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Australian Gas Networks stakeholder insights report

South Australian Stakeholder Engagement Program

February 2015

Australian Gas Networks

Industry overview

The domestic gas industry in Australia is undergoing a period of unprecedented change, driven primarily by an increasing exposure to international markets, which is set to drive up the wholesale price of gas on the east coast of Australia. At the same time, an increased focus on energy efficiency and sustainability has led to changes in the way Australians consume energy.

The major contributing factor driving an increase in the wholesale price of gas is the new ability for Liquefied Natural Gas (LNG) to be shipped off the east coast of Australia, allowing Australian gas companies to access global markets. However, the positive impact of international growth and investment opportunities comes with the costs of exposing the Australian gas price to the world price. In the past, wholesale gas prices have been significantly lower in Australia than in Asia but now that Australian gas companies can trade overseas, the local wholesale price will likely rise.

In South Australia (SA) – the focus of this report – Australian Gas Networks (AGN) owns the natural gas distribution network, providing gas to approximately 425,000 SA customers. Despite the global increase in the demand for gas domestic demand levels have been falling. Demand has fallen by approximately 7% in SA over the past three years and is forecast to continue to fall during the next five years.

Compared to other energy sources, gas is a fuel of choice, which may account for a fall in demand from smaller customers who can substitute natural gas appliances with an electric or Liquefied Petroleum Gas (LPG) equivalent. This choice provides a strong incentive for those within the supply chain to provide a high quality service to its customers in the most affordable manner.

Unsurprisingly, the prospect of future price rises and falling demand has attracted substantial media scrutiny. Many recent articles have been published outlining the expected impact of increasing gas prices on end user demand. No doubt this has influenced customers and caused concern about rising prices.

In South Australia, approximately 50% of the retail gas price paid by residential and small business customers is made up of distribution charges from AGN, with wholesale gas prices impacting less than a quarter of the end price.[1] Therefore, when considering the movement in the wholesale price of gas it is important that customers understand its impact on the end price.

AGN is forecasting a price decrease for SA gas customers based on the information available (at the time of the engagement in December 2014) about future distribution costs and independent expert advice regarding costs for the remainder of the gas supply chain. Many of the customers we engaged were surprised by this forecast and showed a general lack of understanding of the regulatory framework in which AGN operates.

Regulation and the gas industry

AGN is the new name for Envestra, with the name change taking effect from 3 November 2014. As SA's sole gas distributor, AGN is required to submit an Access Arrangement proposal for 2016–2021 to the Australian Energy Regulator (AER) by 1 July 2015. The AER will make a revenue determination based on AGN's proposal with a view of ensuring that AGN is meeting the long term interests of its SA gas customers.

In November 2012 the AER applied changes made by the Australian Energy Market Commission (AEMC) to the National Electricity Rules to all network service providers, including gas distributors. The changes require organisations to have an increased focus on the nature, quality and extent of customer engagement (and stakeholders more broadly) and identification of customers' concerns. The voice of gas customers and stakeholders is therefore a key input that will help shape AGN's 2016–2021 Access Arrangement proposal for the SA network.

With this in mind, AGN has designed a stakeholder engagement program to help understand customer concerns and priorities as they plan the SA gas distribution network of the future. This report highlights the key findings from the research phase of the program conducted between November 2014 and January 2015, however AGN will undertake further engagement in the lead up to and beyond submission of the SA network Access Arrangement proposal.

Cover photo: ***Craig de Laine, Group Manager - Regulation, presenting at an Adelaide workshop,***
December 2014

1. *Based on pricing forecasts provided to AGN by Core Energy Group for the purpose of the Stakeholder Engagement Program in December 2014.*

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Who we engaged

SA metropolitan

82%

SA regional

18%

How we engaged

WORKSHOPS

5 workshops

66 participants

ONLINE SURVEY

247 respondents

TARGETED INTERVIEWS

7 key stakeholder interviews

Customer insights

- Customers don't understand AGN's role in the industry and the regulatory model
- Customers are concerned about rising energy costs and control over their bill
- Customers view gas as a reliable source of energy
- Customers consider the local economy when evaluating alternatives
- Customers are generally satisfied with AGN's service and response times
- Customers want more communication from AGN via multiple channels
- Customers support the concept of a Guaranteed Service Level (GSL) scheme that compensates gas-dependent customers who receive service below agreed 'standards'
- Customers value initiatives that improve community safety across the network
- Customers are less supportive of initiatives affecting individuals when network assets are within their control
- Customers support expanding and improving the network where there is a clear benefit to residents and business
- Customers are more concerned with the overall price of gas than tariff structure
- Customers believe everyone should pay the same regardless of where they are on the network
- Customers believe AGN has a role to play in helping vulnerable customers
- Customers trust that AGN is meeting its environmental obligations

Stakeholder Engagement Program overview

Scope

AGN's Stakeholder Engagement Program for SA is designed to identify the needs, priorities and concerns of current and potential gas customers and AGN stakeholders to develop a business plan that meets their long term needs. The program is also consistent with the requirements of the National Gas Objective (NGO) and the AER's Consumer Engagement Guidelines.

More information about the Stakeholder Engagement Program is available in AGN's '*Stakeholder Engagement Strategy for South Australia*' document, which can be downloaded from stakeholders.agnl.com.au.

The Program, which commenced in July 2014, has four phases as detailed in figure 1.

Strategy phase

The first phase defined the strategic approach to engagement with SA stakeholders in consultation with:

- APA Group (who provides operational, maintenance and construction services on the SA distribution network for AGN as AGN's network operator)
- Australian Energy Regulator (AER)
- Australian Energy Regulator (AER) Consumer Challenge Panel (CCP)
- Office of the Technical Regulator (OTR)
- Essential Services Commission of South Australia (ESCOSA)
- Energy Retailers Association of Australian (ERAA)
- Energy and Water Ombudsman of SA (EWOSA).

Deloitte facilitated a series of internal workshops with the AGN and APA management teams to identify the research objectives, customer segments and potential consultation topics for validation with external stakeholders.

AGN also established two external reference groups to challenge, guide and review the process of developing and implementing the Stakeholder Engagement Program:

1. The AGN Reference Group includes members from peak bodies representing a wide range of community interests, including disadvantaged customers, rural and remote customers, local government, the environment, industry and business customers.
2. The Energy Retailers Reference Group includes major retailers to provide guidance, feedback and insights to AGN with respect to matters where there is a natural crossover with retailers, such as vulnerable customers, the terms and conditions for network access and tariff design.

AGN Reference Group

- Business SA
- Conservation Council of SA (Conservation SA)
- Consumers SA and Property Council SA
- COTA SA
- Energy and Water Ombudsman of SA
- Local Government Association of SA
- Primary Producers SA
- South Australian Council of Social Service
- United Communities.

Stakeholder Engagement Program

Energy Retailers Reference Group

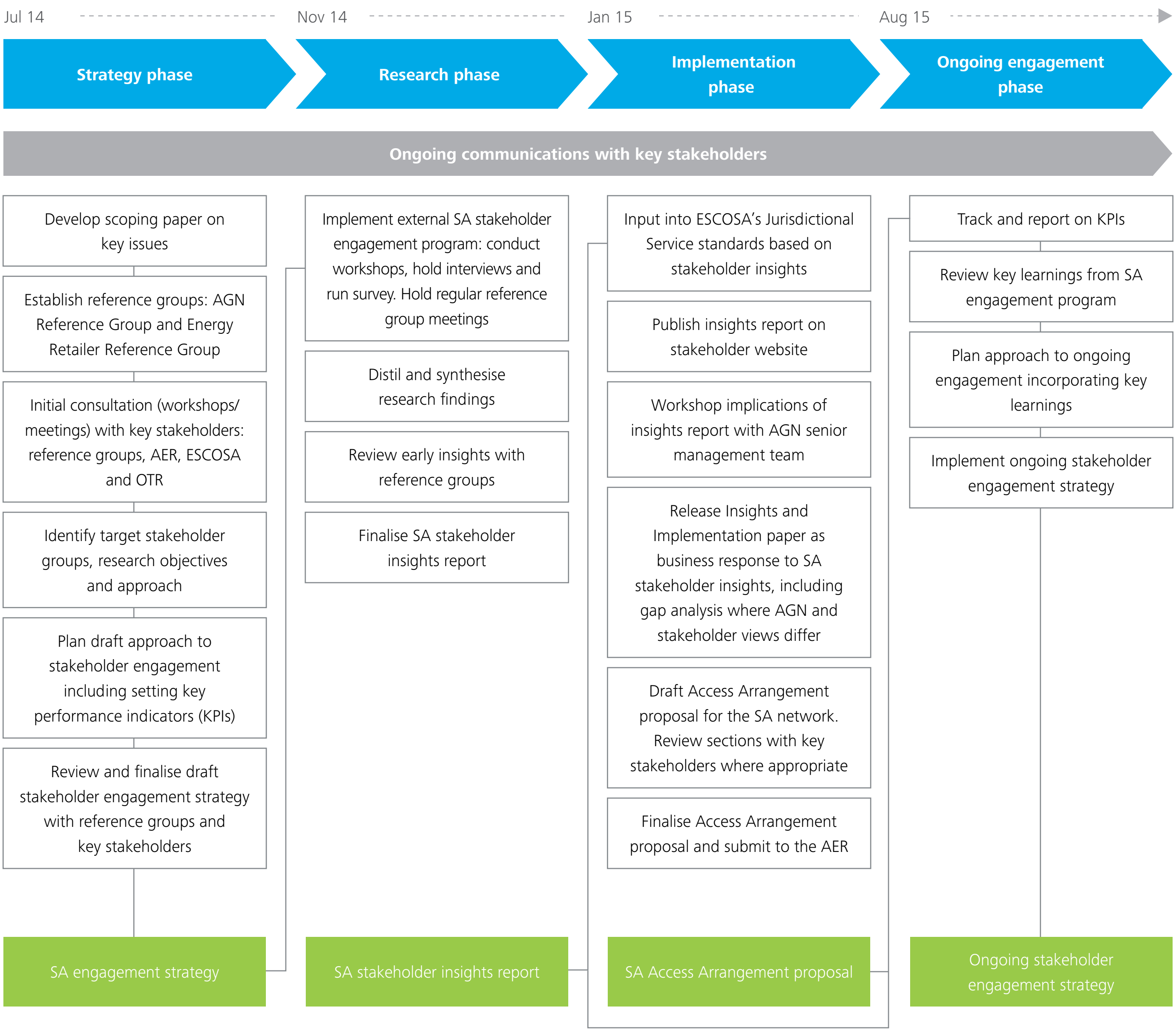
- AGL
- Origin Energy
- EnergyAustralia
- Simply Energy.

