

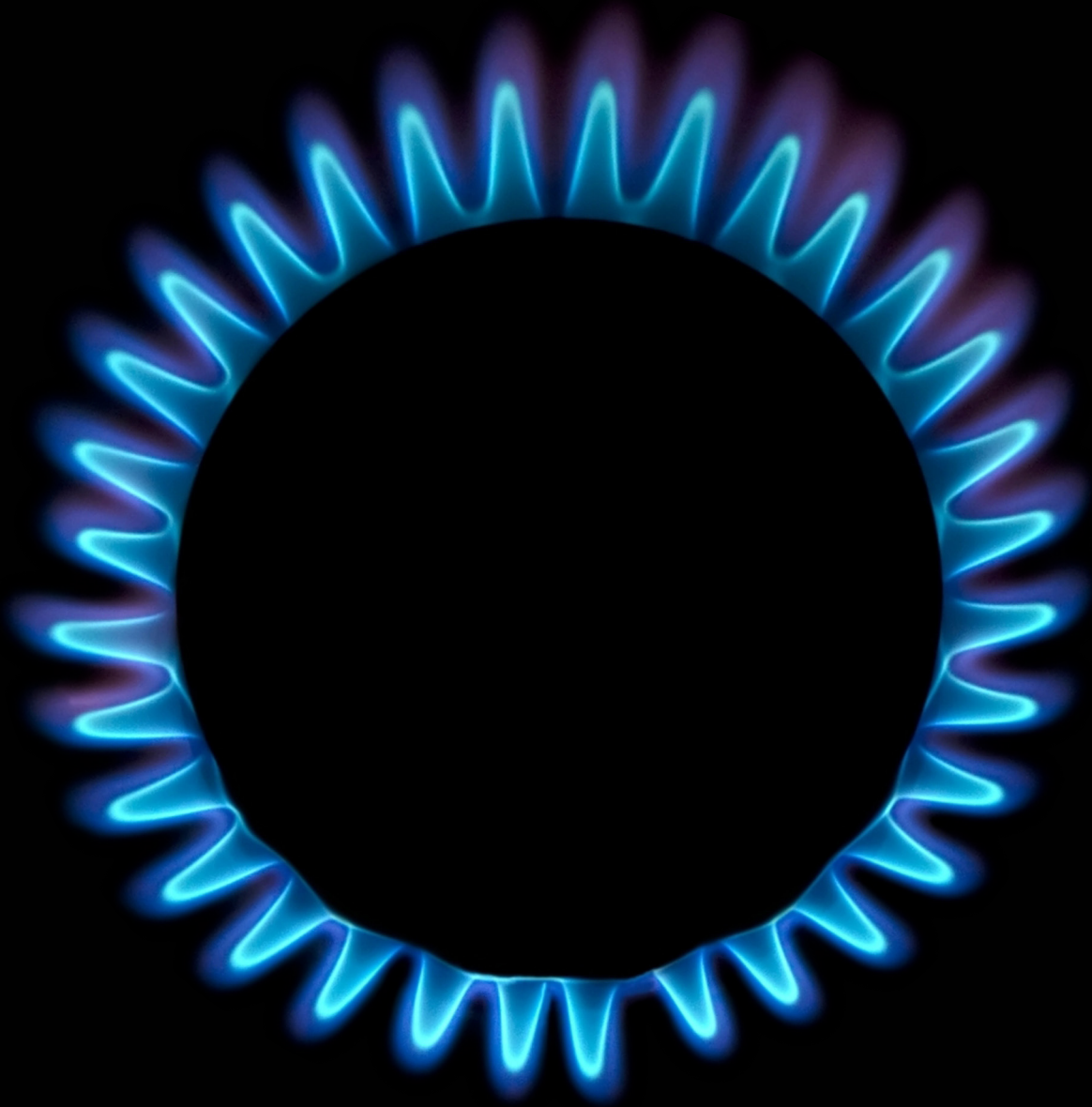
# Final Plan Attachment 5.10

Australian Gas Networks Stakeholder and Customer  
Feedback Report

A Report by Deloitte

December 2016

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**Australian Gas Networks  
Stakeholder and Customer Feedback Report**

Victorian and Albury Stakeholder Engagement Program

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# Background

Australian Gas Networks Limited (AGN) operates natural gas networks in Victoria, South Australia, Queensland and small centres in New South Wales and the Northern Territory.

Across Victoria AGN is one of the three natural gas distributors, and in Albury is the sole distributor, providing gas to approximately 650,000 customers across both networks. The focus of this report is on customers across the Victorian and Albury distribution networks, incorporating:

- Central business district, northern suburbs, outer eastern suburbs and southern suburbs of Melbourne
- Mornington Peninsula
- Rural communities in the northern, eastern and north-eastern regions of Victoria
- South-eastern rural townships in Gippsland
- Albury.

In the Victorian and Albury networks, approximately 30% of the average retail gas price paid by residential customers and 22% of the average retail gas price paid by small business customers is made up of distribution charges from AGN.<sup>1</sup>

## **Regulation and the gas industry**

AGN is a monopoly business in the regions it operates in Victoria and Albury, and as such, is required to submit an Access Arrangement Proposal for 2018-2022 to the Australian Energy Regulator (AER) on or before 3 January 2017.

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 Victorian and Albury gas consumers.

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 consumer engagement (and stakeholders more broadly), including addressing consumers' concerns in their Access Arrangement Proposals. The voice of gas customers and stakeholders is therefore a key input that will help shape AGN's 2018-2022 Access Arrangement Proposal for the Victorian and Albury networks.

AGN has designed a stakeholder engagement program to help understand customer issues and priorities as they plan the Victorian and Albury gas distribution networks of the future. This report is the second report outlining the findings of the stakeholder engagement program, the first report – The Customer Insights Report, can be found here: <https://www.australiangasnetworks.com.au/-/media/files/agn/have-your-say/vic-docs/20160705deloitte-customer-insights-report2016final.pdf?la=en>

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<sup>1</sup> Analysis conducted by Australian Gas Networks

# How AGN engaged

## Research Phase



### Customer workshops

6  
workshops

78  
participants



### Participants

92%  
residents



8%  
businesses



### Location

51%  
metropolitan



49%  
regional

## Implementation Phase



### Stakeholder workshops

Two workshops  
29 industry  
participants



### Workshop 1

Draft Plan:  
Overview, Operating  
Expenditure, Capital  
Expenditure

16  
participants



### Workshop 2

Draft Plan: Return  
on Capital, Inflation,  
Regulatory Asset Base,  
Financeability, Demand,  
Network Revenue  
and Pricing

13  
participants



### Customer workshops

Two customer  
workshops 33  
participants



Recruited from previous participants  
at Shepparton, Wodonga, Preston  
and Richmond workshops



Recruited from previous participants at  
Narre Warren and Traralgon workshops

# Stakeholder Engagement Program Overview

## Scope

AGN's Victorian and Albury Stakeholder Engagement Program commenced in November 2015 and consisted of four phases: Strategy, Research, Implementation and Ongoing Engagement (Figure 1).

This report summarises customer and stakeholder feedback collected in the Implementation Phase.

## Key objectives

AGN sought to address the following objectives:

- Assist AGN's customers and the community understand the natural gas market, including AGN's role and the application of the regulatory regime to AGN's business
- Ensure AGN's business plans and 2018-2022 Access Arrangement is consistent with the long-term interest of customers and stakeholders.

AGN believes that by effectively engaging with customers and stakeholders that it can develop a plan that delivers for its customers and, is capable of being accepted by the AER.

## Strategy Phase

AGN leveraged the approach applied during the South Australian stakeholder engagement program, while incorporating lessons learnt, and developed a Scoping Paper to guide discussions on key stakeholders, potential issues and the methods for engagement.

The Scoping Paper was circulated with internal and external stakeholders and their feedback was incorporated into the Victorian and Albury Stakeholder Engagement Strategy. The Strategy detailed the set of research objectives which were used by AGN and APA Group<sup>2</sup> (APA) to identify components of the investment plans to be discussed with customers and stakeholders.

AGN also established two external reference groups (included in the Appendix) to challenge, guide and review the process of developing and implementing the Stakeholder Engagement Program. These Reference Groups provide AGN with efficient access to a broad cross-section of key community stakeholder groups, the current members are available from <https://www.australiangasnetworks.com.au/our-business/have-your-say/who-we-engage-with>

<sup>2</sup> APA Group operate and maintain AGN assets under a long term operating management agreement.

