed the forecasts derived by MMA for the Volume market should be used for the Volume market forecasts.
- Stated that it did not consider the MMA Demand forecasts to be best estimates, largely on the grounds that the MMA assumption of declining load factor was mistaken, being caused by a misunderstanding of changes due to recent movements by new customers. Updated MDQ forecasts were also provided in this Chapter of the submission.

2.2.2 Energy Users Association of Australia (EUAA)

While Section 2.5 of the EUAA response to the draft decision⁴ supported the use of the independent MMA forecasts, it did not comment on the MMA forecasts themselves.

2.2.3 Origin Energy

Several sections of the Origin Energy response⁵ to the draft decision are pertinent to demand forecasting.

In the demand forecasts section of the submission, Section 3.7, Origin commented that several exogenous factors may well impact on pricing and hence demand forecasts:

- Retail pricing reform (also discussed by Origin in Section 3.3, Network Pricing Principles).
- FRC cost recovery.
- Introduction of demand based retail tariffs for the many demand customers who are on throughput tariffs.

Origin also commented on the trend to reducing average usage by residential customers and the impact this will have on average network costs per GJ, and argued that this necessitates reform to network and retail pricing to discourage single appliance connections while it supports marketing aimed at encouraging multiple gas appliances. This is also argued in Section 3.3, Network Pricing Principles.

³ Envestra, "Response to draft decision, Envestra Access Arrangement Revisions", 27 February 2006. and Envestra, "Summary of Envestra's response to the draft decision" an attachment to the main report.

⁴ Energy Users Association of Australia, "Response to the Queensland Competition Authority's Draft Decision on the revised access arrangements for Allgas and Envestra", February 2006.

⁵ Origin Energy, "Response to QCA draft decision revised access arrangement for gas distribution network, Envestra Queensland", 27 February 2006.

In Section 3.8, Reference Tariffs and Tariff Paths, Origin comments that it considered the cost-reflectivity of prices at the network tariff level need review, both within and between the Volume and Demand tariffs and remarks in particular on the last step in the proposed Volume tariffs.

In Section 3.6 Gas Marketing Expenditure, Origin strongly supports additional marketing expenditure to at least \$600,000 pa but recommends that it be consistent with the Queensland Government's Sustainability Housing Policy and clearly directed at activities which result in a reducing \$/GJ network cost and in C&I customers in preference to residential.

2.3 Marketing expenditure

MMA forecasts have been predicated on a marketing expenditure in the 2007 to 2011 AA period approximately commensurate with that in the current AA period. We understand that the marketing allowance provided for by the Authority in the draft decision is significantly greater than this, and have taken the additional amount (about \$400,000 pa) into account in the updated forecasts.

2.4 Capital expenditure

MMA forecasts have been predicated on the capital expenditure allowed by the Authority in the draft decision being commensurate with the requirements of its demand forecasts.

MMA understands that the capital expenditure allowed by the Authority in its draft decision is less than that proposed by Envestra in three key areas:

- There has been some reduction due to unit rates applied by the Authority being less than those applied by Envestra.
- There has been a reduction in capital expenditure allowed for mains renewals, resulting in a lengthened timetable for complete mains renewal.
- The Authority has not fully allowed the capital expenditures proposed for marketing (network development).

MMA considers that differences in capital expenditure resulting for the first two of the above reasons will not impact materially on the demand forecasts, while those relating to the marketing allowance depends strongly on how the marketing allowances is to be spent.

2.5 Other changes

2.5.1 Economic outlook

The latest Econtech outlook for Queensland⁶ is broadly consistent with the forecasts provided in the July 2005 Econtech outlook used for the draft report. The difference in

⁶ Econtech, "Australian state and industry outlook", 27 February 2006.

forecast economic growth rates (as measured by the Gross State Product – GSP) between 2005 and 2011 is less than 0.2% pa, a forecast growth rate of 4.1% in July 2005 versus 4.3% in February 2006.

MMA has evaluated the impact on demand forecasts of updating to the February 2006 Econtech forecasts.

2.5.2 Price outcomes from the draft decision

The Authority's draft decision provided a guide to distribution pricing over the coming AA period:

- Distribution prices for Volume customers are likely to fall by CPI - 2.51% pa - about 2.4% pa in real terms
- Distribution prices for Demand customers are likely to fall by CPI-8.10% pa - about 7.9% pa in real terms.

The network prices are, of course, not the actual retail prices paid by customers. Retail prices take into account the cost of the gas, transmission, retail costs and margins as well as the distribution charge. However, as pointed out by Origin, the existing retail prices are not necessarily cost-reflective.