Research phase

This report presents the findings and insights from the research phase, during which AGN conducted customer workshops (facilitated by Deloitte), an online survey and targeted stakeholder interviews. AGN will consider the insights as it develops the 2016–21 Access Arrangement proposal for the SA network to submit to the AER in July 2015 (the implementation phase).

AGN plans to continually engage with stakeholders in SA and other regions served by their natural gas distribution network to keep in touch with evolving customer and stakeholder needs and issues. Importantly, AGN will use the principles, approach and lessons from the SA Program to develop region-specific stakeholder engagement programs (ongoing engagement phase).

Figure 1: AGN's Stakeholder Engagement Program



Deloitte's role

AGN engaged Deloitte to assist with the design and delivery of a comprehensive yet 'fit-for-purpose' engagement program based on our customer-centric project methodologies and experience with the regulatory environment. We collaborated with regulators, AGN's stakeholders and reference groups to provide guidance on the engagement strategy and process to ensure it met business and stakeholder requirements.

Specifically, Deloitte was responsible for:

- Ensuring the engagement activities were independent
- Ensuring the research findings accurately reflected the views and priorities of SA gas customers and stakeholders
- Recruiting a representative sample of South Australians to participate in the workshops
- Designing and facilitating the workshops with the AGN senior management team
- Developing workshop materials (including educational materials)
- Designing and analysing the online survey
- Collating, analysing and reporting the workshop, survey and interview data.

Methodology and sampling

The research and sampling methods, which were chosen and designed during the initial strategy and research phases in consultation with AGN, sought to build an evidence-based program using statistical and customer-centric techniques.

Research objectives

During the strategy phase, Deloitte facilitated workshops with AGN and APA senior management to identify the research objectives, stakeholder groups and customer segments, and potential topics for consultation. AGN and Deloitte shared the proposed approach with the AGN's Reference Groups, the AER, the AER's Consumer Challenge Panel, ESCOSA, the ERAA and the OTR.

The major research objectives were to:

- Assist AGN's stakeholders and the general community to understand the gas market and AGN's role
- Ensure AGN's business plans and 2016–2021 Access Arrangement is consistent with the long term interests of stakeholders.

The engagement activities and research questions were organised around the following consultation topics:

- Customer experience
- Network safety and reliability
- Network expansion and innovation
- Access and affordability
- Environmental commitments and reporting.

Research method

A mix of quantitative and qualitative research methods was used to engage stakeholders to maximise participation, response rates and the quality of insights to achieve the research objectives, including:

- Customer workshops
- An online survey
- Targeted 'deep dive' interviews.

During the research phase, customer workshops were held in metropolitan Adelaide and regional SA in December 2014 with residents and small to medium business customers. The objective was to test AGN's proposed initiatives and gather insights to understand customer needs, issues and preferences.

The intention of the online survey was to augment the workshop findings and to provide a representative picture of the characteristics and priorities of a larger gas customer population for comparison with the workshop data. It included a series of closed questions (to simplify analysis) about demographics, awareness of AGN, communication preferences and the proposed initiatives. The survey was open for three weeks from 20 November 2014 to give as many people as possible the opportunity to share their feedback and opinions. Respondents were limited to a single attempt.

Major customers, retailers and key consumer advocacy group representatives were engaged in deep dive interviews (using open questions) from November 2014 to January 2015 to get feedback on the proposed initiatives and understand the relevant issues from the perspective of their own stakeholders. We also engaged consumer advocacy groups to discuss AGN's proposal and community concerns more generally, in a workshop that was supported by interviews for those who could not attend.

AGN prepared a series of 'willingness-to-pay' scenarios to test proposed initiatives with customers in the workshops and survey. Interview participants were also presented with the scenarios and asked to comment on the impact of the changes to the stakeholders they represent.

The scenarios explained the proposed initiative and associated price implications (estimates of cost per customer) for changes in customer service standards or investments in network safety and expansion. The scenarios sought to understand customer preferences with respect to the proposed initiatives and whether customers were prepared to pay more for an increased level of service or – where appropriate – pay less for a reduction in service levels.

The AGN Reference Group advised AGN to provide workshop participants with a 'best estimate' of future prices before they made decisions on potential investments. As outlined earlier, AGN prepared a baseline price forecast using the information available at the time to help workshop and survey participants evaluate the proposed initiatives in the context of predicted gas prices over the next five years (2016–2021). The preliminary forecast indicates that AGN expects to decrease gas distribution prices over this period. AGN sought further independent analysis on the remainder of the gas supply chain, which when combined with its own forecast estimates, equated to a net decrease in the average retail bill of approximately $50 per year for residents and $35 per year for business customers by for the period from 1 July 2016 to 30 June 2021.[2] The cost of all proposed initiatives presented totals $17, so the overall forecast was for a net reduction in the average retail bill.

More information about the research method and objectives is available in AGN's '*Stakeholder Engagement Strategy for South Australia*' document, which can be downloaded from stakeholders.agnl.com.au.

Sampling

Four workshops were held in metropolitan and regional areas in SA with 54 existing network users (gas customers) including residents and small to medium businesses. Workshop participants were recruited on the basis of gender, age, household income, concession eligibility, geography and reliance on natural gas.

An additional workshop was conducted with 12 members from consumer advocacy groups to share and discuss the findings and insights from the gas customer workshops and seek their views on behalf of the communities that they represent, with a specific focus on the issues they highlighted as the most important during the strategy phase.

The online survey was targeted at SA gas customers through print and social media advertising before and during the survey open period. However, it was not restricted to SA residents as AGN operates natural gas networks in five Australian states and territories. In total, there were 247 respondents, which included 165 from SA.

The findings of this report are based on the feedback from residents and businesses located in SA. For background and customer experience related questions all SA residents results are reported; for investment decisions only those who are currently gas customers (and therefore able to pay) have been reported.

The workshops were observed by members of the CCP, ESCOSA and the OTR.

The results from employees of AGN and APA have been excluded from this analysis.

Workshop	Participants
Adelaide – residents	16
Adelaide – business	9
Adelaide – consumer advocates	12
Port Pirie – residents	14
Mt Gambier – residents and business	15
Total	**66**

Survey	Respondents
Residents	**243**
Metropolitan	196
Regional	47
Business	**4**
Metropolitan	4
Total survey responses	**247**
SA respondents	**165**
Residents	161
Business	4
Total gas consumers	**176**
SA gas consumers	124

Analysis

Information collected in the workshops and interviews was analysed with the quantitative survey data to identify 14 customer insights (the focus of this report) that are supported by one or more research findings.

To collect the views of customers during the workshops a number of research methods were used:

- An affinity process was used to solicit individual thoughts and visually group themes for a group-wide discussion on the energy (specifically the gas) industry
- Group discussions were facilitated by Deloitte, providing rich insights as workshop participants challenged each other and AGN subject matter experts in considering the proposed initiatives
- Quantitative analysis was undertaken for the support of proposed initiatives through a 'show of hands' count
- Worksheet activities were used to allow participants to prioritise (rank) their chosen initiatives.

2. *AGN engaged independent experts Core Energy to estimate how a price decrease would impact the average retail bill by 2021 (without adjustment for inflation) based on likely movements in production, transmission and retail prices, which are outside of AGN's control.*

Workshop participants were provided with a level of education that enabled them to make an informed decision about the costs and benefits of the proposed initiatives. This education was provided by AGN subject matter experts in the workshops with the aid of visual and text-based materials such as printed fact sheets and an on-screen presentation. It was evident that customers required time to ask questions and engage with subject matter experts in understanding AGN's role in the industry. This finding will be detailed further in the *Overarching insights* section of this report.