### Research phase

The Customer Insights Report presented the findings and insights from the Research Phase during which AGN conducted customer workshops (facilitated by Deloitte). AGN considered these insights as it developed a draft of the 2018-2022 Access Arrangement Proposal for the Victorian and Albury networks to submit to the AER on or before 3 January 2017. The report, referred to by AGN as its Draft Plan, can be found here: <https://www.australiangasnetworks.com.au/-/media/files/agn/have-your-say/vic-docs/20160705deloitte-customer-insights-report2016final.pdf?la=en>

### Implementation phase

During the period immediately following the Research Phase (March 2016 – June 2016), AGN synthesised the findings from the Research Phase, through a series of workshops and internal planning discussions, to understand how the customer insights would help shape its 2018-2022 Access Arrangement Proposal.

In July 2016 AGN published its Draft Plan, which was a new initiative, as part of its stakeholder engagement program. The Draft Plan set out AGN's plans for the Victorian and Albury natural gas distribution networks for the five year period commencing 1 January 2018, including, but not limited to, an overview of stakeholder feedback, forecasts of key activities, expenditure and estimates of prices. The intention of publishing the Draft Plan was to provide customers and stakeholders with the necessary information to provide meaningful feedback on AGN's business plans, including an understanding of the overall price outcomes, well in advance of its Access Arrangement Proposal to the AER.

AGN's stakeholder engagement program provided stakeholders with multiple opportunities to engage, be it through workshops and formal submissions. Customers were given the opportunity to engage on the content of the Draft Plan through two dedicated workshops. During this engagement with both stakeholders and customers, AGN was able to understand whether their plans were well understood, and met the needs of stakeholders and customers. This process allowed AGN to refine its plans, in time that it could submit a plan it believed was capable of being accepted by the AER.

This report summarises feedback from the Implementation Phase of the Victorian and Albury Stakeholder Engagement Program. It contains feedback from Reference Groups and key stakeholders, as well as customers obtained during workshops that were conducted to discuss in detail the contents of the Draft Plan.

### Ongoing engagement

As evidenced by the engagement during the Implementation Phase, including the publication of a Draft Plan six months prior to the final plan being required by the AER, AGN plans to continually engage with stakeholders in the Victoria and Albury natural gas distribution networks to understand evolving customer and stakeholder needs and issues. Importantly, AGN will continue to use outputs from these programs in the development of future region-specific stakeholder engagement programs.

### Our 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.

Specifically, Deloitte was responsible for:

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



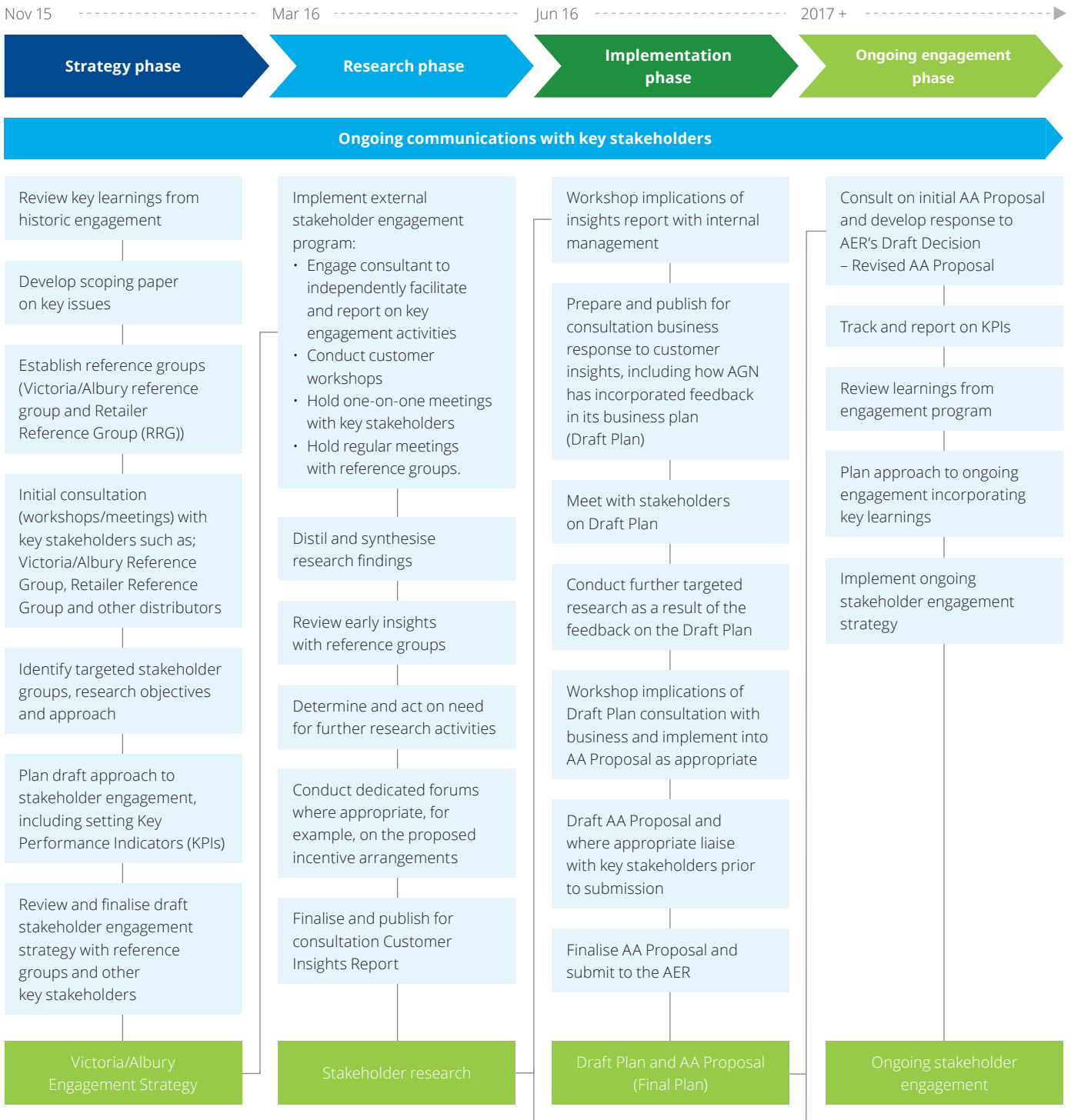


Figure 1: AGN's Victorian and Albury Stakeholder Engagement Program

# Methodology and themes

## Timeline:

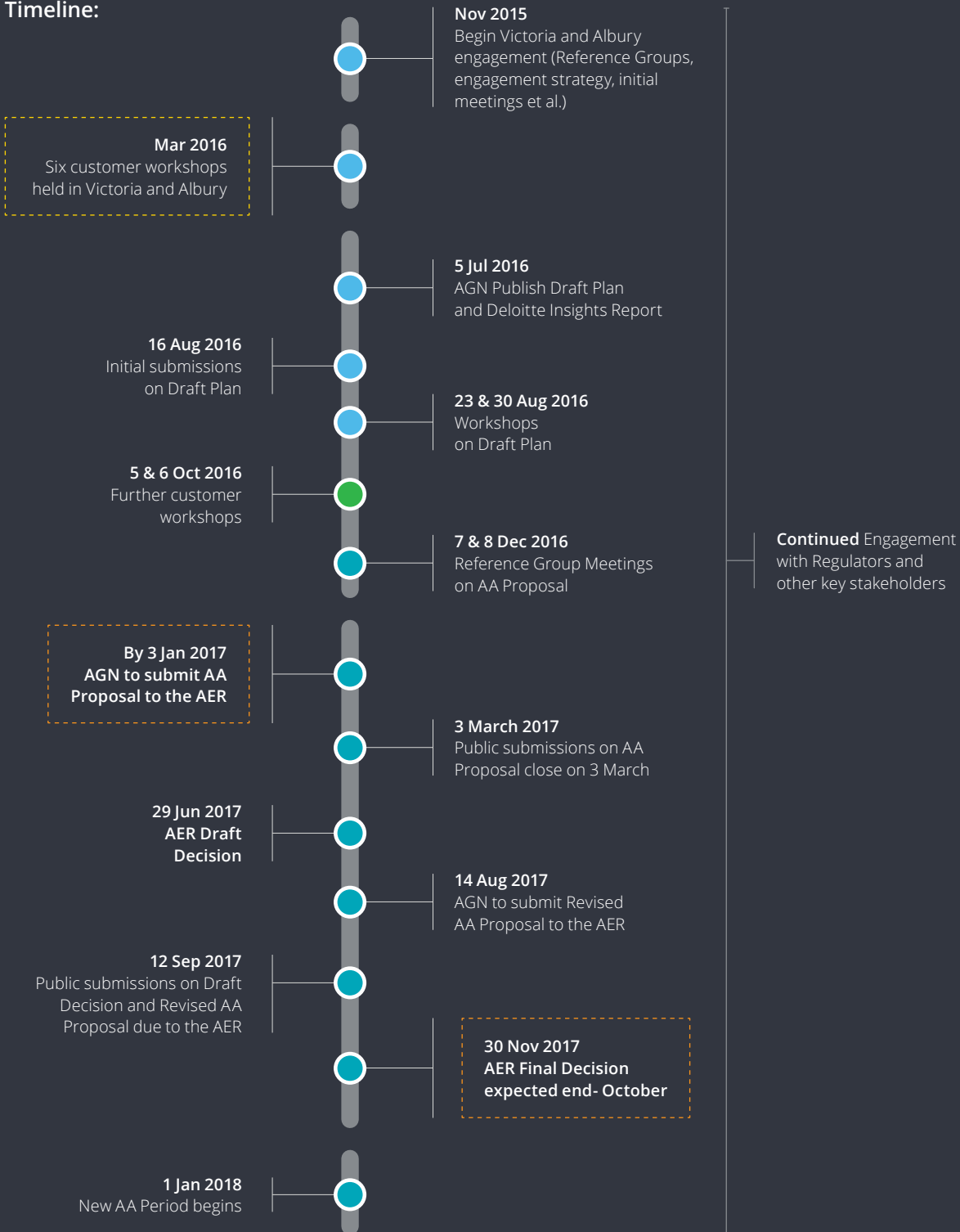


Figure 2: Timeline of Stakeholder Engagement Program and current phase covered by this report

**Research themes**

During the Research Phase, to ensure customer feedback was collected in a structured and consistent format, four research themes were used to inform the structure of the Stakeholder Engagement Program. These themes were aligned to AGN's strategic objectives.

Research theme	Description
Customer experience	Customer service and communication channels
Network safety and reliability	Asset programs to maintain gas supply reliability and improve public safety
Tariff structure	Gas price tariff structure
Environmental commitment and reporting	Customers' expectations on the environment

**Table 1:** Research themes for Victorian and Albury workshops

**Research methods and design**

During the Implementation Phase, AGN wanted to test its Draft Plan with stakeholders and customers to ensure that these plans delivered for customers.

Stakeholder workshops were conducted first, providing stakeholders the opportunity to consider the Draft Plan. Feedback from these workshops was incorporated by AGN, prior to the customer workshops.

The customers that attended workshops in October where therefore presented with AGN's Plans that were inclusive of feedback received from Stakeholders. The iterative nature of the plan was explained to stakeholders and customers, not only was their feedback being incorporated, but the plan was also based on the best information available to AGN at the time, and therefore subject to further change before submission to the AER. Customers valued AGN's transparency in this process.

AGN was conscious of engaging effectively with customers, and in particular wanted to engage on the 'detail' that sits within their plans. To do this effectively participants were recruited from the sample of customers that attended the Research Phase workshops in March. This meant that participants entered the discussion already with an understanding of AGN's role within the natural gas supply chain and its key proposed initiatives.

**Publication of Draft Plan**

On 5 July 2016 AGN released its Draft Plan for consultation, by publishing it on the website, issuing a briefing to members of its Reference Group and key stakeholders and a media statement. Stakeholders and customers were encouraged to review the content of the Draft Plan and provide any written submissions to AGN by the 16 August 2016. During this process AGN received 3 submissions from stakeholder groups, with the feedback received being consistent with that captured during the Stakeholder Workshops outlined below.

**Stakeholder workshops**

AGN's Reference group had suggested that they wanted an opportunity to provide AGN with feedback beyond the formal process of written submissions, either to AGN, or to the AER. AGN worked with the Reference Group to agree topics for consultation, and invited key stakeholders to attend two stakeholder workshops.

These stakeholder workshops were conducted with AGN's Reference Groups and representatives from key stakeholder groups. The objective was to have an open and transparent conversation on AGN's Draft Plan, including their relevant financial implications. The first workshop presented an overview of the approaches and forecasts for relevant operating and capital expenditure. The second workshop addressed return on capital, inflation, financeability, demand as well as network revenue and pricing.

Senior executives from AGN (including the CEO), and APA, were present at the workshop, and were able to discuss in detail the approach AGN was taking to the development of its Access Arrangement Proposal. This provided stakeholders with the opportunity to share feedback and discuss in real time with key decision makers.

**Customer workshops**

Two customer workshops were conducted in Preston and Warragul during October 2016. The objective was to gain feedback on AGN's plans, the key insights collected in the Research Phase, and importantly, to gain feedback on how effectively AGN has incorporated these insights into its plans.

During the workshop Deloitte summarised the nine key insights that were collected in the Research Phase, AGN then shared how the insights were used to inform their Draft Plan. After each insight was explained and addressed, customers were encouraged to offer their thoughts regarding the interpretation and incorporation of the insight. These group discussions were facilitated by Deloitte, providing collaborative insights as workshop participants challenged each other and the AGN subject matter experts on their Draft Plan.

Consistent with the Stakeholder workshops, senior executives from AGN (including the CEO) and APA, were present to discuss the plan in details with customers, and gain feedback on the direction of the Access Arrangement Proposal.

## Sampling

### Stakeholder workshops

The two stakeholder workshops were conducted with representatives from the following stakeholders:

#### Workshop 1

- Australian Energy Market Commission (AEMC)
- AGL Energy
- Ai Group
- Energy Australia
- Energy Consumers Association (ECA)
- Energy Networks Association (ENA)
- Energy & Water Ombudsman Victoria (EWOV)
- Council of Small Business Australia (COSBOA)
- Lumo Energy
- NORTH Link
- Origin Energy
- Public Interest Advocacy Centre (PIAC)
- St Vincent de Paul.

#### Workshop 2

- Australian Energy Market Commission (AEMC)
- AGL Energy
- Ai Group

- Consumer Utilities Action Centre (CUAC)
- Council of Small Business Australia (COSBOA)
- Energy Australia
- Energy Networks Association (ENA)
- Lumo Energy
- Origin Energy
- Public Interest Advocacy Centre (PIAC)

### Customer workshops

Two workshops were held in Preston and Warragul. The Preston workshop consisted of 17 participants from Shepparton, Wodonga, Preston and Richmond. The Warragul workshop consisted of 16 participants from Narre Warren and Traralgon. These participants had previously participated in the Research Phase customer workshops, during which stage a range of demographics were sampled. Participants were incentivised to participate, and where appropriate supported with travel arrangements, to allow them the opportunity to further participate in the shaping of AGN's business plans.

The findings of this report are based on the feedback received at the workshops from residents located in Victoria and Albury.

# Stakeholder Insights on Draft Plan

As outlined earlier, AGN conducted two stakeholder workshops. The first workshop focused on Operating Expenditure and Capital Expenditure; whilst the second workshop was focused on Return on Capital and Inflation, Regulated Asset Base and Financeability and Demand and Network Pricing.

To ensure the accuracy of the feedback gathered from the workshops, AGN distributed a summary of notes to participants, including key findings, for confirmation of their accuracy (included in the Appendix).

Stakeholders were supportive of AGN's approach to stakeholder engagement, in particular commenting on the early timing of the engagement and the level of detail that AGN was sharing. This was consistent with the stakeholder feedback received by submissions on AGN's Draft Plan.

Stakeholders advised AGN to further strengthen their move towards customer centricity by conducting regular engagement beyond the period leading into the development of the Access Arrangement Proposal. This feedback is consistent with feedback received from both the Reference Group and customers.

Specific details regarding the approach and feedback received are outlined below.

## Stakeholder workshop 1

### Operating expenditure

#### AGN's Draft Plan

AGN explained they were using the AER's previously approved approach wherever possible. This included using the second to last year of the current AA period as a base. Following that, step changes were identified. AGN identified \$8 million in additional costs, but indicated that this work could be delivered within the existing base Operating Expenses (opex), the approach previously approved by the AER. The only non-base year cost included in the Draft Plan was a proposed joint marketing program with the other two gas distributors in metropolitan Melbourne.

AGN outlined that their approach to output growth reflected growth in customer numbers only and did not incorporate growth in throughput, given the largely fixed cost nature of natural gas supply. AGN also noted independent support for this view, given the difficulty in establishing a statistical relationship between historic opex and throughput.

AGN also explained the analysis undertaken to develop a productivity growth forecast for the next AA period and why they had chosen not to apply it to forecast opex.

### Stakeholder feedback

Stakeholders commented that, AGN's operating expenditure proposal appeared reasonable given that they had utilised a similar approach to what had been used in South Australia. Stakeholders held the view that based on the benchmarking information, AGN's base year operating expenditure was efficient and appropriate.

It was questioned whether, given AGN's strong productivity performance, a further strengthening of the incentive framework as proposed by AGN was appropriate. Stakeholders agreed, however, that there is no assurance that AGN is currently operating at the efficient frontier and that there is currently an imbalance between the incentives provided to operating expenditure and capital expenditure.

