

# Minutes

## AGN Retailer Reference Group | Meeting 8

### Date

Tuesday, 25 July 2017, 10.00am – 12.00pm (AEST)

### Where:

Via Teleconference - Dial in details

**Dial: 1800 672 949**

**Guest Passcode: 7242 2670 0000**

### Attendees

Reference Group	AGN
David Calder (Origin Energy)	Andrew Staniford (Chair)
Constantine Noutso (Lumo and Red Energy)	Craig de Laine
Patrick Whish-Wilson (AGL)	Peter Bucki
Robyn Robinson (CCP 11 Observer)	Jin Singh
	Vicky Knighton
	Anna Mitchell

### Apologies

Reference Group	AGN
Geoff Hargreaves (Energy Australia)	
Elizabeth Molyneux (AGL)	
Sean Greenup (Origin Energy)	
Paul Mullan (Alinta Energy)	

### Minutes

The meeting commenced at approximately 10.00am AEST.

#### 1. Welcome

Australian Gas Networks (AGN), Andrew Staniford (AS) welcomed the group and reiterated comments on the transition of this group to business as usual activities for AGN foreshadowed by Craig de Laine (CdL) previously.

AGN will be providing information to the group over the coming months on how the reference group model might evolve, and how we can continue to engage effectively going forward for the group's feedback. The focus of today's meeting is the AER Draft Decision on AGN's Victoria/Albury Revised Final Plan.

## 2. Review of Minutes from previous meeting and action items

AGN, Anna Mitchell (AM) noted that the meeting minutes for Meeting 7 have been circulated and noted.

## 3. Overview of AER's Draft Decision and our Revised Final Plan

AGN, CdL/PB took members through the previously circulated presentation outlining key components of the AGN approach, AER Draft Decision and AGN proposed Revised Final Plan. Open discussion was encouraged.

AGN, CdL provided some introductory comments noting that:

- The purpose of the meeting was to provide an opportunity for stakeholders to provide feedback on the AER's Draft Decision and AGN's proposed Revised Final Plan (response to the Draft Decision). In doing so, AGN could consider and incorporate this feedback prior to submitting to the AER.
- AGN's overarching objective for this Access Arrangement (AA) process (submitting a plan that delivered for customers, was underpinned by effective stakeholder engagement and was capable of being accepted by the Australian Energy Regulator (AER)) was set, and communicated, very early on.
- AGN also took key learnings from the recent South Australian AA process and has incorporated these, and other learnings into this Victorian/Albury program.
- Another key aspect of the engagement program was the release of and engagement on the Draft Plan, which included re-engaging with stakeholders to seek feedback on how we had incorporated their feedback into our plan to ensure we had accurately heard their views.
- CdL remarked that AGN is very proud of the feedback received on the process. AGN placed a very strong emphasis from the start on a 'no surprises approach', publishing the Draft Plan six months prior to the submission of the Final Plan to the AER facilitated this approach.

CdL also commented, that the Reference Groups are a key part of what we do and it was confirmed by the Retailer Reference Group (RRG) members that AGN is the only business that has a dedicated retailer group.

One member commented that AGN was the only distributor with this type of comprehensive engagement program and that retailers valued the opportunity to input into AGN's plans.

### AER Draft Decision Summary

This incorporates AGN's traffic light system and seeks to demonstrate each part of the AER's Draft Decision and sets out what the AER Draft Decision was (green = accepted, orange = modify and red = not accepted) and our response in our Revised Final Plan.