Survey participants were asked to give their opinion about each initiative on a five-point scale of importance (from strongly agree to strongly disagree with a neutral mid-point). To simplify analysis, a single measure of net support was calculated from the survey data using the standard Net Promoter Score method.[3]

The equivalent educational information was provided in the survey as in the workshop through text and some visual aids, however as the workshops revealed, many participants asked clarifying questions and used the various information formats to fully engage with the content.

The survey data was analysed to determine statistical significance and weighting (by age and income) was applied to the potential initiative questions (willingness-to-pay scenarios) to compensate for differences compared to the SA population.

Our analysis concludes that although the survey response rate is not statistically significant some insights can still be made from the findings, in particular when compared to the findings of the workshops. Workshop and survey support levels are polarised, that is, the majority of initiatives were not supported by survey participants whereas all initiatives were supported in the workshops to some extent. However, the relative importance given to the proposed initiatives in the workshop and survey is similar, which does allow us to draw some insights from the survey results.

Although the majority of proposed initiatives were not supported from an investment perspective by survey participants, they were still rated as important with the importance rating being similar to that given by workshop participants. For example, both workshop and survey participants rated an initiative with respect to fire safety as the most important initiative of all those presented, however only workshop participants were supportive of paying for it. This highlights a general reluctance to support investments that add to the average gas bill within the survey results. We discuss these findings further in the *Overarching insights* section.

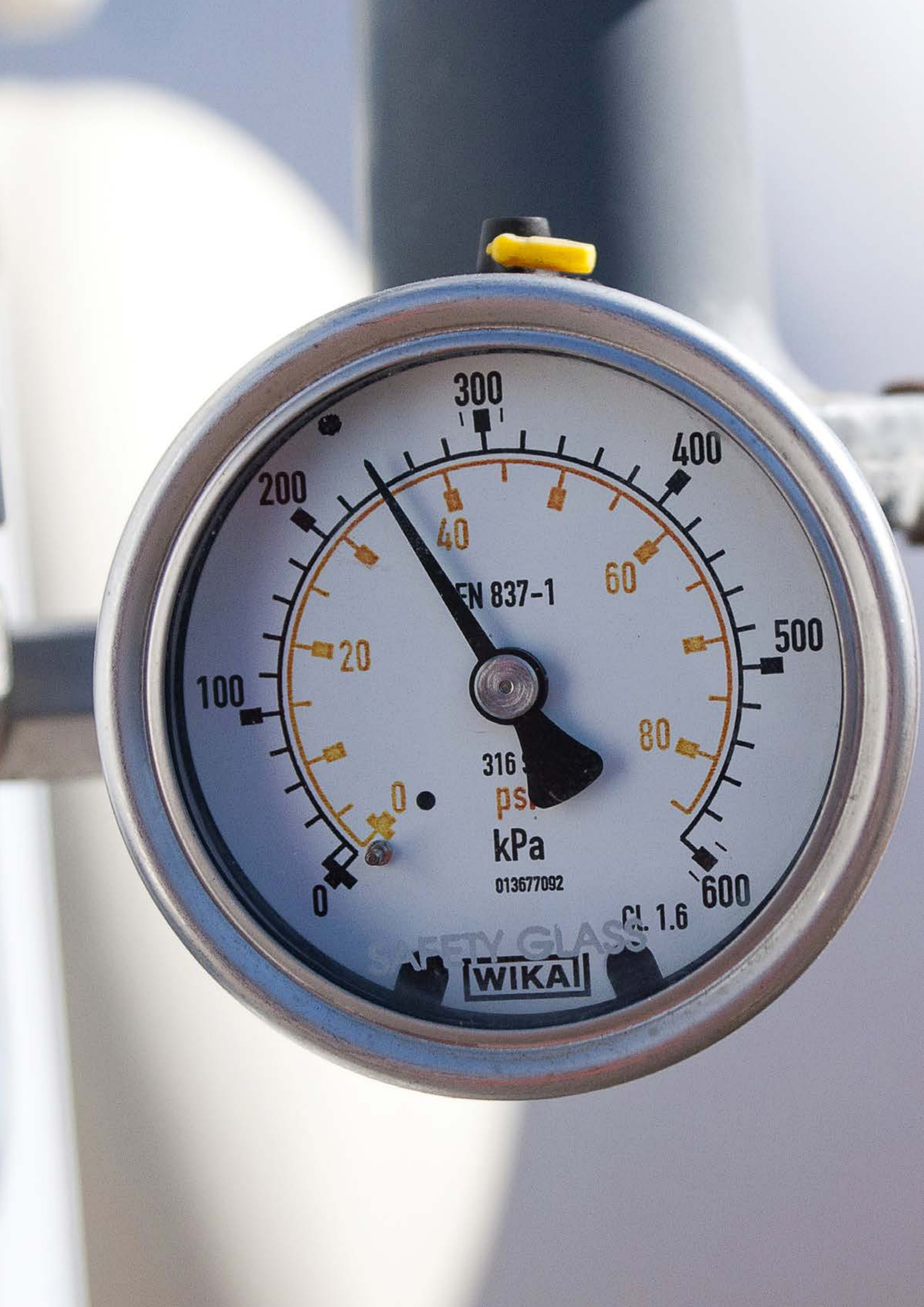
The results indicate that survey respondents understood what was being asked of them (ie they understood the proposed initiative) but they weren't clear on why they should pay, which points to a lack of understanding of the regulatory model. This lack of understanding is likely due to the fact that survey participants were not afforded the opportunity to engage with AGN subject matter experts on how the proposed initiative interacts with the gas supply chain, the application of the regulatory model and the future price path.

However, the survey data does provide an indication of the underlying reluctance of the broader public to pay for additional services, and therefore the importance of education and context (as supplied in the workshops) on AGN when seeking customer feedback for future initiatives.

With this in mind, we have based our insights primarily on the findings from the workshops, relying on survey data only in instances where a clear understanding of the regulatory model is not required, such as general experience questions. Reported levels of customer support throughout the report refer to workshop data unless otherwise specified.

For completeness, the responses to all workshop and survey questions can be found in the appendix.

3. *Net support is the percentage of respondents who support an initiative (ie they strongly agree or agree that they are willing to pay for it) minus the percentage of respondents who don't support it (disagree or strongly disagree)*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Customer insights

Overarching insights

Customers don't understand AGN's role in the industry and the regulatory model

Generally customers are unaware of who AGN is and what they do. Less than half of survey respondents and only a third of regional workshop participants had heard of AGN/Envestra or the APA Group prior to being involved in the research program. Although more metropolitan workshop participants were aware of AGN, workshop discussions revealed that they did not fully understand AGN's role in the natural gas supply chain or the make-up of their gas bill.

This finding is not surprising given the nature of AGN's role in the supply chain and the lower level of interaction they have with customers when compared to retailers.

A key takeaway from this engagement program is that customers require a significant level of education to make an informed decision about the benefits and costs of any proposed initiative, and that an understanding of the regulatory model is also required.

We found that workshop participants were generally more supportive of investments – or at least they felt more confident choosing an option – when they understood the business imperative and the related costs and regulations. They wanted to know where their money is going and how and why AGN passes on its costs to customers.

There are limitations on survey design that affect the amount and type of information that can be presented. Despite the background information presented in the survey, it seems that respondents generally had a lower level of understanding (of the industry and regulatory model and the impact that has on AGN passing through costs), which was reflected in their responses and the large deviation between support and importance levels. For example, survey respondents did not support any of the proposed safety initiatives yet they were given some of the highest priorities when ranked against other initiatives.

Customers are concerned about rising energy costs and control over their bill

We began the workshops with an exercise designed to understand customers' perceptions of the energy industry. Participants wrote their ideas on Post-its, which we organised into categories. In all the workshops, the predominant themes were price, reliability and environment. 'Expensive', 'high bills', 'controlling costs', 'supply charges', 'environmental solutions', 'sustainable supply' and 'efficiency' were some of the most common thoughts.

In all the workshops, residential and business customers talked about their concerns over future energy supply and rising costs. In particular, they were interested in AGN's view on recent media reports about LNG exports overseas and increasing gas prices. Customers also told us they are reducing their energy consumption but their bill keeps 'creeping up'.

Generally, customers feel their previous bill is consistent with their expectations. This indicates that customers are accepting of the current price they pay for gas, although mindful that they would like to manage future price increases.

Although price and the ability to control demand is the primary concern, environmental matters and energy efficiency is also important to customers. Customers want to know that AGN is efficient and considers the environmental impact of its operations.

This insight into customer perspectives on the cost and future of energy may explain the pattern of survey responses and support levels. We can assume that a similar proportion of survey participants shared these concerns and were generally opposed to any potential price increase. Discussion and additional information provided by AGN subject matter experts in the workshops helped those customers make informed decisions about proposed investments. The survey data also provides some indication of customer views when not afforded that level of education.

I don't feel we should pay any more for gas than we already do…it is already expensive, any more increases and I may as well stop using gas and switch to power and have one bill making it easier for me.

Survey respondent (SA resident)

Customers view gas as a reliable source of energy
Workshop participants shared their general views on natural gas. In light of concerns about rising energy costs, several customers told us they think gas is more cost and energy efficient relative to other forms of energy, such as electricity. They also have a higher level of confidence in mains gas, expecting fewer interruptions to supply.