Stakeholders welcomed AGN's decision to not seek additional funding for identified changes in costs. Stakeholders, however, wanted assurance that doing so wouldn't jeopardise current service levels or result in higher capital expenditure in future periods. Stakeholders also discussed AGN's position of not challenging for these funds, in particular due to AGN's strategy of adopting the AER's preferred approach. Stakeholders welcomed this approach, noting it was pragmatic even if not necessarily in the best interests of AGN.

Stakeholders were supportive of AGN creating a similar marketing program to that in South Australia, but this was dependent on AGN demonstrating that the benefits from doing so exceeded the costs. Stakeholders did identify the benefits of natural gas, including employment benefits and the broader environmental benefits. Stakeholders agreed that these benefits should be factored into the importance of and the messaging in the proposed marketing program. Stakeholders also emphasized the importance of collaborating with the other Victorian networks in delivering an efficient marketing program.

Stakeholders agreed that operating expenditure closely aligned with customer numbers and not throughput, noting the largely fixed cost nature of natural gas supply. AGN's approach to output growth was therefore considered reasonable.

With regard to AGN's approach to productivity growth, stakeholders acknowledged the decision by AGN not to apply the negative productivity adjustment and noted that AGN were not seeking additional funding for certain other identified changes in operating expenditure.

### Capital expenditure

#### AGN's Draft Plan

AGN proposed capital expenditure over the next AA period that is below both the current levels and the current period benchmarks. AGN used a bottom-up forecasting methodology consisting of four drivers: Growth Capital Expenditure, Information Technology (IT), Mains Replacement and Augmentation. Each driver was discussed in detail with stakeholders.

#### Stakeholder feedback

As per the feedback received on operating expenditure, stakeholders agreed with the AGN approach of adopting positions from the South Australian review process.

Stakeholders were supportive of AGN completing its mains replacement program and agreed that detailed engagement with Energy Safe Victoria was necessary and the right approach. It was noted however that AGN should seek to coordinate works with other utility companies where possible. This feedback is consistent with feedback received from customers.

Stakeholders were supportive of the proposed IT capital expenditure, noting that they understood that AGN had been conservative with respect to IT in recent years. It was also noted that the program had been approved in South Australia, and therefore consolidation with the Victorian and Albury plans was logical.

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“Demand and usage are changing. We have seen the high, and we have seen mature markets with split systems, but we can no longer rely on people wanting gas in their homes and businesses. I absolutely support the need for marketing.”

#### Stakeholder

“There are many messages out there about solar, and there is a level of distrust to be overcome in the energy industry.”

#### Stakeholder

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When discussing the meter replacement program, stakeholders were interested in 'smart' metering although they understood benefits may not outweigh the costs of using this technology, particularly in the short term.

As outlined earlier, Stakeholders were supportive of the proposed marketing program from an opex perspective. With respect to capital expenditure, they were interested to understand the impact that a successful marketing program has on future growth, and any resulting capital expenditure.

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You still have to put and maintain the pipes in the ground, whether I use higher or lower efficiency appliances."

**Stakeholder**

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## Stakeholder workshop 2

### Return on capital & inflation

#### AGN's Draft Plans

AGN outlined that return on capital is its single largest cost and that it is adopting AER's guidelines (pending the outcome of merit and judicial review activity) in determining the cost of debt, equity and gamma which is in line with its South Australian decision.

To facilitate a meaningful discussion, AGN was transparent about sharing its plans in detail, using the most up to date information available to it (noting that the rate of return is subject to change pending the outcome of legal and merit review that is currently in progress).

As such, AGN outlined that the proposed and actual rate of return would change depending on movements in market based parameters and the choice of averaging period. Stakeholders were appreciative of the opportunity to consult at this level of detail.

#### Stakeholder feedback

Similar to the first Stakeholder Workshop, stakeholders were interested in understanding AGN's approach, in particular its alignment to AER guidelines. Stakeholders were supportive of AGN's preferred approach of seeking to resolve any issues with the AER early in the process, as opposed to entering an appeals process as other network businesses have in recent times.

Stakeholders were supportive of AGN's approach to setting the rate of return, in particular the application of the AER's guidelines, which therefore made the issue a non-contentious one from a stakeholder perspective.

Stakeholders were interested in the different approaches for determining the cost of debt and the mechanics of transitioning to a 10-year trailing average cost of debt. There was discussion about the current merit and judicial review processes, and the contention associated with the debt transition approach.

There was discussion among stakeholders regarding the role of inflation in determining regulatory revenue. Stakeholders considered both the Reserve Bank of Australia (RBA) approach and the market-based approach, concluding the market-based approach more closely aligned with the information used to set the rate of return. Stakeholders wanted to ensure that inflation risk would not be borne by consumers under a market-based approach.

Stakeholders noted the material difference between the various approaches to setting inflation, including applying actual measured inflation. It was agreed that this material issue needed to be resolved through the review process, including by addressing the concerns the AER has with the market-based approach.

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It's (AGN's Approach to Return on Capital) very easy to support, the AER has a guideline and you are applying it."

**Stakeholder**

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## Regulatory asset base & financeability

### AGN's Draft Plans

AGN outlined its Regulatory Asset base (RAB) and how it is calculated by accounting for new capital expenditure, depreciation of existing assets and inflation on a year by year basis.

AGN also explained its use of a financeability assessment to ensure sufficient cash flow to maintain the credit rating assumed by the AER in setting the cost of debt.

### Stakeholder feedback

Stakeholders considered the adjustment of the RAB to be a largely mechanical matter that was prescribed by the National Gas Rules. There was some concern raised over inflated RAB values that some businesses, however stakeholders did not consider that it was an issue applicable to AGN.

Stakeholders supported the approach taken by AGN to determine regulatory depreciation. In particular, stakeholders supported aligning the economic and technical life of the low pressure assets scheduled for replacement at the end of the next period. It was noted that the alignment of economic and technical lives of the low pressure assets could occur while still delivering a price cut to customers.

Stakeholders believed that a consideration of financeability during the regulatory review process to be reasonable, with adjustments only provided where a business was clearly below the required credit metrics over the regulatory period.

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“If we all endorsed this approach, what is the likelihood of the AER actually adopting this sort of approach?”

### Stakeholder

“It would seem unreasonable for the AER to make an assessment of efficiency without considering it.”

### Stakeholder

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## Demand and Network Pricing

### AGN's Draft Plans

AGN emphasised that demand forecasts are a key input into multiple parts of its plan as it has developed separate forecasts for each customer class (Residential, Commercial and Industrial). AGN explained the key assumptions behind each forecast, informing stakeholders that residential demand is forecast to be flat, commercial demand is set to rise and industrial demand is set to decline.

In regard to pricing, AGN outlined their plans to cut distribution prices by 11% followed by 3% increases thereafter. They outlined their four pricing zones and the option to align prices across the largest zones. AGN also explained the fixed and variable components of their tariffs.

### Stakeholder feedback

There was general stakeholder support for the approach taken to demand forecasting given that it was the same approach used in South Australia. However, stakeholders questioned if prior demand was an indicator of future demand.

It was discussed whether, instead of relying on past trends, the demand forecast should be broken down into its component drivers and forecast based on expectations of changes in these drivers over the next period. Examples provided included forecast changes in consumer preferences/behaviour, appliance efficiency, price and policy more generally.

While supportive of AGN's proposed price path, some stakeholders questioned whether AGN could consider alternate price path options to satisfy the stated objectives of financeability, and the supporting of credit metrics and ensuring prices equals underlying costs at the end of the next period.

The price path presented by AGN also highlighted that customers in the Northern region were not going to receive a price decrease, like all other customers, reflecting a proposal to rebalance prices in the first year of the next regulatory period. Stakeholders questioned whether that was a fair outcome, and challenged AGN to consider an alternative price model that enabled all customers to share in the aggregate price reduction. Stakeholders questioned certain aspects of the reasoning provided by AGN for aligning its tariffs, including the unsupported reduction in transaction costs.

Stakeholders discussed whether, despite the preferences stated by customers at AGN's earlier workshops, a greater proportion of cost recovery should come from fixed charges. It was questioned whether capacity based charges were more appropriate than the current declining block tariffs structure.



# Customer Insights

The customer insights developed during the Research Phase of the Stakeholder Engagement Program are shown below.