MMA indicatively estimates that the distribution cost makes up some:

- Two thirds of the delivered cost for average size residential customers
- 60% of the delivered cost to small business
- 20%-30% of the delivered cost to demand customers

The Authority's draft decision has also raised issues about cost-reflectivity of proposed tariffs, again potentially impacting prices. This means that movement of prices to individual customer classes are at this stage uncertain.

The indicative price impacts provided in the draft decision are not the final outcomes. For example, the final decision will take into account demand forecasts, which may change as a result of this update.

As well, according to Envestra's response, the Authority may have amended its guideline to CPI-5.28% and CPI-10.87 respectively. Meanwhile, Envestra appears to be maintaining its position that CPI + 2% is warranted.

If fully reflected in retail prices, the expected changes in demand resulting from the level of price changes provided in the draft decision may well be material.

2.5.3 Full retail contestability

The November MMA report noted the commitment by the Queensland Government to introduce full retail contestability (FRC) for all electricity and gas consumers from 1 July 2007. The Energy Competition Committee (ECC), an independent panel appointed by the

Queensland Government to oversee the implementation of FRC in electricity and gas, has published a number of consultation papers, including, most recently, Consultation Paper 4 entitled "Gas full retail competition proposed policy positions" and dated 28 February 2006.

Although the Consultation Paper covers many issues, for example metrology, load profiling and balancing, three issues appear to be most pertinent to the current report; Section 2.3, Tariffs, Section 2.10 FRC Cost Recovery and Section 3.5, Contractual Transition Arrangements.

In Section 2.3 related to Tariffs, it is stated that the structure and level of the current maximum retail tariffs have not kept pace with the underlying costs associated with supplying various customer classes. The Origin submission makes a similar argument and, indeed, the MMA analysis provided in the November MMA report suggests significant imbalances in some specific customer classes and usage ranges - although in the residential market some anomalies appear to have been removed or reduced by the recent retail price increases.

The ECC canvasses three possible options for dealing with future regulation of the contestable market:

- "Tariff restructure to reflect underlying cost of supply and some ongoing transparent mechanism of review;
- Light handed regulation, which may consist of monitoring of prices and retention of Ministerial reserve power to set maximum prices; and
- Full deregulation of retail gas tariffs in one or more segments of the market."⁷

No preferred position is presented in the paper.

In Section 2.10 related to FRC Cost Recovery, a range of potential FRC cost areas have been defined, but not costed. It has been pointed out that FRC implementation costs for distributors may be recovered through an adjustment to the distributor's reference tariffs.

In Section 3.5 related to transitional paths the ECC canvassed views on the approach to be taken for transitional arrangements on retail contracts.

Changes to modes of retail regulation and FRC cost recovery following implementation of FRC have the potential to add to the costs of consumers. While the costs are unlikely to be substantial for larger customers, for smaller customers material cost increases could certainly eventuate.

However, the quantum of any cost increases is uncertain, as is the question about how, and to what extent, these will actually be passed on across residential and business

⁷ Energy Competition Committee, Consultation Paper 4 "Gas full retail competition proposed policy positions", 28 February 2006 page 10.

customers, given the potential for both continuing retail tariff regulation, and the mitigating impact of price competition.

Overall, no substantive new information about the extent to which retail tariffs will change after the introduction of FRC has become available since the November MMA report.

2.5.4 Update on demand MDQ in the Northern Region

Envestra has advised that in its latest review for 2005/06 it has found two customers have moved from the Volume to the Demand tariffs with a consequent MDQ for that region in 2005/06 of 400 GJ⁸.

MMA has taken this information into account in updating the MDQ forecasts for this region.

⁸ Spreadsheet Qld-MDQ forecast revised 27-02-06 provided by Envestra with comment "in latest review found two customers moved from V to D".

3 ASSESSMENT OF KEY DEVELOPMENTS AND UPDATED MMA FORECASTS

3.1 Residential market

The two key developments to affect the residential market are:

- Additional marketing budget.
- Potential changes to pricing.

3.1.1 Additional marketing

As discussed in Section 2.3, in its draft decision the Authority has allowed Envestra an additional \$400,000 of marketing allowance pa which was not taken into account in the November MMA forecasts.

SECTION DELETED FOR CONFIDENTIALITY REASONS

Since the draft decision, Envestra has made the following proposal for how it will spend the additional marketing allowance.

SECTION DELETED FOR CONFIDENTIALITY REASONS

This program appears very different to that initially proposed and, in terms of the new home incentives, is contrary to the MMA expectation that most new homes with access to gas will already use gas as a result of the new Queensland Government sustainable housing initiative and that the marketing expenditure will not be required here.