Very few workshop participants had any experience with gas leaks or supply issues. Most had never had any problems with gas in the past and based on that, did not anticipate needing to contact AGN for service or assistance in the foreseeable future. However, concerns about the community impact of gas leaks led to strong support in the workshops for proposed network safety initiatives. The same initiatives were also given higher priority in the survey despite the general reluctance of this group of customers to pay.

Overall, customers like gas and believe it is a reliable and efficient energy source. The major barrier to adoption seems to be the cost to connect and/or upgrade appliances, and the availability of mains gas.

Don't a lot of our energy prices relate to what overseas customers pay?

Regional resident

Customers consider the local economy when evaluating alternatives
Frequently, customers' first thoughts on the potential initiatives were about the effect on local jobs and businesses – especially in the regions. Customers were concerned about job losses as a result of changes to call centre response times or remote meter reading technology. A few regional customers were concerned about local tradespeople getting their fair share of work if AGN went ahead with the proposal to repair all customer outlet service leaks.

The thought of potential job creation seemed to influence customer support for the initiative to better coordinate capital works. And when it comes to the proposed GSL scheme, customers value compensation for small business over compensation for residents based on the potential for financial loss.

My preference would be to have a gas cooker. However, the cost of connection was too expensive.

Survey respondent (SA resident)

Customers are looking for assurances that proposed initiatives will support local jobs and business or that AGN has at least considered this issue. They are also apparently more willing to pay for initiatives that provide wider community benefits. This insight has particular implications for AGN's ongoing regional engagement strategy and communications.

If we agree to pay more, does that mean more Australians will get jobs?

Metro resident

Customer experience

Customers are generally satisfied with AGN's service and response times

Around 80% of surveyed customers who had interacted with AGN in the last 12 months rated the customer service as good or very good. Several customers commented that AGN staff are friendly, helpful and efficient.

Call centre response times

AGN's Customer Service Centre responds to calls about new connections, gas availability and general enquiries between 8am and 5.30pm (SA time). Customers were generally satisfied with the current response rate of answering at least 95% of calls within five minutes during this time.

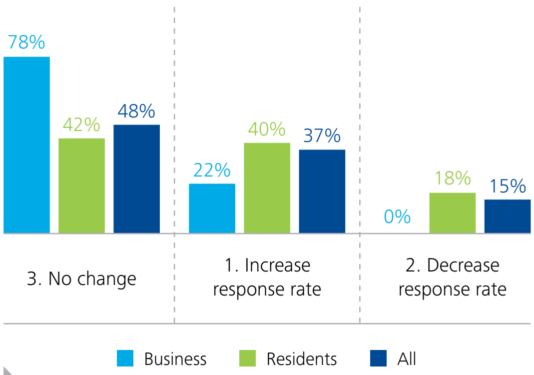
However, there was moderate support from residential customers to increase the service times to accommodate people who work during normal office hours (at least 95% of calls answered within five minutes between 7am and 10pm). Customers also suggested implementing a call back service.

Gas leak response times

AGN responds to public reports of potential gas leaks 24 hours a day, seven days a week. Currently, in 95% or more cases AGN attends to leaks within two hours of receiving the report. Around 60% of residents supported an increase in the response rate to attending 98% of gas leaks within two hours. The remainder of residents and all business customers prefer to leave the rate unchanged. The workshop discussion revealed that most customers who supported an increase in the rate were actually more concerned about the response to emergency cases and would like AGN to prioritise its emergency responses, effectively setting up a tiered set of response times.

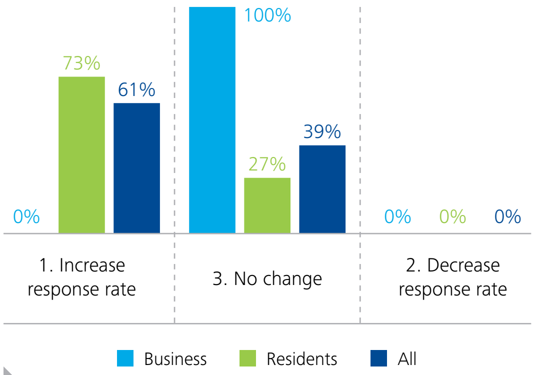
> I'd be jumping for joy if I only had to wait on the phone for five minutes to anybody these days.
>
> *Regional resident*

Figure 2: Call centre response times



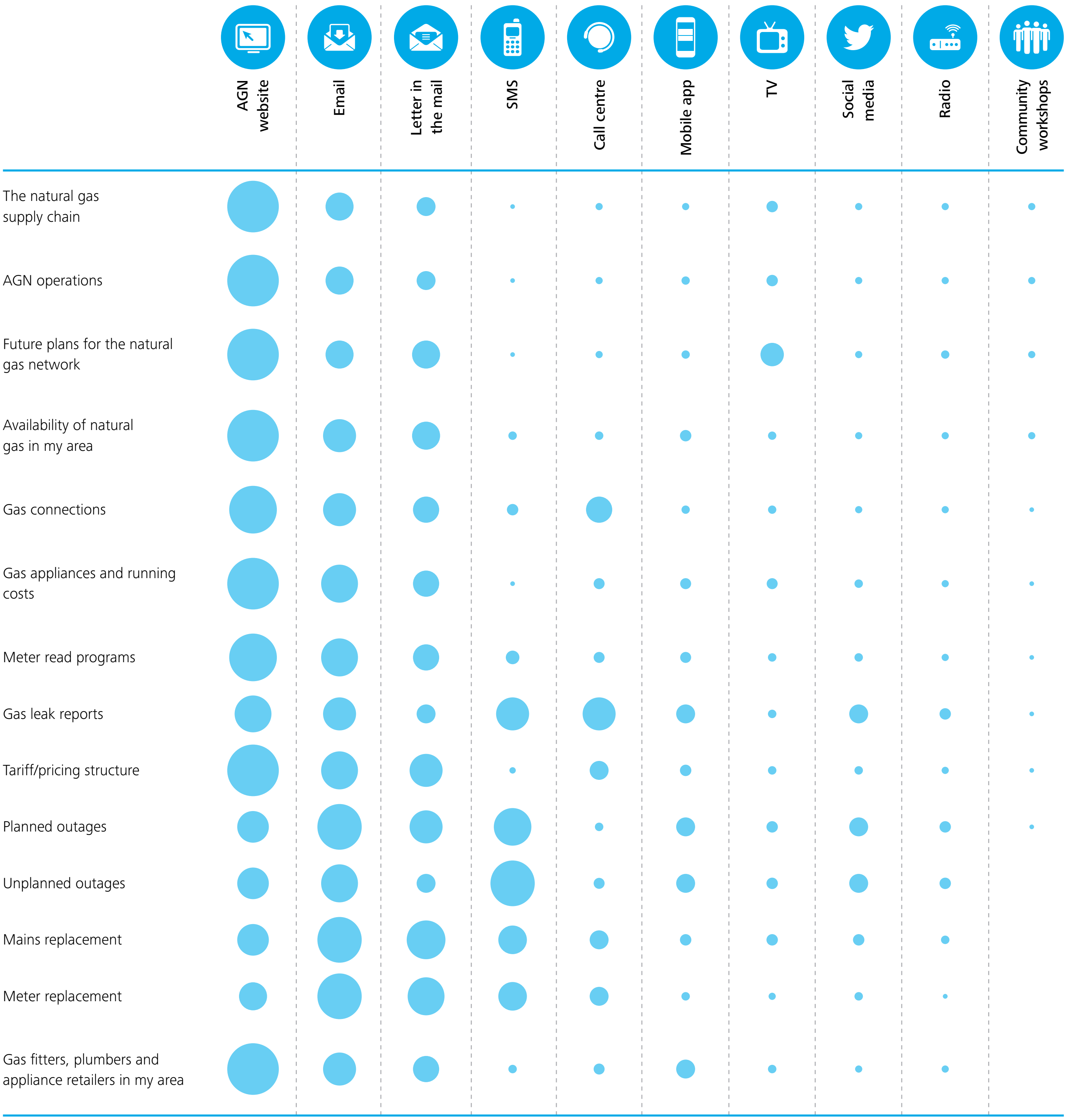
1. Would you be prepared to pay up to $1 per year MORE on your gas bill to increase the average five-minute response rate to 95% from the hours of 7am – 10pm?
2. Would you be prepared to pay up to $1 per year LESS on your gas bill to decrease the average five-minute response rate to 90%?
3. Leave rate unchanged

Figure 3: Gas leak response times



1. Would you be prepared to pay up to $1.50 per year MORE on your gas bill to increase the average two-hour response rate to 98% of reported gas leaks?
2. Would you be prepared to pay up to 50 cents per year LESS on your gas bill to decrease the average two-hour response rate to 90% of reported gas leaks?
3. Leave rate unchanged

Figure 4: Customer communication preferences



Customers want more communication from AGN via multiple channels

Customers generally prefer digital channels for greater accessibility and convenience. They also commented that digital channels are cost effective and reduce paper waste, yet the call centre and traditional written communication (letters) were also ranked in the top five preferred communication channels.

Customers expressed a desire for more communication from AGN and provided guidance on when they prefer immediate 'real-time' channels versus more traditional communications. Specifically, customers are seeking more personalised communications regarding issues affecting their supply, property or local area such as SMS, email and website notification for unplanned outages.