Research theme	Insight	Description
Overarching insights	1	Customers are not aware of Australian Gas Networks
	2	Customers do not understand the structure of the gas industry
	3	Customers traditionally considered gas a cost-effective alternative to electricity but are concerned with recent price increases
Customer experience	4	Customers would like AGN to be more visible, believing it would improve their experience as customers
	5	Customers would like to access more information from AGN and favour digital channels
Network safety and reliability	6	Customers view gas as a reliable source of energy and value the current standard of reliability
	7	Customers are supportive of initiatives that maintain the reliability and improve the safety of the networks
Tariff structure	8	Customers value the control gained by having their gas bill dependent on usage levels
Environmental commitment and reporting	9	Customers would like AGN to play a leadership role in minimising environmental impact

**Table 2:** Customer insights obtained in the Research Phase

# Feedback on customer insights and AGN's plans

The structure of the Implementation Phase customer workshops followed the four research themes used during the Research Phase workshops. For each theme, Deloitte presented the relevant insights from the Research Phase followed by AGN sharing their planned response including the relevant price impact. Customers were then encouraged to provide feedback on both the interpretation of the insight as well as the incorporation of the insight into AGN's plans.

Given the iterative nature of the Stakeholder Engagement Program, the plans that AGN outlined to customers were inclusive of feedback received during the Stakeholder workshops. For example the initial Draft Plan outlined AGN's proposal to align prices across the three largest pricing zones in Victoria. This approach resulted in one Victorian zone having a slight price increase, whilst all other zones received a price decrease. Feedback from Stakeholders resulted in AGN adjusting its plans so that all customers received the same price decrease, and this change was incorporated before consulting with customers.

Prior to engaging on the customer insights from the Research phase, and how AGN have incorporated them into their plans, AGN's CEO Ben Wilson spent time outlining AGN's longer term plans, and the priorities for the upcoming Access Arrangement. This gave customers the opportunity to engage on how the gas network would fit into the energy mix in Australia for the next 10 years.

## Overarching insights

1. Customers are not aware of Australian Gas Networks
2. Customers do not understand the structure of the gas industry.

### Insight Summary

Findings from the Research Phase showed that the vast majority of participants are not aware of the name or purpose of AGN. Most participants (91%) had not heard of AGN prior to being involved in the stakeholder engagement program as only two of the 78 attendees could accurately articulate the role of AGN's gas distribution business in the natural gas supply chain when asked.

Not only are customers unaware of AGN as an organisation, they do not understand the breakdown of the gas industry and the regulatory model under which AGN operates. For the most part customers were unaware of the divisions in the supply chain across production, transmission, distribution and retail. They did not know that separate businesses owned and operated different elements of the supply chain, such as AGN's role as the owner of the distribution network.

**AGN's Draft Plans**

Integrating these insights into their plans, AGN presented to participants their plans to increase awareness and visibility of AGN through more customer and stakeholder engagement, marketing activities and a better digital presence.

Most notably, AGN outlined the addition of an initiative to conduct marketing activities in metropolitan Melbourne collaboratively with the two other gas distributors in Victoria. This would include using mass media as well as working with appliance retailers to offer incentives to customers for connecting new gas appliances. AGN highlighted that by using marketing to attract more customers to use gas, fixed costs will be spread across more customers, therefore, lowering prices.

**Customer feedback**

Customers agreed with the interpretation and integration of these insights. Some participants remained confused about the structure of the gas industry, referring to improvements that were more relevant to a retailer's role in the industry.

Some confusion existed around the strategy of a marketing campaign to increase the customer base and decrease costs in the long term given there are other distributors in the Melbourne metropolitan area. However, after discussion and explanation from AGN regarding the collaborative nature of the initiative, 94% of participants supported an annual additional expense of \$3 to put towards marketing.

Do you support paying up to \$3 per year more on your bill in the short term to expand our marketing program on the basis that the 'average' costs will fall in the medium term?

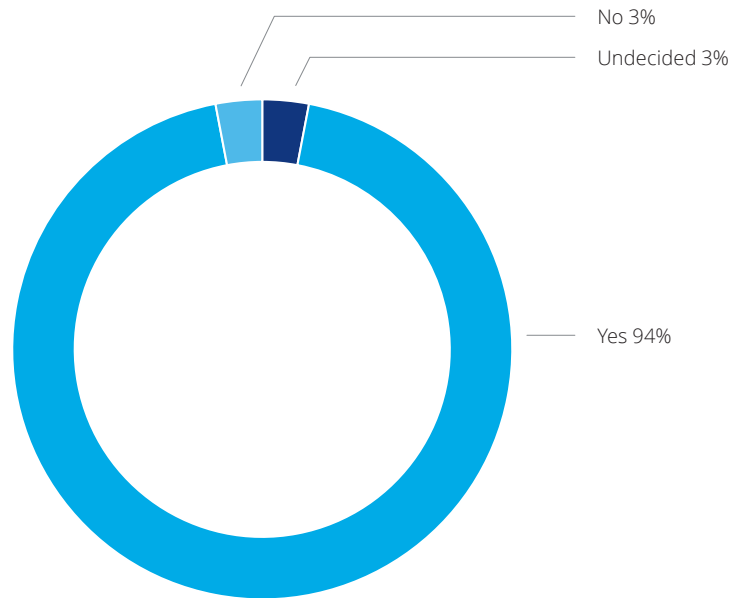


Figure 3: Proportion of participants who support AGN's marketing program expansion

“How do we know to contact AGN? Most people would never think to contact you guys, they would contact the retailer.”

**Regional Resident**



Australian Gas Networks CEO Ben Wilson, Customer Workshop, Warragul 6 October 2016

“If you’re a renter, you are at a disadvantage. Your target is owners.”

**Metropolitan Resident**

**3. Customers traditionally considered gas a cost-effective alternative to electricity but are concerned with recent price increases.**

**Insight summary**

In the Research Phase workshops, cost of gas was a recurring theme. In general, customers perceive that gas has traditionally been a cheaper alternative to electricity and the general consensus across the workshops was that that is still the case.

However, in all workshops a prevalent theme was that customers consider the cost-effectiveness of using gas has been eroded in recent years, as price rises have eaten into its price advantage over electricity. Customers were still generally accepting of their current price but also held a sense of uncertainty over the recent upwards trend and where that might take the cost of their bill into the future.

**AGN’s Draft Plans**

AGN outlined that it has proposed a 12% decrease in distribution charges on 1 January 2018 whilst maintaining their current levels of safety and reliability. This was consistent with the price cut proposed in initial customer workshops.

**Customer feedback**

Customers agreed with the interpretation and integration of this insight. They also expressed understanding as to where their concern regarding price increases may have originated and the role that interest rates can play in determining prices.

“So next year the regulator might sign off on that interest rate, then what happens if the interest rates double after that?”

**Regional Resident**

“Growing up, we always had gas heating and I never knew how expensive electricity was. I was so shocked.”

**Regional Resident**

“I built my own home and I went straight for gas heating, because I knew it was going to be cheaper.”

**Metropolitan Resident**

## Customer experience

4. **Customers would like AGN to be more visible, believing it would improve their experience as customers**
5. **Customers would like to access more information from AGN and favour digital channels.**

### Insight Summary

In the Research Phase, participants appreciated gaining an understanding of AGN's role in gas distribution and believe that this is information that should be available to all customers.

Participants believed this could be achieved by increasing visibility of AGN and its role. The consensus across the workshops was that if customers could be equipped with some background knowledge, they would then know where to look for more information if they required or desired.

Similarly, customers indicated that they would like to use multiple communication methods to interact with AGN. They generally prefer 'real-time' digital channels for greater immediacy and convenience but still favour more traditional communication methods for planned interruptions to their gas supply.

### AGN's Draft Plan

AGN plan to increase awareness through continued stakeholder and customer engagement, marketing initiatives and an improved digital presence. In particular, AGN is proposing to complete a project to improve their digital capabilities in order to deliver enhanced customer service. To date, this project has entailed consolidating five separate websites and over the five years AGN will build on website functionality by developing a customer self-serve portal and 'live chat' capability, for example.

Improved IT systems are also required to support the delivery of gas to customers. 'Stay in Business' projects will maintain current IT service levels as well as mitigate any risks associated with AGN's core business systems through system upgrades and renewals. These initiatives include an Applications Renewal, an Infrastructure Renewal and a Geographic Information System upgrade. 'Service Delivery' initiatives will enable AGN to effectively deliver its services to customers and ensure compliance with regulatory obligations. This includes Business Intelligence and Mobile Integration.

### Customer feedback

Customers agreed that AGN was on the right track towards increasing awareness and visibility, especially through the use of workshops. Some discussion centred on how they would improve their digital offering given the limited functionality of the current website. A few customers were concerned that AGN were planning to favour digital channels over traditional forms of communication to which they objected. Customers agreed that a mix of communication methods was most appropriate as customers have different preferences.

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"I just typed in AGN, (the website) didn't come up."

#### Regional Resident

"We've still got a lot of older people that cannot use smart phones or technology."

#### Regional Resident

"The process you have gone through is great PR for your company because by wanting to engage your customers you have raised your profile with 78 people. Each of us might talk to five of our friends or family members and all of these workshops could spread that word."

