

# Meeting Minutes

## AGN Victoria/Albury and Retailer Reference Groups Meeting

### Date

Wednesday, 07 December 2016

### Where

Offices of Deloitte, 550 Bourke Street, Melbourne

### Time

10.00am - 12.00pm

### Attendees

Reference Group/Guests	AGN/Other
David Calder (Origin Energy)	Craig de Laine (Chair)
Geoff Hargreaves (Energy Australia)	Ben Wilson
David Havyatt (Energy Consumers Australia)	Andrew Foley (APA Group)
Ben Martin Hobbs (Consumer Utilities Advocacy Centre)	Anna Mitchell
Teresa Mitchell (COSBOA) (Guest)	
Elizabeth Molyneux (AGL)	
Con Noutso (Lumo Energy)	
Jon Onley (Australian Industry Group)	
Guest Dial in: Kristal Burry (Public Interest Advocacy Centre)	
Guest Dial in: Rachel Armstrong (AEMC)	
Guest Dial in: Irina Umback (ENA)	Robin Robinson (Observer, CCP11)

### Apologies

Gavin Dufty (St Vincent de Paul Society)	Belinda Sandilands / Steph Booth (EWOV)
Ken Gardner (Master Plumbers Association)	Randal Harkin (COTA VIC)
Mark Henley (Uniting Communities)	Chris James (NORTH Link)

## Minutes

The meeting commenced at approx. 10.00am AEDT

### 1. Welcome

AGN, Craig de Laine (CdL) welcomed the group and thanked them again for their attendance.

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

The minutes of the previous meeting were carried forward.

### 3. AGN Final Plan

AGN, Ben Wilson (BW) spoke to the presentation stopping throughout for comment and questions. Key points noted by BW included:

- AGN has met several times with this group, we have shared our Draft Plan, and are now only a few weeks away from submitting the final plan to the Australian Energy Regulator (AER). The Final Plan is very similar to the draft, with some minor changes made as a result of the feedback received through engagement with customers and stakeholders conducted to date.
- BW discussed the Customer Service Benchmarking project underway and highlighted scores achieved this year. Monthly Key Performance Indicators (KPIs) are now set for 2017. AGN hopes that other distributors will take up the survey or something similar.
- One member asked if AGN planned on making the same customer services targets across each state. BW confirmed that this was a national target but AGN/APA could dig into the results via various categories i.e. state, area etc.
- Slide 6: Leading Productivity Performance: This table highlights Multilateral Total Factor Productivity (MTPF) (outputs / inputs) which measures performance productivity levels against difference distributors. AGN sits at the top, the higher the score, the more efficient you are. This is the key measure the AER and industry focus on to get a gauge on whether the network is being run efficiently. AGN's productivity levels are approximately 10% higher than the next most efficient DB.
- Slide 7: AGN reinforced their overarching objective to submit a plan that 1) Delivers for customers, 2) Is informed by effective stakeholder engagement and 3) Is capable to being accepted by the AER.
- Slide 9: Highlights key points of final plan, remain at an 11% price cut on 1 Jan 2018 (real terms), after that, increases of 2.5% per annum to match the growth in the Regulated Asset Base (RAB).
- One member asked why AGN supports a direct price cut, BW responded that it is driven by cash flows and attempt to maintain debt as a fixed percentage of the asset base. Key ratio used by AGN is Funds From Operations (FFO) to debt.
- Another member asked if there were going to be any incentives for upgrading old and inefficient appliances. BW responded that AGN do offer rebates for new/additional appliances but typically these rebates target those who add an additional appliance/additional load to the network. BW agreed this was an issue but questioned whether the AER would see the benefit to customers overall in doing that.

- One member asked about AGN's plans once the AER makes its final decision in respect of delivering the message to customers. BW confirmed that the plan would be to do the same as AGN did in South Australia (for example media releases etc.) and that AGN would work with the retailers in the lead up on the messaging to avoid any confusion.