For planned works, such as outages, meter replacements and mains replacements there is a preference for email as customers like to keep a record of these notices (traditional mail was also favoured for this reason).

Customers also expressed a desire to receive communications or find out more about the network, industry and community issues such as tariff/pricing structure (including where their money goes and how tariffs are set), future plans for the network, the natural gas supply chain and the environment. Although it was not presented as a topic choice in this question, it emerged during the workshops and interviews that customers are interested in hearing about AGN's environmental commitment and performance.

In terms of channels for these topics, customers prefer to access general information in a central location or 'one-stop-shop' online when and where they choose.

When it comes to complex issues or service requirements or advice about gas appliances, customers prefer to talk to someone over the phone.

Notably there was no significant difference between responses from regional and metropolitan customers in terms of the channels or topics they prefer.

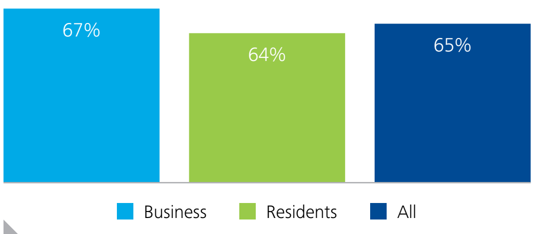
The most popular topics and channels listed below indicate general sentiment about what the majority of customers *want* or *need* to know.

Table 1: Customers want more communication from AGN via multiple channels

Top five channels
Website
Letter
Call centre
Email
SMS

Top five interactions
Planned outages
Unplanned outages
Gas leak reports and mains replacement
Gas appliances and running costs
Meter replacement

Figure 5: Support levels for GSL scheme



Would you be prepared to pay up to 50 cents per year MORE on your gas bill for a GSL scheme in South Australia?

> If you're running a business and you were out of gas for a day that would mean thousands of dollars in lost revenue. $80 is nothing.
>
> *Metro business*

I would do [support a GSL scheme] it if I thought there would be problems but the service is so good that it hardly ever happens.

Regional resident

Customers support the concept of a GSL scheme that compensates gas-dependent customers who receive service below agreed 'standards'

AGN presented the GSL scheme that it operates in the Victorian network to customers as an example of a scheme that could be replicated in SA. As most customers think gas is a reliable source of energy they questioned the need for a GSL scheme. Importantly most customers also considered that the primary purpose of the scheme was to compensate customers (like a form of insurance) for inconvenience and loss rather than act as a performance incentive for AGN.

The general view was that AGN shouldn't need an incentive to provide good service, however the majority of customers were supportive of implementing a scheme that compensated customers with a high dependency on gas – especially small businesses. The majority of customers felt the true value of a GSL scheme was compensation for customers who suffer significant inconvenience and/ or financial loss as a result of an outage or poor service. Therefore, customers suggested designing a separate scheme for business or revising the payment amounts to adequately compensate business customers.

I don't believe you need an incentive to provide good service. You should be doing that regardless.

Metro business

Customer insights

Network safety and reliability

Customers value initiatives that improve community safety across the network

AGN presented several proposals it is considering (including in its upcoming SA Access Arrangement) to maintain and/or improve the network and public safety including:

- Replacing all identified instances of above ground plastic (polyethylene) pipe and old plastic fittings. Current work practices no longer allow gas pipes to extend above ground for safety reasons and old plastic fittings have a history of failing.
- Rectifying meters and associated underground services under or inside commercial and residential buildings that pose a risk of gas escaping. Again, past work practices in commercial building allowed gas meters and services to be installed in this way. Home renovation can also result in this problem.
- Installing newly available fire shut-off valves to stop gas flow at or near the gas meter to avoid gas escaping and potentially igniting in the event of a fire.
- Repairing all identified customer outlet service leaks safely. Currently, if AGN finds a leak it is the customer's responsibility to arrange and pay for the leak to be repaired. Some customers do not undertake this work due to the cost.
- Increasing the rate of its current pipe replacement program to improve safety, reliability, pressure and capacity across more of the network, at a faster rate than is required to maintain safety, which also allows customers to take advantage of modern high efficiency appliances.

A key recommendation from the AGN Reference Group was for AGN to consider better coordinating its capital works program with other major utility companies in SA. AGN therefore proposed to customers an initiative to implement a management system and additional staffing to efficiently coordinate these works.

There was strong support from workshop participants for AGN to upgrade or repair network assets – with better coordination – to ensure ongoing reliability and safety. It seems customers don't want to take chances with gas.

There was some debate about who should pay to replace above ground plastic pipes and fittings, and meters inside buildings. Some business customers didn't understand the regulatory requirements for passing costs onto customers and therefore perceived it as 'cost shifting'. They wanted to know why AGN shouldn't have to absorb this capital expenditure like a commercial business. Customers were also opposed to paying to fix problems that AGN could have prevented. Following a discussion of the regulatory model and how historical work practices or standards have compromised safety by today's standards, customers were more accepting and inclined to pay for the work required.

Customers saw the benefit of investing in new technology such as fire shut-off valves to improve resident and community safety in the event of a fire.

Customer outlet service leak repairs were generally considered the property owner's responsibility but there was still strong support for this proposal based on the potential for serious safety risks. Customers conceded that outlet leaks can be complex and expensive to fix and may be caused by factors outside of the owner's control.

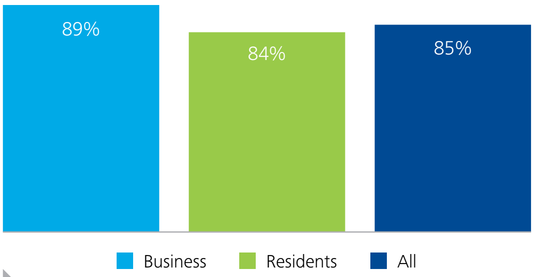
Customers also supported the initiative to better coordinate these programs and other capital works to minimise public disruption. In particular, customers asked if AGN had plans to coordinate the installation of fire shut-off valves with replacing above ground plastic pipes and fittings in bushfire areas.

Customers were generally supportive of AGN increasing the rate of its pipe replacement program to improve safety and reliability of the distribution network.

> You're cost shifting. If I have a problem in my business, I have to absorb it.
>
> *Metro business*

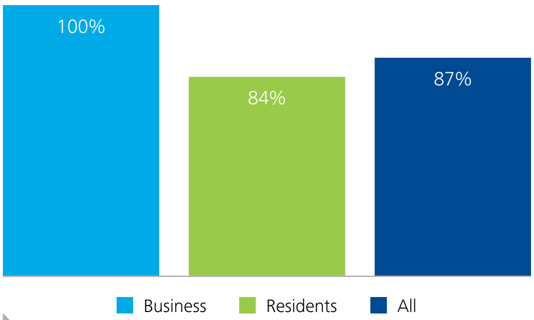
> It's very frustrating and annoying to see something done and then a new mob comes along and re-does it.
>
> *Metro business*

Figure 6: Support levels for replacing above ground plastic pipes and fittings



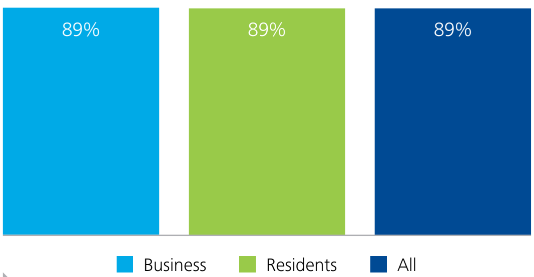
Would you be prepared to pay up to 50 cents per year MORE on your gas bill to replace identified instances of above ground poly pipe and old plastic fittings?

Figure 7: Support levels for meters inside buildings and inlet services under buildings



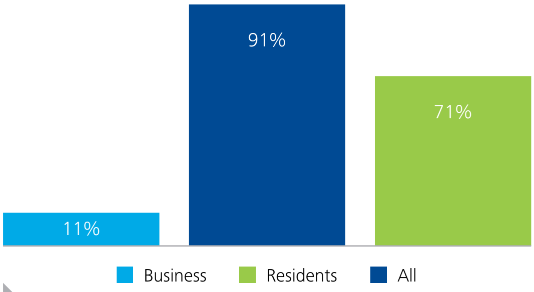
Would you be prepared to pay up to 20 cents per year MORE on your gas bill to rectify sites that present a safety risk?

Figure 8: Support levels for fire preparedness



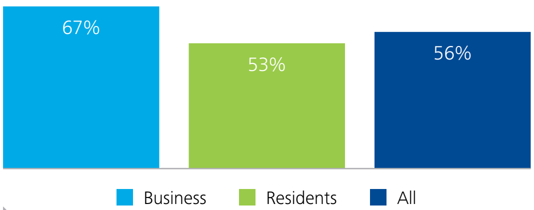
Would you be prepared to pay up to $2 per year MORE on your gas bill to retrofit fire shut-off valves to all remaining properties in bushfire areas and to new and replacement meters installed in metropolitan areas?