## AER Draft Decision | Summary

	AER DD	AGN Revised Final Plan	Comment
Pipeline Services	Accept	Accept	AER accepted our proposed services
Opex	Modify	Accept	AER accepted our opex forecast, with the exception of our marketing step change
Capex	Accept	Accept	AER accepted our capex forecast, following minor amendments in questioning
Capital Base	Accept	Accept	AER accepted our forecast, making minor capex and modelling updates
Financing Costs	Accept	Accept	AER accepted our approach of using the AER's preferred methodology
Incentive Arrangements	Modify	Accept	AER accepted our <i>revised</i> contingent CESS, but rejected our Network Innovation Scheme proposal
Network Revenue	Modify	Accept	AER updated revenue for certain other matters, including for the placeholder rate of return
Demand	Accept	Accept	AER accepted our demand forecasting methodology
Network Pricing	Modify	Accept	AER made some minor modifications, including to tariff formulae
Network Access	Modify	Accept	AER made one minor change to a clause of our Terms and Conditions and minor stylistic changes to our extensions and expansions policy

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- One member questioned AGN's position on financing costs.
  - CdL responded that there was still a great deal of uncertainty on the rate of return, AGN's position is that the AER preferred approach should be followed unless proven otherwise.
  - CdL also reiterated that AGN's position is that AGN seeks to resolve issues directly with stakeholders, not through the courts. This approach was supported by stakeholders.
- AGN explained that the AER's Draft Decision provided for a lower price change to compared to AGN's Final Plan (6% as compared to 11%).
  - The lower price cut reflected the different timing of the market parameters used to derive the Final Plan rate of return (5.3% as at November 2016) relative to the AER's Draft Decision rate of return (5.75% as at April 2017).
  - The lower initial price cut also reflected the AER's change to our price path, which change resulted in a shallower initial cut but lower price increases in subsequent years.
- CdL advised that the rate of return would once again be updated by the time of the AER's Final Decision in November which would likely result in changes to the level of the initial price cut.

### Operating Expenditure (Opex)

AGN outlined that it is proposing to accept the AER's Draft Decision (including required updates) which gives rise to opex of \$348 over the next AA period.

- AGN received broad support for the base year roll forward approach which developed the opex forecasts in our Final Plan.
- The rejection by the AER of an allowance to market gas in metropolitan Melbourne was discussed.

- AGN believe that the reason businesses in Victoria haven't marketed natural gas in metropolitan Melbourne in the past is because there are three distribution business (which prevents any single business from marketing as any expenditure incurred would benefit the other businesses) and this was the first time the three businesses were aligned for a joint marketing program.
- AGN undertakes marketing because gas is a fuel of choice. Through the engagement process, stakeholders understood that and largely accepted AGN's marketing proposal on the provision that AGN demonstrated that the benefits of the marketing program outweigh the costs.
- The AER in its Draft Decision said it considers marketing to be a business as usual activity to be considered within its existing base year opex forecast.
- AGN, AS commented that whilst our current position is to accept the AER's Draft Decision, AGN felt the reasoning put forward by the AER may have not considered that:
  - That there has been an under investment in marketing due to the reason's highlighted by CdL (three businesses operating in metropolitan Melbourne);
  - The methodology to calculate the value of marketing to customers should be undertaken over a period greater than five years, consistent with the fact that when customers connect to natural gas, they generally connect for more five years (one regulatory control period). Additionally, appliances are likely to have a life that go beyond the regulatory period (10-15 years).
- Group members agreed with our Revised Final Plan approach to accept the AER's Draft Decision but update for more recent information as requested by the AER.

### Capital Expenditure (Capex)

AGN outlined that it is proposing to accept the AER's Draft Decision (including required updates) which gives rise to capex of \$554m over the next AA period.

- AGN noted that a great deal of stakeholder input was received on capex in the lead up to submission of our Final Plan.

### Capital Base

On Capital Base, the two key drivers (depreciation and forecast of expected inflation) were discussed

- There was support from members for our approach to regulatory depreciation, in particular, aligning economic and technical lives of assets and reflecting this in our capital base.
- On forecast of expected inflation, AGN believe the market-based approach aligns more closely with actual inflation, however the AER has continued to apply its current and preferred approach to estimating inflation relying on RBA targets. The AER has also initiated a dedicated review on the forecast of expected inflation.
  - Consistent with AGN's approach, we have applied the AER preferred approach to estimating inflation and will continue to participate in the review of the treatment of inflation. AGN is pleased that the AER has initiated dedicated engagement on and the forecast of expected inflation and encourages all to participate in the AER's discussions. See the documents available on the AER's website [here](#).
- CdL sought members views on the treatment of inflation forecasts, and the Retailer's businesses approach to forecasting inflation, CdL questioned if they used the RBA target range?
  - One member asked why the AER uses target rates (opposed to market rates)?