MMA considers that the most beneficial outcome per combined marketing and network development expenditures is likely to be achieved through the initial proposal 2.1, to convince currently connected gas customers to convert their electric hot water systems to gas at the time of change-over.

SECTION DELETED FOR CONFIDENTIALITY REASONS

The results of this additional marketing expenditure are provided in Table 3-1.

Table 3-1 MMA estimates of the impact of additional marketing

	2007	2008	2009	2010	2011
Additional Volume, TJ	3	9	15	20	26
Additional new connections	180	180	180	180	180

Customer numbers and connections are forecast to increase by 180 per year as the additional hot water program is to existing customers. We have assumed that the program will operate exclusively in the Brisbane region. We also assume that any capital expenditure required to achieve these forecasts will be provided for in the final decision.

The updated Brisbane residential forecasts are provided in Table 3-2.

Table 3-2 Updated residential forecasts for Brisbane and Northern regions

Brisbane	2005	2006	2007	2008	2009	2010	2011
Consumption, TJ	673	673	676	682	688	695	703
Customer numbers	67000	68046	69614	71461	73347	75275	77244
Northern							
Consumption, TJ	24	23	23	23	23	23	23
Customer numbers	2,913	2,926	2,947	2,974	3,000	3,027	3,055

3.1.2 Pricing impacts

The draft decision has indicated that prices to Volume customers should reduce by the order of 2.4% pa in real terms and perhaps two thirds of this will be reflected in the retail price. However, offsetting this, are potential price increases for residential customers due to FRC and possibly distribution and retail tariff restructuring.

Given these uncertainties we have not made any changes to our residential forecasts based on price changes.

3.2 C&I market

3.2.1 Changes to economic forecasts

MMA has evaluated the impact on the C&I market of replacing the Econtech July 2005 GSP forecasts with the February 2006 Econtech GSP forecasts. Despite the impact being small⁹ we have updated our forecasts in this market as we have used the updated GSP forecasts in the Demand tariff forecasts.

3.2.2 Pricing

As discussed above, the draft decision has indicated that prices to Volume customers should reduce by the order of 2.5% pa in real terms. The (cost-reflective) retail price impact of this would be expected to be some 50% to 60% of this and, for the smaller customers especially, might be offset by higher FRC costs. For the larger C&I customers, however, there might be further cost reductions due to contestability.

If we assume an average price reduction of 2.5% pa in real terms and that this translates into a retail price reduction of 1.5% pa this might lead to an increase in annual load by the

⁹ Estimated at 0.15% difference in combined forecast between 2007 and 2011.

order of 0.15% pa (assuming a low C&I own-price elasticity of -0.1). This would add about 10 TJ of load to the C&I market by the year 2011.

Given the lack of certainty about actual price changes, MMA considers it reasonable at this stage not to factor in any price impact.

The updated MMA forecasts for the C&I market are provided in Table 3-3.

Table 3-3 Forecast C&I consumption, TJ and customer numbers

	2005	2006	2007	2008	2009	2010	2011
Consumption							
Brisbane, TJ	1058	1055	1088	1125	1165	1202	1229
Northern, TJ	161	160	165	169	175	180	183
Total, TJ	1219	1215	1253	1294	1340	1382	1412
Customers							
Brisbane	4,357	4,323	4,467	4,626	4,802	4,963	5,083
Northern	371	369	380	391	403	414	422
Total	4,728	4,692	4,847	5,016	5,205	5,376	5,505

3.3 Demand market

3.3.1 Investra response

As stated in Section 2.2.1, Investra disputed the MMA forecasts for the Demand market because of the assumptions MMA has made about reducing load factor. Investra did this on the basis that the load factor changes were due to a few anomalous large customer movements.

SECTION DELETED FOR CONFIDENTIALITY REASONS

MMA has held discussions with some of the parties concerned to confirm the Investra explanation. MMA also accepts that these changes will have had a significant impact on the load factors.

After compensating for these anomalies, the re-calculated Investra load factor in the Brisbane (Brisbane and Ipswich combined) and Northern (Rockhampton plus Gladstone) regions over the past four years is provided in Table 3-4.

Table 3-4 MMA load factor assumptions

	2002	2003	2004	2005

Brisbane	57%	61%	56%	56%
Northern	48%	41%	44%	67%

Given the re-calculated final year results, MMA considers it reasonable to assume a constant load factor for the Brisbane region of 56.4%, the value in 2004/05, and 49.7% (the average of the four years) in the Northern region.