Figure 9: Support levels for customer outlet service leaks



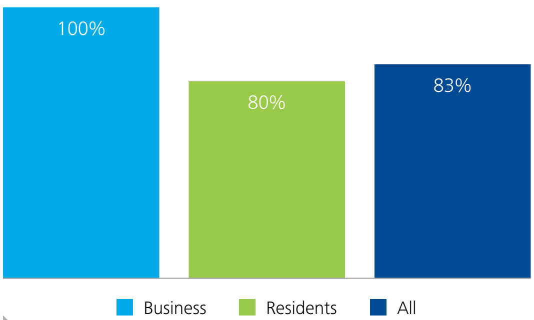
Would you be prepared to pay up to $6 per year MORE on your gas bill for AGN to safely repair all customer outlet service leaks?

Figure 10: Support levels for mains replacement program



Would you be prepared to pay up to $1.50 per year MORE on your gas bill for AGN to increase its mains replacement program to 220 km per year?

Figure 11: Support levels for coordination of capital works



Would you be prepared to pay up to 50 cents per year MORE on your gas bill to improve the coordination of capital works to minimise public disruption?

Customers are less supportive of initiatives affecting individuals when network assets are within their control

The general sentiment from customers about the proposed initiatives was that it should be the property owner's responsibility to pay if they are the 'cause of the problem'. Customers support safety initiatives but they made the distinction between network issues and what customers can control in their evaluation.

Gas meter relocation

AGN is proposing to take responsibility for moving the gas meter when residential property is altered (eg installation of a new driveway) to reduce the risk of damage. Currently, it is the customer's responsibility, however in many instances customers decide not to move the meter in order to save cost. Customers expressed concerns about the safety of meters that are not relocated, and this boosted support for the initiative even though most customers thought owners should pay – or at least make a contribution towards the cost.

As discussed earlier, customers felt the same way about customer outlet service leak repairs but the potential public safety risk heavily influenced their vote.

I think the customer should have to pay like any other household maintenance.

Regional resident

Remote meter reading

AGN is considering installing new remote meter reading devices as part of its periodic meter replacement program so that meters can be read from the street. Meter readers are not always able to physically access properties or gas meters to carry out quarterly reads. In this case, an estimate is made based on historic customer data, which can result in the need for billing adjustments.

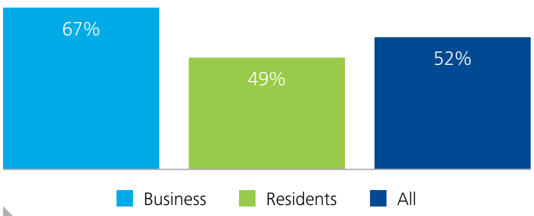
There was only moderate support for this initiative, with many customers feeling that owners should be responsible for ensuring access to their property. However, customers also understood why some people would want to make their houses secure with fences and locked gates. Customers could see the benefit of the technology but wanted to know if it would enable them to manage their own meter readings.

Some asked if the device was a smart meter and considered the potential benefits of managing their own meter readings and monitoring usage. It's also interesting to note that several customers thought the cost of this initiative was high ($3 per year) relative to other initiatives involving labour and equipment. It seems customers expect technology investments to be cheaper and want to know more about the cost basis and where their money is going. They would also like AGN to investigate the use of smart metering technology that remains cost effective.

At what point is the line drawn between the responsibility of the supplier and the responsibility of the customer to ensure the safety and efficiency of the gas supply to their property?

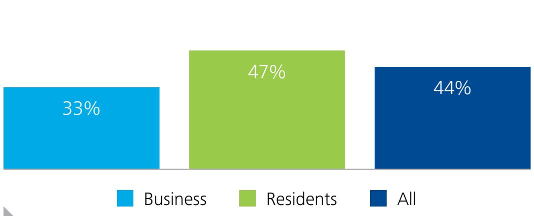
Survey respondent (SA resident)

Figure 12: Meter relocation



Would you be prepared to pay up to 50 cents per year MORE on your gas bill for AGN to relocate customers' gas meters exposed to the risk of damage to maintain safety?

Figure 13: Remote meter reading



Would you be prepared to pay up to $3 per year MORE on your gas bill to install remote meter reading devices as part of AGN's meter replacement program?

> Is this all digital? My electricity meter was changed to digital and my bill went down.
>
> *Regional resident*

Network expansion and innovation

Customers support expanding and improving the network where there is a clear benefit to residents and business

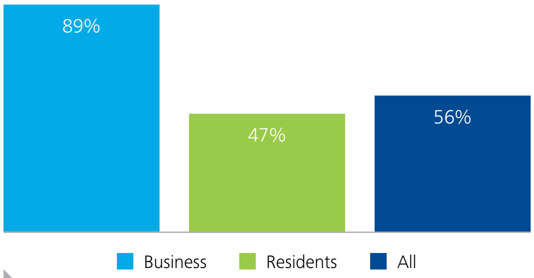
Overall, there was moderate support for the proposal to conduct a detailed feasibility study to cost network expansion into SA metropolitan or regional areas such as Mount Barker and Sellicks Beach.

In the workshops, the strongest support came from business customers who were slightly more concerned about price than residents based on their higher dependency and consumption. A large industrial customer interviewed by AGN was also supportive of costing expansion to encourage more large businesses to connect to the network to reduce supply charges.

AGN explained the regulatory requirement to provide evidence that expansion is economically viable, and customers saw the benefit of expanding the network to spread costs over a larger customer base to lower the overall price. They also want AGN to increase accessibility and choice for people who are currently outside the network.

However, customers were concerned about how much AGN knew about customer demand in the new areas they are considering. Customers want assurance that AGN will conduct an appropriate level of research to find out how many people in the area want gas before investing in a detailed feasibility study.

Figure 14: Costing network expansion programs



Would you be prepared to pay 50 cents per year MORE on your gas bill to allocate funds for AGN to explore if a project is economic?

> The first thing you need to do is find out how many people in Mount Barker want gas.
>
> *Metro resident*


JCB

Customer insights

Access and affordability

The bottom line is what counts. It depends on how much you use.

Regional resident

Customers are more concerned with the overall price of gas than tariff structure

The price of energy and the total gas bill is the major concern for customers. As mentioned previously, there is a common perception among customers that energy prices are increasing even though consumption levels are falling. AGN explained the tariff structure (made up of a fixed charge per annum, a variable charge per gigajoule and ancillary charges per service or hour) and sought customer preference with respect to tariff setting.

Although the majority of customers were more interested in the total price they pay for gas as opposed to the tariff structure, the view from residents was a preference for a lower supply charge and a user-pays model for greater control over the total cost of their bill. According to consumer advocacy groups, the supply charge can be the biggest component of the bill for vulnerable customers with a single gas appliance and very low usage.

There was mixed support for a user-pays model from business customers. While a variable charge is more appropriate for seasonal businesses, a fixed charge would help others with budgeting throughout the year.

During the workshop discussion, customers raised a related issue that affects their ability to understand and control their usage – namely that the meter reading is in cubic metres but the bill displays usage in gigajoules with no conversion factor.

I see it as reasonably transparent [fixed price] – so you can feel comfortable about it no matter what the cost is.

Metro business

Customers believe everyone should pay the same regardless of where they are on the network

On the topic of tariff structure, AGN wanted to understand if customers had a preference for a tariff based on proximity to the network, ie a fixed (supply) charge based on the customer's address.

This was not the preference of residential or business customers who thought it was unfair and would reduce demand for gas in some areas, thereby affecting the potential for lower distribution costs.

You're not going to expand in those areas if people know they're going to be charged more.

Metro business

Customers believe AGN has a role to play in helping vulnerable customers

AGN consulted with the AGN Reference Group and retailers about support for vulnerable customers during the initial strategy phase. It was their view that AGN should be playing more of an active role in conjunction with industry, government and regulators.

AGN asked workshop participants for their opinion on assisting vulnerable customers facing financial hardship. In general, customers do not think this is core business for AGN (unlike consumer advocacy groups) but believe AGN still has a role to play. While some customers believed it should be the sole responsibility of the government or retailers, the majority agreed that AGN should work together with government and other organisations (including retailers and welfare groups) involved in the gas supply chain.

Customers suggested some ways in which AGN could help vulnerable customers directly by advising where people can go to get help paying their bill (via the website and media advertising) and working with retailers to include education about efficient energy use on the bill. Customers also indicated that AGN should not seek to replicate the work that consumer advocacy groups already do – rather, they should work with them to do their job more effectively.

One of the major insights from discussions with consumer advisory groups was the need for a common definition of a vulnerable customer, as customers often move in and out of financial hardship based on changing life circumstances. Even customers that would normally not be eligible for energy retailer hardship programs may require help to pay their bills from time to time depending on changes to their income or debt levels.

> SA Water bills always have suggestions about what you can do to save. Can you include education on the bill?
>
> *Metro resident*

> There are lots of different aspects to the bill and each of those areas should be working together to make things easier.
>
> *Regional resident*

> There are other groups that provide this support.
>
> *Regional resident*

AGN also consulted with consumer advocacy groups on tariff structure to get their ideas about a vulnerable customer tariff. The general feedback was that AGN needs to consider the impact of such a tariff on customers on the fringe of financial hardship who don't fit the standard definition. There is a risk that efforts to help defined vulnerable customers may put more customers in hardship if they are required to contribute to the cost of subsidising a vulnerable customer tariff.