#### Metropolitan Resident

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## Network safety and reliability

### 6. Customers view gas as a reliable source of energy and value the current standard of reliability.

#### Insight summary

In the Research Phase, all 78 workshop attendees stated they were satisfied with the current level of reliability of their gas supply, with very few customers (6%) recalling a gas outage to affect them in the past two years. The general consensus across all customer groups was that gas is a more reliable service than electricity.

Given the very high level of gas supply service, it is understandable that no participants supported investment to deliver a level of reliability beyond what they currently experienced. However they do value the level of reliability that they currently receive, with only one respondent prepared to receive a reduced level of reliability in return for a saving on their gas bill. These responses give a strong indication that customers would like AGN to maintain the current level of reliability into the future.

#### AGN Plan

Given this insight, AGN's plan provides for the current levels of reliability to be maintained through specific work outlined in the next insight.

#### Customer feedback

Customers agreed with the interpretation and integration of this insight. They re-emphasised the reliability of gas and how much they valued this given the recent power outage in South Australia which resulted in thousands losing their electricity. They also understood that price decreases did not come about as result of lowering reliability standards.

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“Generally happy with reliability.”

#### Regional Resident

“I can go without gas for a day, if it's not going to happen for another 40 years.”

#### Metropolitan Resident

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### 7. Customers are supportive of initiatives that maintain the reliability and improve the safety of the network.

#### Insight summary

It was outlined to customers that the majority of AGN's expenditure program is centred on either maintaining the level of reliability or maintaining and improving network safety. Therefore, a significant component of the workshops in the Research Phase focused on discussing key safety and reliability initiatives that AGN is planning on including in its upcoming Access Arrangement Proposal.

Six projects were discussed in detail and customers were asked to vote on whether they would pay for the work. Customers indicated support for all proposed initiatives at \$17 per annum. The difference between Operating and Capital Expenditure was also outlined to customers, in particular highlighting that Capital Expenditure will be paid for over the life of the asset.

The projects discussed during the research phase were:

Initiatives	Risks	Options	Cost
1. Complete remaining 300kms (approx.) of the mains replacement program	Safety and reliability	Option A: Complete program	\$6.00 per annum
		Do nothing	–
2. Dandenong transmission pipeline duplication to provide supply to region once capacity reached in 2019	Reliability	Option A: Construct new transmission pipeline	\$1.00 per annum
		Do nothing	–
3. Suite of numerous smaller projects to support reliability (Mornington Peninsula peak, Echuca, Heidelberg/Ivanhoe, Cranbourne growth, Traralgon Trunk Main)	Reliability	Option A: Undertake works to upgrade assets	\$3.00 per annum
		Do nothing	–
4. Ensuring public awareness of AGN's assets to prevent damage when someone is unwittingly working in proximity	Safety and reliability	Option A: Update Dial Before You Dig form	\$0.10 per annum
		Option B: Target marketing (trade magazines) and Option A	\$0.50 per annum
		Option C: TV/radio campaign, Option A and Option B	\$3.00 per annum
		Do nothing	–
5. Gaining access to meters when they are otherwise inaccessible on a property	Safety and reliability	Option A: Take action to access meter by increased communication and/or relocating meter	\$0.50 per annum
		Do nothing	–
6. Fit thermal safety devices to gas meters to improve fire preparedness	Safety	Option A: Fit devices in bushfire areas only	\$0.50 per annum
		Option B: Fit devices to all new and replacement meters	\$3.60 per annum
		Do nothing	–

### AGN's Draft Plan

AGN plans to deliver the aforementioned six initiatives at a cost per annum of approximately \$7. This proposed cost is significantly less than the \$17 per annum cost which customers had previously indicated they were supportive of AGN undertaking.

### Customer feedback

Customers agreed with both the interpretation and incorporation of this insight. Many expressed that they were pleased that the price was \$10 below what was proposed in the Research Phase.

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"I think you have done well in coming in ten dollars cheaper than what you had discussed."

### Regional Resident

"We were willing to pay the original amount in the first place so we are all happy to save ten dollars."

### Regional Resident

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### Customers are supportive of initiatives to significantly improve public safety around gas assets

#### Insight summaries

AGN explained to customers that their assets are sometimes subject to damage resulting from third party contact. This typically occurs when people unwittingly strike the gas pipes whilst digging and working in close proximity to their location.

After hearing of the safety risks and typical disruption to supply and costs involved with fixing damage caused by a third-party working too close to gas infrastructure, almost all participants considered it worthwhile to improve awareness in some way – the highest support of any initiative.

### AGN's Draft Plans

AGN plans to address this issue at no additional cost, by increasing awareness through the provision of other initiatives such as marketing or IT.

### Customer feedback

Customers agreed with the interpretation of the insight in that ensuring that awareness of asset location was an important initiative to them. Most customers agreed with the incorporation of the insight as they understood that AGN were balancing affordability with risk by using initiatives to address multiple problems. Some questions were asked regarding how AGN were specifically going to target those who were damaging mains such as tradesmen.

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"How do you plan to reach the tradie? That was the issue we were having. You need to target someone that has that problem."

### Metropolitan Resident

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### Customers were supportive of mains replacement to maintain or improve the level of safety of the gas network

#### Insight summaries

AGN's largest safety expenditure focuses on replacing low pressure gas mains using a risk-based approach. During the 2018-2022 Access Arrangement period AGN is forecasting to replace approximately 300km of gas mains, with the majority in inner Melbourne (including the central business district). This work will complete a larger gas mains replacement program that has been running throughout Victoria for a number of years.

Overall, customers felt strongly that the program was a necessary investment into the Victorian gas network to maintain today's reliability levels and safety into the future. Although the mains replacement program was the most expensive investment option presented to workshop attendees (at an estimated average impact to gas bill of \$6.00 per annum) it still received very strong support with 95% approval at both regional and metropolitan workshops respectively.

### AGN's Draft Plans

AGN plan to proceed with their proposal, spending around \$151million is in the Draft Plan on replacing approximately 300 km of mains and associated mitigation activities over the next five years. This equates to a cost of approximately \$4.50 per customer, down from the initial forecast of \$6.00 per customer due to refined plans and more accurate information.

### Customer feedback

Customers agreed with this insight and that AGN's plans made sense to them.

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"They've taken what they said they were going to do and improved it again. They've reduced the price more than they said originally."

### Regional Resident



## Customers support investment that seeks to minimise fire risk

### Insight summaries

AGN explained to participants that a shut-off valve can be fitted to the gas meter to reduce the risk of gas escaping during a fire. The valve is designed to shut down the flow of gas from the meter during extreme heat, typically caused by fire. Participants were highly supportive of this initiative with 92% of participants indicating support for AGN fitting the devices to reduce the risk of fire. In particular customers were supportive of AGN fitting these devices to all meters in the Victorian and Albury networks.

### AGN's Draft Plans

AGN presented that they propose to install shut-off devices in bushfire zones, beginning with the areas with the highest bushfire risk first. This is despite customer support for a wider program, where the shut-off valve would be fitted to all meters in the Victorian and Albury networks. This decision was made as a result of balancing safety and affordability concerns.

### Customer feedback

Customers agreed with the interpretation of this insight and were pleased that by focusing only on bushfire prone areas, AGN did not want to add unnecessary costs to their bill.

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“It feels very transparent. I thought I was going to be saying yes to things last time and you would say ‘Okay’ and put the bill up. That worried me. But I like the fact you have gone ‘Fair enough this is her money and she is prepared to pay for it so let’s make it as cheap as possible.’”

### Regional Resident

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## Customers are supportive of network upgrades to retain reliability levels

### Insight summaries

Generally, there was strong support from workshop participants for AGN to undertake key projects to maintain reliability at current levels.

The Dandenong to Crib Point transmission augmentation is the largest project that AGN is looking to undertake to ensure reliability of service. The majority of participants (85%) were prepared to pay to support the maintenance of the existing level of reliability of the network, with the understanding that upgrades to meet population growth are necessary investments for the supply of gas for Victorian residents into the future.

AGN also presented a sample of smaller initiatives to provide participants with an indication of its broader expenditure profile. These included:

- Capacity upgrade to Mornington Peninsula to meet peak demand
- Augmentation by 2021 of the Echuca network to meet 190 new connections per year
- Augmentation around Ivanhoe/Heidelberg to complete ongoing mains renewal without affecting Austin Hospital supply
- Reinforcement to network in Cranbourne region to support 3,000 new connections per year, with potentially up to 40,000 new connections in 20 years
- Reinforcement of Traralgon trunk main by 2020 to provide 15 years’ of load growth.