- AGN, Peter Bucki (PB) responded that the AER's view the RBA approach as a reasonable approach when looking at trying to forecast a ten year view of inflation, despite the past five years, which would suggest actual inflation is below the RBA target of inflation.

### Financing Costs

- AGN noted that there was still uncertainty on the rate of return, but that we will seek to resolve these issues outside of the AA review process. We will accept the AER's Draft Decision.
- The AER will be commencing a process of reviewing the Rate of Return Guideline shortly. AGN will participate in the process as we believe that it is the appropriate place to have the debate on Rate of Return, not through the regulatory review processes. AGN will continue to adopt the AER's guideline approach until it is no longer appropriate.

### Incentives

- There was support from members in relation to the retention of the Expenditure Efficiency Sharing Scheme (EBSS).
- There was general support for introduction of Capital Expenditure Sharing Scheme (CESS), but with the need for an appropriate counterbalance contingent on network performance.

AGN described that in its Draft Decision, the AER has accepted the revised contingent CESS – with any CESS rewards AGN would earn being contingent on AGN maintaining network performance.

- One member asked if the CESS was additional incentive?
  - PB responded that the CESS is a new incentive for gas businesses which will act as a counterbalance to the existing EBSS. PB noted that the previous arrangement of only having an EBSS could be viewed as a distorted incentive framework.
- The question was asked if the measures have been finalised, or if there were more discussions to be had?
  - PB reported that submissions were still open and that we were always open to discussions with stakeholders. It was noted that discussions on the details of the measures were advanced with the AER and that the AER sought expert advice on the measures to be included in the scheme.
- There was general support for a well-designed network innovation incentive (NIS).
  - Some stakeholders considered it should be funded through EBSS and CESS.
  - AGN noted that it is proposing to accept the AER's Draft Decision on the NIS and will continue to engage with stakeholders, including the AER with a view to designing a scheme that supports innovation.

### Demand and revenue

- AGN described that the AER largely accepted our proposed demand and revenue, and that AGN would in turn accept the AER's Draft Decision.
- PB commented that AGN has taken a consistent approach using consultants, Core Energy to produce demand forecasts, their approach has been accepted previously by the AER.
  - There was general support for our approach taken to demand forecasting.
  - One member asked if there was any link between demand forecasts and the marketing expenditure proposal.

- PB commented that the Final Plan did allow for some additional demand/growth as a result of the Marketing. Our Revised Final Plan will be updated to take account the removal of marketing and the updated HIA dwelling forecast (as per the AER Draft Decision). These updates are not expected to be significant.

## Network Pricing

- PB described how in the lead up to the Final Plan, AGN considered aligning tariffs across zones (currently five in the Victoria/Albury networks), but that this was ultimately not proposed in the Final Plan due to the stakeholder feedback received which did not support the tariff alignment..
- Additionally, some concern was raised regarding the increase in the tariff rebalancing constraint from 2% to 5%. The AER did not accept the increase in the tariff rebalancing constraint from 2% to 5%.
- PB outlined that in its Draft Decision, the AER retained an upfront price reduction and reduced the annual real price increases that apply in the last four years of the Access Arrangement from 2.5% proposed in our Final Plan to 1.25%.

PB then asked what members thought was appropriate/their preference for a price path?