Consumer advocacy groups and retailers invited AGN to continue engaging with them as part of a vulnerable customer reference group to understand evolving community needs and concerns, and determine an appropriate response.

Customer insights

Environmental commitments and reporting

Customers trust that AGN is meeting its environmental obligations

AGN consulted with Conservation SA and customers about environmental commitments and reporting. Both groups had similar views about the level of transparency and information they expect from AGN in relation to its environmental policy and performance.

As mentioned earlier, customers shared their general views on gas and the environment at the start of the workshops. There were almost equal numbers of positive and negative views but all customers agreed that a commitment to sustainability and transparency in reporting is important. Customers suggested promoting AGN's environmental policy and performance through advertising and the website. Customers would also like to see AGN work with retailers to report their performance on the gas bill to make it easy to find out what they are doing to meet common environmental objectives.

Customers like to think that AGN is being efficient in its operations and distribution to reduce both supply costs and the environmental impact. However, they weren't sure where to go to find out and they assumed (hoped) that AGN is 'doing the right thing' and abiding by government and regulator rules.

Conservation SA wants AGN to increase the level of transparency of environmental data such as: reporting unaccounted for gas (UAFG) in terms of volume not just dollar impact; providing information on how UAFG is measured; and providing environmental observations with respect to AGN's business operations. Conservation SA also recommended making updates to AGN's environmental policy and ensuring that materials published on its website and in broader marketing campaigns are accurately sourced.

There should be more transparency about what you do in this area. Notify customers through the web and bill information.

Metro resident

I don't know much about it. I assume AGN is working with government bodies and environmental groups who are making sure you're doing the right thing.

Regional resident

The environment and greenhouse gas are big topics at the moment. I would have thought it's a good marketing opportunity.

Metro resident

Next steps

Deloitte understands that AGN will take the insights provided in this report and consider them in the development of its Access Arrangement for the SA network due for submission to the AER by 1 July 2015.

AGN recently made a submission to ESCOSA on their *Jurisdictional Service Standards* for the 2016–2021 Access Arrangement period supported by insights from this report.

As shown in figure 1, AGN will share the insights detailed in this report and the subsequent business decisions with the AGN Reference Group to make a judgement about any additional consultation that may be required in the lead up to the Access Arrangement submission.

AGN also intends to release an *Insights and Implementation* paper, outlining its response to the insights in this report by 31 March 2015 to allow for further public consultation prior to the finalisation of its Access Arrangement proposal.

Further details about AGN's stakeholder engagement strategy and engagement program can be found at stakeholders.agnl.com.au.

Appendix A: Online survey responses

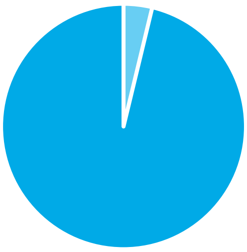
We asked survey respondents questions in three main areas to identify customer segments, and understand customers' experience with AGN and their investment preferences. Their responses to the relevant quantitative questions are shown below:

- **Section A** – customer segments (all respondents)
- **Section B** – customer experience (all respondents)
- **Section C** – potential investments (SA gas customers only).

Sections A and B were presented to all survey respondents to gather general background information and insight about customer demographics and AGN brand and service experience. Some specific demographic and behavioural questions from these sections are not included here as they did not inform or influence the insights.[4]

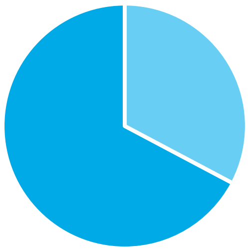
Section C was only presented to SA gas customers (identified in section A) as the potential investments relate to the SA network. Responses to these questions were also weighted by age and income to compensate for differences compared to the SA population.

Section A – Customer segments



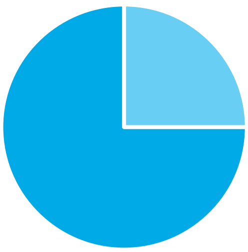
For the purpose of completing this survey, which option best describes you?

- I own or manage a business
- I am a resident



Do you live in South Australia?

- No
- Yes



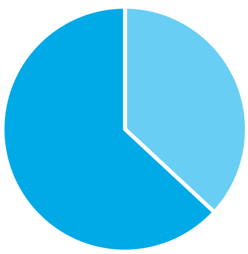
Is your home or business connected to, or in the process of being connected to natural (mains) gas?

- No
- Yes

Section B – Customer experience

Have you heard of AGN (Envestra) or APA prior to completing this survey?

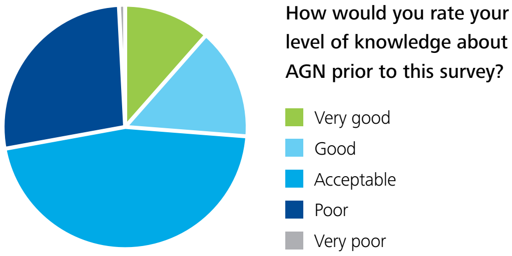
- Yes, both AGN/Envestra and APA
- Yes – APA
- Yes – AGN/Envestra
- No

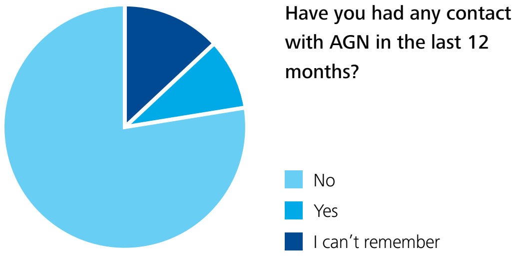


Can you recall the Natural Gas ('make the connection') advertising?

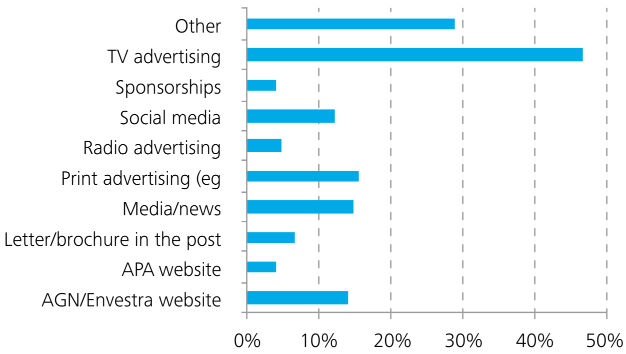
- No
- Yes

4. *Questions not included: age, household income, type of business (business respondents only), previous gas use, reasons for not currently using gas, how gas is used in the home and business (gas customers only), level of reliance on gas (gas customers only).*

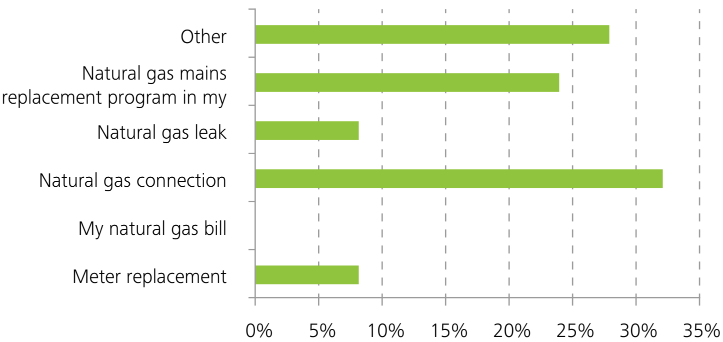




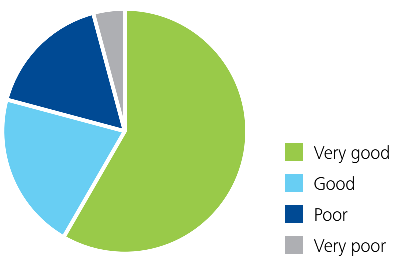
How did you become aware of AGN?



Thinking about your last contact with AGN, what was your question/issue related to?

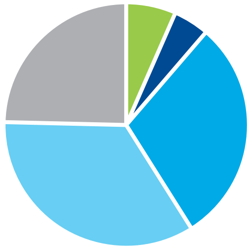


Thinking about your last contact with AGN, how would you rate the customer service you experienced?