The total level of support for this combined set of projects (86%) was in line with the similar (but more expansive and expensive) Dandenong transmission pipeline duplication.

### AGN's Draft Plans

AGN will introduce the majority of the smaller initiatives described at the initial workshops. The costs of these initiatives has been refined and will be less than \$1 per customer per annum. For the Dandenong transmission pipeline completion, costs will be reduced from the originally stated \$1 to \$0.50 per annum per customer.

### Customer feedback

Customers were in agreement with the interpretation and incorporation of this insight. They felt as though AGN's Draft Plans regarding these smaller initiatives were in their best interest.

### Customers are less supportive of initiatives when network assets are within the control of individuals

#### Insight summaries

AGN advised workshop attendees that property alterations or other changes in circumstances can mean gas meters become inaccessible for some meter reads and safety checks. This requires AGN to take action to gain access or to move the meter to a more appropriate position. In contrast to the customer support of projects to maintain the reliability of gas supply and improve community safety around tangible risks, there was a mixed sentiment across the metropolitan and regional locations when assets were within the control of individuals.

Overall, participants clearly had the lowest level of support for the initiative whereby AGN would take action to reach gas meters inaccessible due to property fencing or similar.

### AGN's Draft Plans

AGN proposed to proceed with this work as they have obligations to replace meters at the end of their useful life. They also noted that by increasing their visibility and customer access to information through other initiatives, they may also be able to address the issue of access to meters. As more people are aware of AGN and what they do, more readily ensuring their meters are accessible. Therefore, AGN outlined that they are continuing to refine this approach, currently costing customers \$0.50 per annum.

### Customer feedback

Customers agreed with the interpretation of this insight in that they did not see access to meters as high priority in terms of safety and reliability. However, they understood why AGN were proceeding with this initiative despite its ranking as a low priority.

Customers seemed interested in the topic of 'smart meters' but understood that this may not be a cost-effective initiative.

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"If it's a requirement, it's a requirement."

#### Regional Resident

"Any plans to go to smart meters? I have a meter in my front yard but it is behind a fence."

#### Metropolitan Resident

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Customer reading the Draft Plan, Customer Workshop, Warragul 6 October 2016

## Tariff structure

### 8. Customers value the control gained by having their gas bill dependent on usage levels

#### Insight summaries

There were mixed opinions with regards to the degree of variability customers are prepared to face in their gas bills. The majority of respondents (63%) indicated a preference to retain the current style of gas tariff structure, with a relatively high variable component.

With most of their gas bill based on consumption, they preferred to be able to better manage the price they pay by controlling their usage. These customers were prepared to deal with seasonal bill fluctuations if it meant that they would pay only for what they used.

#### AGN's Draft Plans

Consistent with this feedback, AGN plan to maintain the current tariff structure despite considering changes such as the consolidation of tariffs or the alignment of tariffs.

The current pricing structure comprises a fixed and volumetric component with the latter accounting for around 73% and 90% of the average residential and non-residential distribution charge respectively.

#### Customer feedback

Customers agreed with the interpretation and incorporation of this insight and reiterated their preference for a more variable tariff structure.

## Environmental commitments and reporting

### 9. Customers would like AGN to play a leadership role in minimising environmental impact

#### Insight summary

During the Research Phase, customers were interested in the impacts of natural gas on the environment. There was a strong consensus for AGN to increase its transparency in both the actions of itself, but also in relation to the upstream production and supply of gas.

Not only were customers mindful of AGN aiming to mitigate environmental damage where it could, they also expressed a desire for AGN to be on the front foot to create positive changes to the environment. The thought was if AGN was prepared to use the earth's resources to run its business and generate revenue, then it should also put something back into the environment. Customers not only believed that action like this would improve and restore the environment, but it would also provide a way of AGN improving its branding and public visibility.

#### AGN's Draft Plans

AGN emphasised that the environment has always been an important consideration for their business, given that natural gas is a low carbon fuel. AGN is committed to minimising its environmental impact and honouring its compliance and reporting commitments. AGN has begun an engagement with an independent expert to investigate ways to improve reporting and environmental awareness.

#### Customer feedback

Concerns regarding the environment were raised throughout the workshop, with customers continuing to view minimising environmental impact as a high priority issue.

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“You are a monopoly. You have a responsibility to work on renewable.”

#### Regional Resident

“It's really about education and being conscientious, it's a social thing. I'm a renter and that's how I see my role. The first thing I look at in an apartment is the stove.”

#### Metropolitan Resident

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# Conclusion

The Implementation Phase of the Stakeholder Engagement Program allowed AGN to reengage with the same participants from the Research Phase. Workshop participants found that the feedback process was rewarding and were impressed with AGN's incorporation of their thoughts and opinions in creating their plans.

Feedback from both customers and stakeholders demonstrates how their level of support for the program, and importantly how they believe AGN has conducted itself. In particular customers and stakeholders highlighted that they believed they had been provided with the opportunity to provide their feedback, and importantly that AGN had considered their feedback in the development of the Draft Plan.

## Next steps

AGN will take the feedback provided in this report and consider it in the development of its Access Arrangement for the Victoria and Albury networks due for submission to the AER on or before 3 January 2017.

AGN plans to continue engagement activities through an ongoing stakeholder engagement strategy to continue to incorporate stakeholder feedback into their business plans.

Further details about AGN's stakeholder engagement strategy and engagement program can be found at [www.australiangasnetworks.com.au/haveyoursay](http://www.australiangasnetworks.com.au/haveyoursay)

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"I felt like my opinions were being recognised and that I was being listened to."

**Metropolitan Resident**

"Good to see the follow on from the first workshop, and how the AGN's plans have progressed. I'm convinced the customer has been heard."

**Metropolitan Resident**

"I really enjoyed seeing an improvement in estimated costs from the first workshop to the second, and having the opportunity to discuss with senior staff."

**Regional Resident**

"Great to see how my voice, and the voice of others have been written up in the report, and then used to develop the plan."

**Regional Resident**

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# Appendix

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## Reference Group

- St Vincent de Paul
- Energy Consumers Australia
- Consumer Utilities Advocacy Centre
- Australian Industry Group
- Master Plumbers Association
- Council of the Ageing VIC
- North Link

## Retailer Reference Group

- AGL
  - Origin Energy
  - Energy Australia
  - Simply Energy
  - Lumo Energy
  - Alinta Energy
- 

## Victoria and Albury Draft Plan Stakeholder Workshops Summary

### Stakeholder Consultation

Workshop 1 – Overview, Opex and Capex  
23 August 2016

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## Attendees

- |  |                             |
|--|-----------------------------|
| • Rachel Armstrong – AEMC                    | • Chris James – Northlink   |
| • Steph Booth – EWOV                         | • Teresa Mitchell – COSBOA  |
| • Krystal Burry – PIAC                       | • Elizabeth Molyneux – AGL  |
| • David Calder – Origin Energy               | • Con Noutso – Lumo Energy  |
| • Gavin Dufty – St Vincent de Paul           | • John Onley – AIG          |
| • Geoff Hargreaves – Energy Australia        | • Dennis Van Puyvelde – ENA |
| • David Havyatt – Energy Consumers Australia |                             |
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## Overview

- Stakeholders welcomed AGN's forecast 11% initial price cut and acknowledged the merits of prices moving in line with the Regulated Asset Base (RAB).
  - Stakeholders understood and were pragmatic about AGN's decision not to challenge the Australian Energy Regulator (AER) Final Decision in South Australia (SA), despite not agreeing with all aspects of that decision. Stakeholders supported AGN's strategy of seeking to resolve outstanding issues through further engagement with the AER and stakeholders more generally rather than through appeal.
  - Stakeholders agreed with the AGN approach of applying in Victoria and Albury the most recent AER positions taken in the SA review process.
  - Stakeholders were supportive of AGN's collaborative approach to stakeholder engagement and noted that the release of the Draft Plan facilitated improved engagement. Stakeholders noted that they have been provided adequate opportunity to input into our plans before they are provided to the AER.
  - Stakeholders advised AGN that to strengthen their move towards customer centricity they should conduct regular engagement beyond the regulatory review process. It was suggested that release of the AGN Annual Review is a good basis to facilitate this ongoing discussion.
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## Stakeholder Consultation

Workshop 1 – Overview, Opex and Capex  
23 August 2016

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### Attendees

- Rachel Armstrong – AEMC
  - Steph Booth – EWOV
  - Krystal Burry – PIAC
  - David Calder – Origin Energy
  - Gavin Dufty – St Vincent dePaul
  - Geoff Hargreaves – Energy Australia
  - David Havyatt – Energy Consumers Australia
  - Chris James – Northlink
  - Teresa Mitchell – COSBOA
  - Elizabeth Molyneux – AGL
  - Con Noutso – Lumo Energy
  - John Onley – AIG
  - Dennis Van Puyvelde – ENA
- 