- Two options were discussed:
  - AER approach: 8% price cut from 1 Jan 2018, followed by 1.3% increases; and
  - AGN approach: 10% price cut from 1 Jan 2018, followed by 2.5% increases.
- One member commented that they would supportive of a higher initial price reduction, followed by 2.5% as it aligns well with the retail market.
- Another member commented that alignment with the retail market was important.
- PB reiterated that AGN was happy to receive that feedback at any time.

## ***Actions:***

- *AGN to provide the two path options and seek further feedback with minutes.*
- *Group provide feedback on the two price paths to AGN.*

## Network Access

- PB commented on the extensive consultation undertaken in relation to suggestions made by the stakeholders.
- PB highlighted that AGN had been seeking harmonisation in terms and conditions across jurisdictions we operate so retailers can expect the same in all states. Additionally, we believe this approach has a number of benefits for our customers as it promotes greater efficiency across the industry and reduces transaction costs
- Overall, there was support for merging of the Victorian and Albury terms and conditions and agreement with our views that T&C's have evolved over the previous AA periods.
- One stakeholder specifically stated they were happy with where the T&Cs ended up.
- It was noted that one submission on the Final Plan outlined a number of comments on the T&C's clauses. The AER considered this submission in its Draft Decision, but did not accept all the proposed changes. AGN has reviewed the submission and we are proposing to accept the changes to clauses 34.1, 34.4, 34.5, 34.6 and 36.

- AGN's are seeking feedback from the group on accepting the clauses 34.1, 34.4, 34.5, 34.6 and 36 as raised in the written submission.

**Actions:**

- *AGN to send through revised T&C's.*
- *Group provide feedback on the proposed T&C's changes to AGN.*

**Next steps:**

- Although AGN will be accepting the AER's Draft Decision, we are still required to submit a Revised Final Plan which outlines our acceptance and updates as requested by the AER.
- PB highlighted the potential for a further Retailer Reference Group meeting to be held in August/September 2017, and to advise AGN of preferred dates if another meeting was desired.
- CdL asked if there was anything the group had heard that they wanted further information on, or would like to discuss further, as a group, or individually?
  - Group agreed that they will contact AGN directly regarding future requests or submissions.
- In the interest of time, AS deferred remaining items to the next meeting, but reminded the group of AGN's plans to engage on how AGN can take stakeholder engagement beyond the regulatory period.

**Action:**

*AGN to send information prior to the next meeting, with views on how we see going forward with engagement as a business as usual model for further discussion.*

#### **4. Other Business**

AGN, PB raised one other issue: the Essential Service Commission of Victoria ESCV will be setting the gas distribution business Unaccounted for Gas (UAFG) benchmarks for the next five year period, commencing 1 January 2018. AGN has provided the UAFG settlement data to the Retailers settlement areas in June. We are keen to have the reconciliation process completed as soon as possible. Any assistance the group can give to complete this process is appreciated.

**Action:**

*AGN to follow up directly with those outstanding*

## 5. Thanks and close

AS thanked all in attendance.

The meeting concluded at approximately 12.00pm

Next Meeting: Meeting 9 | 11 December 2017, 10.00am – 12.00pm

## Action Items

Retailer Reference Group	Who	When
One week after circulation: Provide feedback on meeting minutes	<b>ALL</b>	10 Aug 2017
Advise potential agenda items (at least three weeks prior to meeting)	<b>ALL</b>	Ongoing
Group provide feedback on the two price paths to AGN.	<b>ALL</b>	9 Aug 2017
Group provide feedback on the proposed T&C's changes to AGN.	<b>ALL</b>	9 Aug 2017

AGN	Who	When
Circulate draft meeting minutes	<b>AM</b>	3 Aug 2017
Provide the two path options and seek further feedback	<b>AM</b>	Attached with minutes
Send through revised T&C's	<b>AM</b>	Complete
Follow up directly with those outstanding on ESCV UAFG benchmarks	<b>AGN</b>	As required
Send information with views on how we see going forward with engagement as a business as usual model for further discussion.	<b>AM</b>	Prior to next meeting