Section C – Potential investments

I would be prepared to pay up to $2 per year MORE on my gas bill to retrofit fire shut-off valves to all remaining properties in bushfire areas and to new and replacement meters installed in metropolitan areas

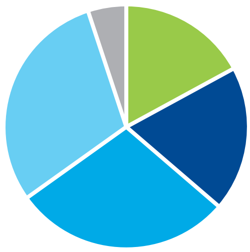


Strongly agree
Agree
Neither agree nor disagree
Disagree
Strongly disagree

I would be prepared to pay up to $6 per year MORE on my gas bill for AGN to safely repair all customer outlet service leaks

Strongly agree
Agree
Neither agree nor disagree
Disagree
Strongly disagree

I would be prepared to pay up to $1.50 per year MORE on my gas bill to increase the average two-hour response rate to 98% of reported gas leaks

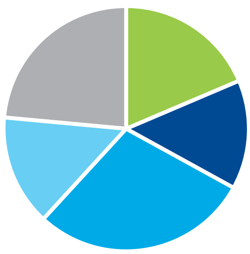


Strongly agree
Agree
Neither agree nor disagree
Disagree
Strongly disagree

I would be prepared to pay up to 50 cents per year LESS on my gas bill to decrease the average two-hour response rate to 90% of reported gas leaks

Strongly agree
Agree
Neither agree nor disagree
Disagree
Strongly disagree

I would be prepared to pay up to 50 cents per year MORE on my gas bill to replace identified instances of above ground poly pipe and old plastic fittings



Strongly agree
Agree
Neither agree nor disagree
Disagree
Strongly disagree

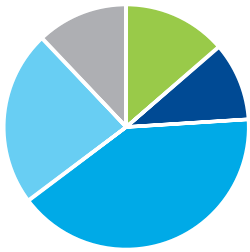
I would be prepared to pay up to 50 cents per year MORE on my gas bill to replace identified instances of above ground poly pipe and old plastic fittings

Strongly agree
Agree
Neither agree nor disagree
Disagree
Strongly disagree

I would be prepared to pay up to 50 cents per year MORE on my gas bill for AGN to relocate customers' gas meters exposed to the risk of damage to maintain safety

Strongly agree
Agree
Neither agree nor disagree
Disagree
Strongly disagree

I would be prepared to pay up to 20 cents per year MORE on my gas bill to rectify sites that present a safety risk

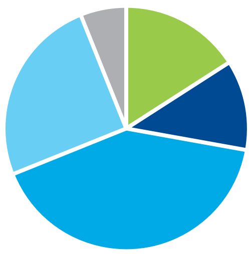


Strongly agree
Agree
Neither agree nor disagree
Disagree
Strongly disagree

I would be prepared to pay up to $3 per year MORE on my gas bill to install remote meter reading devices as part of AGN's meter replacement program

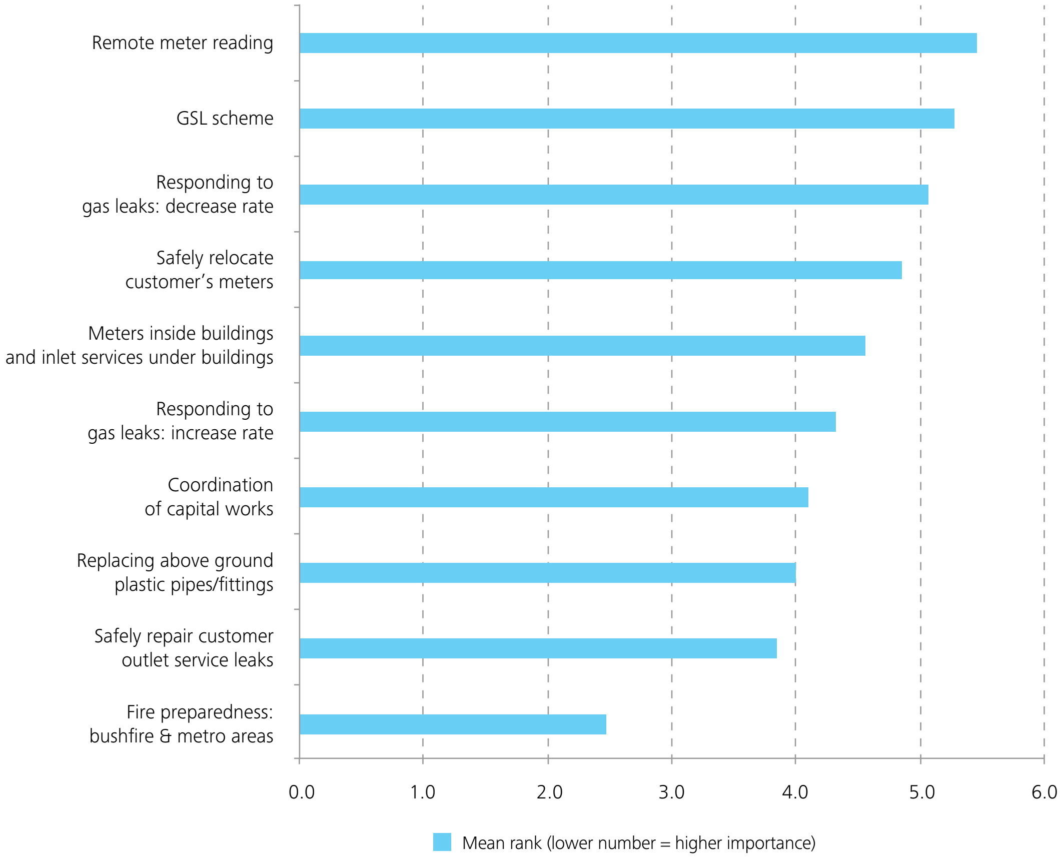
Strongly agree
Agree
Neither agree nor disagree
Disagree
Strongly disagree

I would be prepared to pay up to 50 cents per year MORE on my gas bill for a GSL scheme in South Australia



Strongly agree
Agree
Neither agree nor disagree
Disagree
Strongly disagree

What priority do you place on the potential investments we have described today? Please rank each of the investments in order of importance to you, where 1 is the most important and 10 is the least important.

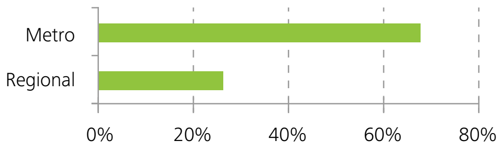


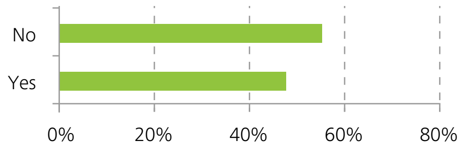
Appendix B: Workshop responses

The responses to these additional qualitative questions asked in the workshops were used to inform the insights.

Customer experience

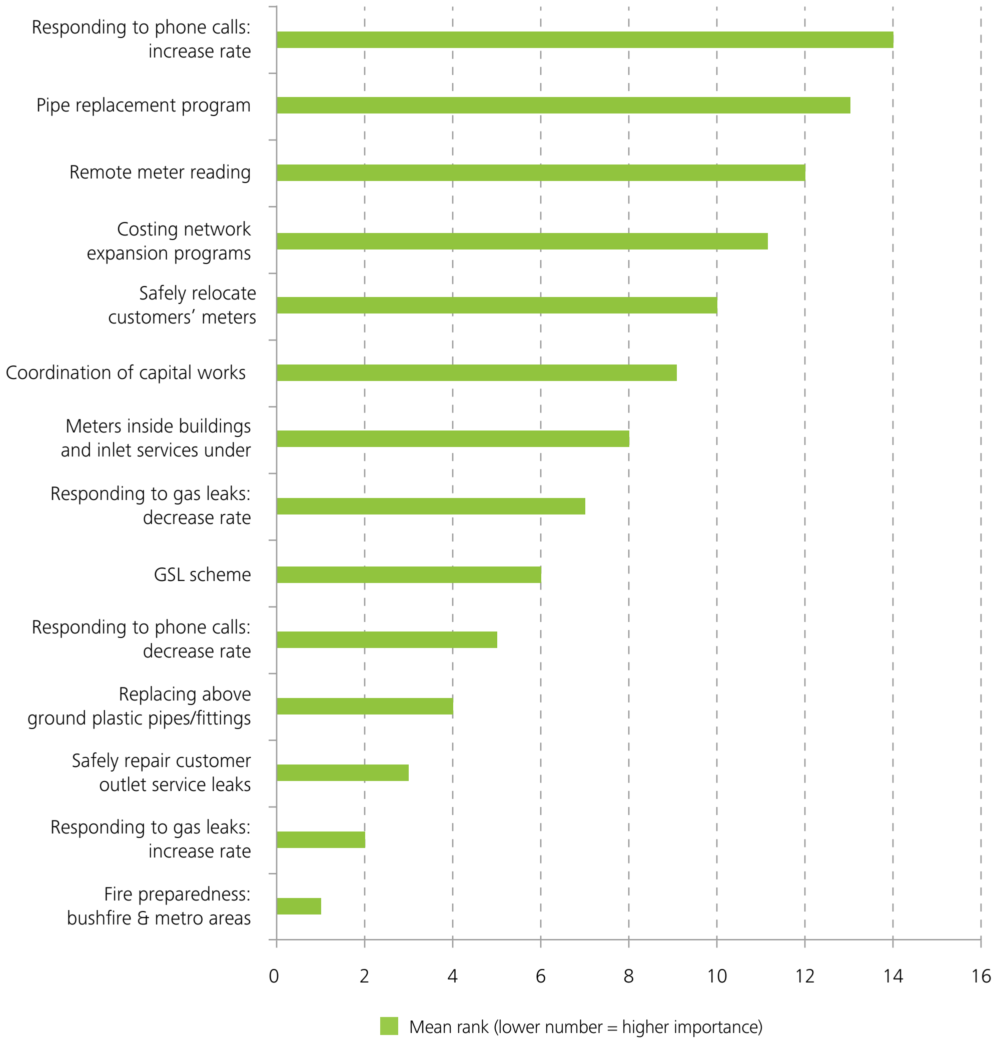
Have you heard of AGN (Envestra) or APA prior to completing this survey?





Potential investment ranking

What priority do you place on the potential investments we have described today? Please rank each of the investments in order of importance to you, where 1 is the most important and 14 is the least important.



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