### Operating expenditure

- Stakeholders commented that, at an overall level, AGN's operating expenditure (opex) proposal appeared reasonable. It was also agreed that adopting the same approach used in SA to forecast opex was reasonable.
  - Stakeholders held the view that, based on the benchmarking information, AGN's base year opex was efficient and therefore an appropriate base to forecast opex. Stakeholders however wanted further assurance over the accuracy of the opex/customer density benchmarking analysis undertaken by Economic Insights.
  - It was questioned whether, given AGN's strong productivity performance, a further strengthening of the incentive framework as proposed by AGN is appropriate. Stakeholders agreed however that there is no assurance that AGN is currently operating at the efficient frontier and that there is currently an imbalance between the incentives provided to opex and capital expenditure (capex).
  - Stakeholders welcomed AGN's decision to not seek additional funding for identified changes in costs, including in relation to opex driven by capex and step changes. Stakeholders however wanted assurance that doing so wouldn't jeopardise current service levels or result in higher capex in the next and future periods.
  - Stakeholders were supportive of AGN conducting a similar marketing program to that in SA given that gas is a fuel of choice and the expected changes to energy markets going forward (for example, the greater uptake of renewable energy supported by battery storage). Stakeholder support was however dependent on AGN demonstrating that the benefits from marketing, including from increased demand, exceeded the costs.
  - Stakeholders emphasised the importance of collaborating with the other Victorian networks to deliver an efficient marketing program.
  - Stakeholders discussed the benefits of natural gas, including direct and indirect employment (including gas fitters and appliance manufacturing) and the environmental benefits and considered this should be factored into any assessment of the proposed marketing program.
  - Stakeholders agreed that opex is closely aligned with customer numbers and not throughput, noting the largely fixed cost nature of natural gas supply. AGN's approach to forecasting the impact of output growth was therefore considered to be reasonable.
  - Stakeholders acknowledged the decision by AGN not to apply the negative productivity adjustment and noted that AGN were not seeking additional funding for certain other identified changes in opex.
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## Stakeholder Consultation

Workshop 1 – Overview, Opex and Capex  
23 August 2016

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### Capital expenditure

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- As per opex, stakeholders agreed with the AGN approach of adopting AER positions from the SA review process, including the approach to forecasting unit rates.
  - Stakeholders were supportive of AGN completing its low pressure mains replacement program, although agreed that detailed engagement with Energy Safe Victoria on this issue was appropriate.
  - When discussing the capex program, stakeholders highlighted the importance of coordinating works with other utilities wherever possible.
  - Stakeholders were supportive of the proposed Information Technology (IT) capex noting the investments already made in the current period and AER approval of the national IT program in SA.
  - When discussing the meter replacement program, stakeholders were interested in 'smart' metering, although understood that the benefits of this technology might not outweigh the costs (there was also general uncertainty over the available metering technology).
  - Stakeholders were interested to understand the impact that a successful marketing program has on growth capex and wanted assurance that consistent data has been used throughout our proposal.
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## Stakeholder Consultation

Workshop 2 – Return on Capital, Inflation, Regulated Asset Base, Financeability, Demand, Network Revenue, Pricing  
30 August 2016

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### Attendees

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- Krystal Burry – PIAC
  - David Calder – Origin Energy
  - Geoff Hargreaves – Energy Australia
  - Teresa Mitchell – COSBOA
  - Elizabeth Molyneux – AGL
  - Con Noutso – Lumo Energy
  - John Onley – AIG
  - Irina Kiparskaya – ENA
  - Ben Martin – Hobbs – CUAC
  - Janessa Rabone – AEMC
- 

### Overview

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- Stakeholders from the first workshop agreed with the reported outcomes and noted that overall workshop outcomes would be sent to participants for comment before they are finalised.
  - Stakeholders were supportive of AGN's approach to stakeholder engagement, in particular commenting on the early timing of the engagement and the level of detail that AGN was sharing with respect to the building blocks that determine price.
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## Stakeholder Consultation

Workshop 2 – Return on Capital, Inflation, Regulated Asset Base, Financeability, Demand, Network Revenue, Pricing  
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  - Ben Martin – Hobbs – CUAC
  - Janessa Rabone – AEMC
- 

### Return on capital & inflation

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- Stakeholders were supportive of AGN's approach to setting the rate of return and gamma, which approach is to adopt the AER's guideline until such time that new information becomes available. Stakeholders also acknowledged AGN's preferred approach of seeking to resolve issues with the AER and stakeholders rather than through appeal.
  - Stakeholders were interested in the different approaches for determining the cost of debt and the mechanics of transitioning to a 10-year trailing average cost of debt. While applying the AER guideline, stakeholders acknowledged the "hybrid" transition most closely aligns with AGN's actual debt management practices.
  - There was discussion about the current merit and judicial review processes, and the contention associated with the debt transition approach (including the magnitude of the different outcomes).
  - Stakeholders did consider that much of the contention relating to the cost of equity had dissipated following the recent decision on this matter by the Australian Competition Tribunal.
  - It was noted that the proposed and actual rate of return would change depending on movements in market based parameters and the choice of averaging period (there was discussion over how the averaging period would be set).
  - There was discussion among stakeholders regarding the role of inflation in determining regulatory revenue. Stakeholders considered both the Reserve Bank of Australia (RBA) approach (preferred by the AER) and the market-based approach (preferred by AGN) had merit. Stakeholders considered the RBA as a reputable independent source but noted the market-based approach more closely aligned with the information used to set the rate of return.
  - The focus of the discussion turned to ensuring the regulatory model does not provide windfall gains or losses to business (and conversely consumers). Stakeholders wanted to ensure that inflation risk would not be borne by consumers under a market-based approach. This led to suggestions on how the regulatory regime can provide a true-up between actual and forecast inflation. Some suggestions include not adjusting the RAB for actual inflation (it was noted that this may require a change to the National Gas Rules) and forecasting inflation over a 5-year period and not a 10-year period.
  - Stakeholders noted the material difference between the various approaches to setting inflation, including against actual measured inflation. It was agreed that this material issue needed to be resolved through the review process, including by addressing the concerns the AER has with the market-based approach.
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## Stakeholder Consultation

Workshop 2 – Return on Capital, Inflation, Regulated Asset Base, Financeability, Demand, Network Revenue, Pricing  
30 August 2016

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  - Ben Martin – Hobbs – CUAC
  - Janessa Rabone – AEMC
- 

### Regulatory asset base & financeability

- Stakeholders considered the adjustment of the RAB to be a largely mechanical matter that was prescribed by the National Gas Rules.
  - There was some concern raised over inflated RAB values for some businesses, but did not indicate that they were concerned that it was an issue applicable to AGN.
  - Stakeholders supported the approach taken by AGN to determine regulatory depreciation. In particular, stakeholders supported aligning the economic and technical life of the low pressure assets scheduled for replacement at the end of the next period. It was noted that the alignment of economic and technical lives of the low pressure assets could occur while still delivering a price cut to customers.
  - Stakeholders believed that a consideration of financeability during the regulatory review process to be reasonable, with adjustments only provided where a business was clearly below the required credit metrics over the regulatory period.
-

## Stakeholder Consultation

Workshop 2 – Return on Capital, Inflation, Regulated Asset Base, Financeability, Demand, Network Revenue, Pricing  
30 August 2016

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### Attendees

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### Demand & network pricing

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- There was general stakeholder support for the approach taken to demand forecasting, noting that it was consistent with the approach recently endorsed by the AER for our SA network. Stakeholders however questioned if prior demand was an indicator of future demand. It was discussed whether, instead of relying on past trends, the demand forecast should be broken down into its component drivers and forecast based on expectations of changes in these drivers over the next period. Examples provided included forecast changes in consumer preferences/behaviour, appliance efficiency, price and policy more generally.
  - Stakeholders agreed with the approach of adjusting the historic trend for forecast changes in gas and electricity prices. Stakeholders were seeking confirmation that all assumptions would be transparent in our proposal.
  - While supportive of AGN's proposed price path, some stakeholders questioned whether AGN could consider alternate options to satisfy the stated objectives of supporting credit metrics and ensuring prices equals underlying costs at the end of the next period.
  - Stakeholders questioned whether it was appropriate to provide price decreases to all customers aside from those in the northern region. Stakeholders questioned certain aspects of the reasoning provided by AGN for aligning its tariffs, including the unsupported reduction in transaction costs. There was not strong support from stakeholders with respect to tariff alignment.
  - Stakeholders questioned whether, despite the preferences stated by customers at AGN's earlier workshops, a greater proportion of cost recovery should come from fixed charges. It was questioned whether capacity based charges were more appropriate than the current declining block tariffs structure.
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