AGN, Craig de Laine (CdL) then spoke to AGN's Stakeholder Engagement approach and objectives and reinforced that is an ongoing process for the business. CdL continued to speak to the presentation stopping throughout for comment and questions. Key points noted by CdL included:

- Incentives Framework. In South Australia, AGN commenced a process which sought to strengthen the incentive arrangements that apply to the business. AGN believes there should be appropriate incentives in place to drive the behavior of the business. Currently there is an incentive on Operating Expenditure (Opex), but not for Capital Expenditure (Capex), and there are no schemes devoted to improving innovation in the sector. AGN is proposing the introduction of a Capital Expenditure Sharing Scheme (CESS) and a Network Innovation Scheme (to sit alongside the Opex scheme). AGN have undertaken a dedicated stream of engagement in Victoria (together with the other two DB's) in response to clear feedback received in South Australia from the AER/Consumer Challenge Panel (CCP) who felt that there is merit in expanding the incentives that apply but they felt there needed to be more industry and stakeholder consultation on the issue.
- Feedback from the Reference Group had been that it was difficult for stakeholder groups with limited resources to review and make submissions, so a key benefit of releasing the draft plan were the facilitated Stakeholder Workshops to obtain feedback.
- AGN believe that all stakeholders have been provided with the opportunity to provide input into the plans, AGN has transparently reported that feedback and how it has been incorporated into our final plans.
- Slide 18 is a high level summary of who we have engaged with and at what stage of the project we engaged on. BW asked for any additional feedback from the group.
- Feedback included:
  - o One member commented that she was surprised that the likes of VECCI, Committee for Gippsland (who represent big businesses) were not at the table. CdL highlighted the issue for Victoria was the level of engagement being sought (not only by the three gas distributors, but also electricity and water) and highlighted that all attempts were made to various organisations (including representatives from regional Victoria, local government, and multicultural communities) but AGN understood resources for these reviews was limited and gas was not always a priority (compared to electricity and water). Additionally, the member asked from an industry perspective, looking at development of industry parks, what was AGN doing to ensure the appropriate loads were sufficient for larger customers and what is the relationship with local government and planning and AGN on these. CdL confirmed that there is an ongoing business relationship with those stakeholders and will continue to pursue their representation on this group.
  - o Another member observed that AGN had a well-structured engagement process (can't fault intent or structure), however their organisation would be keen to see engagement in these processes more targeted at local consumers/advocates than at a broader representative group.
  - o Another member commented that they found AGN's approach to be holistic and the workshops were beneficial i.e. having all the information compressed, presented and available to discuss.

- Another commented that it was good to see AGN is not just focused on metro areas, and has taken into account the diverse issues in regional areas, and this plan has encompassed all issues including regional and congratulated AGN on listening to all.
- Other feedback included clear, transparent, executed well, ample opportunity to get in touch, thorough consultation which is a clear demonstration that AGN is seeking more consumer engagement and less input from the regulator.

**ACTIONS:**

AGN to pursue additional representatives to join Victoria / Albury Reference Group.

Reference Group to continue to make recommendations/suggestions for possible new members to group.

CdL continued to speak to the presentation stopping throughout for comment and questions. Key points noted by CdL included:

- AGN have recently completed the South Australian review (May 2016) and have accepted the positions of the AER and carried those positions forward to Victoria and Albury.
- An example of AGN's objective to clearly and transparently report on how engagement has impacted what AGN's final plan is AGN's Traffic Light system. For example in the Opex Chapter (p65), the Traffic Light system details what questions we asked stakeholders, what the feedback was, and how AGN has responded to that feedback. This system is incorporated right through AGN's final plan. Additionally, in the Opex chapter, AGN reports on what were the AER approaches taken in South Australia, and where AGN have accepted/not accepted those approaches and why.
- Slide 27 Operating Expenditure shows a relatively flat line. The approach is consistent with that undertaken and approved for our South Australian network, with the only change being that AGN is seeking is in relation to AGN's Marketing efforts. AGN is seeking an additional \$1 million per year to expand the marketing program into metropolitan Melbourne (in conjunction with the other two gas distributors).
- One member suggested in relation to marketing that AGN provide some comparisons in cost i.e. to electricity in relation to safety, convenience, reliability and speed, and there were opportunities in the digital landscape to do this. BW agreed that this was a good suggestion and there was opportunity to talk about 'total cost' and referred to examples on Slide 46.
- Clear feedback from stakeholders was that there was support for marketing but only if the benefits exceed the costs i.e. existing customers will be better off with this expanded marketing.

APA, Andrew Foley (AF) spoke to AGN's Capital Expenditure plans stopping throughout for comment and questions. Key points noted by AF included:

- Main components of Capital Expenditure are Mains Replacement, growth and Information Technology (IT).
- Profile shows 'bump' at the front which is essentially IT expenditure and the tail off at the end refers to the end/completion of the mains replacement program.
- AGN is on track to deliver the current mains replacement (696 km), volume drops in next AA period as works move into the Central Business District which create more challenges and smaller windows of opportunity.

- Augmentation: Of the three major growth corridors of Melbourne, two are within the AGN network, being Cranbourne and Melbourne's northern corridor. This investment will maintain the network capacity and pressure to meet customer demand.
- IT focusses on three key items, nationalisation of state based systems to provide efficiency benefits, stay in business items to maintain security and operability, and improvement of service, better utilisation of existing assets. The IT Program reflects what was approved previously in South Australia.