MMA has then re-calculated the consumption forecasts for the demand market, after removing Castlemaine Perkins data from the Demand category¹⁰, using the updated Econtech forecasts and assuming that all losses and gains are contained within the trend values¹¹. The revised MDQ forecasts are provided in Table 3-5.

Table 3-5 Forecast MDQ for Envestra demand market, GJ

	2005	2006	2007	2008	2009	2010	2011
Brisbane	15925	15250	15858	16532	17293	17982	18492
Northern	375	339	356	375	396	415	430

The updated MMA forecasts for Brisbane are significantly lower than the November MMA forecasts largely because of the different assumption about load factor. The updated Northern region forecasts are higher than the November forecasts also because of the different load factor assumptions, but, in the later years, are approximately in line with the most recent Envestra forecasts which take into account recent V to D movements.

3.3.2 Price impacts

In the draft decision the Authority indicated that distribution prices to large demand customers might fall in real terms by about 8% pa. Given that the distribution tariffs are estimated to contribute some 20% to 30% of the retail price to such customers, the impact on retail prices could be of the order of a 10% fall in real prices over the period. Even with a low own-price elasticity of -0.1 to -0.3 this could have a material impact on demand forecasts.

We have estimated the demand impact of such a real price reduction to build up to be of the order of 1% by 2011. We have not at this stage, however, factored this impact into our forecasts due to uncertainty about whether such price reductions will eventuate.

3.4 Comparison of Updated MMA forecasts against Envestra forecasts

Envestra commented in its submission on the draft decision that it considers the November MMA forecasts for the Volume market to satisfy the Code requirements. In its submission it also provided updated forecasts of MDQ for the demand market (Table on

¹⁰ We understand this load will be treated separately as a non-reference service.

¹¹ Note that in the November MMA report calculated the trend and then subtracted known changes. Given the additions noted by Envestra since that time in both regions, MMA now assumes that the trend takes into account both additions and closures.

page 48 of the submission). Envestra has subsequently provided further updated forecasts of MDQ to MMA in spreadsheets. However, none of these is official.

In the Tables below MMA compares its updated forecasts with those provided officially by Envestra in its initial revised Access Arrangement Information (AAI). In Table 3-6 we compare the updated MMA forecasts for the Volume tariff against those in the Envestra AAI. In Table 3-7 we provide the same comparison and also MMA’s understanding of Envestra’s latest updated MDQ forecasts¹².

Table 3-6 Comparison of updated MMA and Envestra AAI Volume tariff consumption forecasts, TJ

	2007	2008	2009	2010	2011
MMA Domestic consumption Brisbane	676	682	688	695	703
MMA domestic consumption Northern	23	23	23	23	23
MMA domestic consumption Total	699	705	711	718	726
Envestra AAI Domestic consumption Brisbane	695	695	723	754	789
Envestra AAI domestic consumption Northern	24	23	23	23	23
Envestra AAI domestic consumption Total	719	718	746	777	812
MMA C&I consumption Brisbane	1088	1125	1165	1202	1229
MMA C&I consumption Northern	165	169	175	180	183
MMA C&I consumption Total	1253	1294	1340	1382	1412
Envestra AAI C&I consumption Brisbane	1133	1183	1234	1292	1356
Envestra AAI C&I consumption Northern	171	175	178	182	186
Envestra AAI C&I consumption Total	1304	1358	1412	1474	1542

Table 3-7 Comparison of updated MMA and Envestra AAI and most recently provided Demand tariff MDQ forecasts, TJ

	2007	2008	2009	2010	2011
MMA Demand MDQ Brisbane	15.86	16.53	17.29	17.98	18.49

¹² Spreadsheet Qld-MDQ forecast revised 27-02-06 provided by Envestra with comment “in latest review found two customers moved from V to D”.

MMA Demand MDQ Northern	0.36	0.37	0.40	0.42	0.43
MMA Demand MDQ Total	16.21	16.91	17.69	18.40	18.92
Envestra AAI Demand MDQ Brisbane	17.32	17.32	17.32	17.32	17.32
Envestra AAI Demand MDQ Northern	0.24	0.24	0.24	0.24	0.24
Envestra AAI Demand MDQ Total	17.56	17.56	17.56	17.56	17.56
Envestra spreadsheet Demand MDQ Brisbane	16.72	17.02	17.33	17.64	17.96
Envestra spreadsheet Demand MDQ Northern	0.40	0.41	0.42	0.43	0.44
Envestra spreadsheet Demand MDQ Total	17.12	17.43	17.75	18.07	18.40

The updated MMA forecasts are a little lower than the most recent Envestra forecasts in the early years of the period and a little higher in the later years.