On Incentive Mechanisms, BW made the following comments:

- AGN want more financial impact on performance, good and bad. Under a strong incentives framework, cost control and operational performance drive financial performance.
- Key focus (Slide 35) is the proposed capex incentive scheme
- This is consistent design with CESS applied in electricity
- Joint position also for a Contingent CESS, Proposing that any payments are contingent with AGN maintaining performance across network indicators; (unplanned) average duration of interruptions, number of leaks and the number of water in mains incidents.
- CdL commented that he believes the AER and CCP understand that the incentives framework should be strengthened and are supportive of a CESS, but want to ensure it is appropriate for gas, and it appears there is stronger support for an asymmetric scheme, with a measure of health on the network.
- CdL also commented that AGN had preferred a symmetric scheme (of + and -) but upon review and in light of the both CUAC and customer feedback which highlighted that that customers did not want to pay more for reliability, and there were no network performance drivers to do that, AGN has changed their approach to support an asymmetric scheme.

**ACTIONS:**

AGN to publish Incentive Mechanisms materials, including the Findings Report on website.

On Financeability, BW commented:

- Key credit metric, FFO to debt (profit by depreciation divided by debt) is a measure of how much cash flow available to repay debts. The lower the ratio, the worse, referred to table on Slide 36. AER generally assumes a BBB+ when they set the Weighted Average Cost of Capital (WACC), and the gas assets are disproportionately toward the bottom end.
- AGN Plans for Victoria and Albury returns 8% FFO to debt and AGN is confident it will keep the BBB+ rating.
- One member asked if the 60 year life of the assets a reasonable assumption and if that had been discussed with the AER at all? i.e. if you used more radical climate change policy assumptions, you wouldn't have a 60 year life on these assets. BW commented on carbon neutral targets and how gas fits into that and noted that it is an issue that hasn't been raised because AGN wants to deliver a price cut and doesn't believe there could be one if there were if depreciated was adjusted consistent with this feedback.
- BW then brought the group's attention to a significant report that the Energy Networks Association (ENA) will be releasing shortly, and which will be addressing this point through a vision for gas 2050 which will talk about a decarbonisation trajectory for gas.

- Referred to Project H21 (video link below) a project by AGN's sister company, Northern Gas Networks in the United Kingdom to look at converting the gas grid of the city of Leeds to zero carbon hydrogen. <http://www.northerngasnetworks.co.uk/2016/07/watch-our-h21-leeds-city-gate-film/>
- CdL also highlighted AGN's proposed network innovation scheme which would look into these types of technologies.

**ACTION:**

AGN to distribute link to H21 video (Northern Gas Networks in the UK) (complete).

On Inflation, BW commented that this remains the key outstanding issue out of the South Australian review, however AGN will not appeal on this but would like to see the conversation continue.

#### 4. Thanks and close

To wrap up, CdL reiterated AGN's openness to receiving feedback and referred to the key next steps for AGN on Slide 43.

CdL thanked the group again (including those on the phone), AGN sincerely does appreciate the time taken to come along to these meetings and welcomes feedback at every stage. CdL reminded members of the feedback forms provided at the meeting.

Robin Robinson (Observer, CCP11) reminded the group of the Public Forum taking place on 1 February (details to be confirmed).

CdL confirmed AGN will be in touch in the New Year with a placeholder for the next meeting (post the public forum).

**ACTION:**

AGN to distribute feedback forms to meeting attendees who joined via teleconference.

Meeting closed at approximately 12.15pm.

#### Action Items

Victoria / Albury Reference Group	Who	When
One week after circulation: Provide feedback on meeting minutes	All	3 Jan 2017
Advise potential agenda items (at least three weeks prior to meeting)	All	Ongoing
Continue to make recommendations/ suggestions for possible new members to group	All	Ongoing

AGN	Who	When
Circulate draft meeting minutes	<b>AM</b>	19 Dec 2016
AGN to provide information on completed order rates, successful meter reads	<b>AM</b>	For next meeting
Pursue additional representatives to join VARG	<b>AM</b>	Ongoing
Publish Incentive Mechanisms materials on website	<b>AM</b>	Complete
Distribute link for H21 Project	<b>AM</b>	Complete
Distribute feedback forms to meeting attendees on teleconference	<b>AM</b>	By 20 Dec
Distribute placeholder for first meeting of 2017 (post Feb 1 CCP Forum)	<b>AM</b>	Jan 2017