

Minutes

AGN Victoria/Albury Reference Group | Meeting 7

Date

Tuesday, 25 July 2017

Where

APA Group Offices, Level 14, IBM Building, 60 City Road, Southbank

Time

2.00pm – 4.00pm

Attendees

Reference Group	AGN
Jon Onley (Australian Industry Group)	Ben Wilson (phone)
Andrew Richards (EUAA)	Andrew Staniford (Chair)
Teresa Mitchell (Warragul Business Group)	Craig de Laine
Bev Hughson (CCP)	Peter Bucki
Dialing in:	Jin Singh
Mark Henley (Uniting Communities)	Anna Mitchell
Dennis Van Puyvelde (ENA)	Ken Hedley (APA)
Gavin Dufty (St Vincent de Paul Society)	Damien Skafte (APA)

Apologies

Reference Group	AGN
Chris James (NORTH Link)	
David Havyatt (Energy Consumers Australia)	
Ken Gardner (Master Plumbers Association)	
Randal Harkin (COTA VIC)	
Belinda Sandilands (EWOV)	

Minutes

The meeting commenced at approximately 2.00pm AEDT.

1. Welcome and Introductory Discussion

AGN, Andrew Staniford (AS) welcomed the group and thanked members again for their contribution to AGN's stakeholder engagement program.

AS welcomed Andrew Richards (AR), from the Energy Users Association (EUAA) to the Reference Group and his first meeting.

Key points and general discussions with Ben Wilson (BW):

- Overall, all agreed that the Draft Decision was a positive outcome for customers.
- One member noted that anything AGN can do to provide some relief in pricing would be welcomed by industry and be well supported.
- Another member asked for Ben's view on how the pipeline arbitration framework is being structured.
 - BW reiterated that AGN supports increases in transparency and visibility, however, a lot of the detail will be in the rules and the rule making process.
 - Stakeholders supported AGN's position of seeking to resolve issues through engagement rather than through the courts.
 - The EUAA agreed that the rules need to be set properly and the framework needs to be equal and fair ability for each party to put forward their case but remained cautionary.
- Another member suggested that there are some useful lessons industry can learn from AGN who had demonstrated how engagement can contribute to better outcomes.
- Members noted that the price of gas is still the priority issue for their members.
 - BW asked if the EUAA had observed any changes in behavior of exporters.
 - The EUAA said they understood the issue was upstream and they had observed some changes but only in the margins. Some positive outcomes more recently observed by EUAA appeared to be resolved when politicians stepped in at a local level.
- Stakeholders agreed that the challenge with respect to pricing and reliability is to get the whole energy market working correctly.

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

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

Introduction:

AGN, CdL provided some introductory comments noting that:

- The purpose of the meeting was to provide an opportunity for stakeholders to provide feedback on the AER's Draft Decision and AGN's proposed Revised Final Plan (response to the Draft Decision). In doing so, AGN could consider and incorporate this feedback prior to submitting to the AER.
- AGN's overarching objective for this Access Arrangement (AA) process (submitting a plan that delivered for customers, was underpinned by effective stakeholder engagement and was capable

of being accepted by the Australian Energy Regulator (AER)) was set, and communicated, very early on.

- AGN also took key learnings from the recent South Australian AA process and has incorporated these, and other learnings into this Victorian/Albury program.
- Another key aspect of the engagement program was the release of, and engagement on, the Draft Plan in July 2016, which included re-engaging with stakeholders to seek feedback on how we had incorporated their feedback into our plan to ensure we had accurately heard their views.

Stakeholders were supportive of AGN's collaborative approach to stakeholder engagement and noted that the release of the Draft Plan facilitated improved engagement and the 'no surprises' nature of the Final Plan.

CdL highlighted that, consistent with our overarching objective and our historic approach, AGN's revised Final Plan accepts the AER's Draft Decision (including updating for additional stakeholder feedback as well as more recent information on the inflation, rate of return, demand and expenditure, as requested by the AER).

Price Path:

AGN outlined that accepting the AER's Draft Decision (including required updates) gave rise to an 8% cut in prices on 1 January 2018 followed by 1.25% increases each year after.

AGN sought feedback from members on price path preferences. Do members prefer a deeper cut up front, followed by higher increases, or do members prefer a less deep cut and flatter profile going forward?

Actions:

Members to provide feedback on preferred price path to AGN by Wed 9 August.

- *AER approach:* 8% price cut from 1 Jan 2018, followed by 1.3% increases; or
- *AGN approach:* 10% price cut from 1 Jan 2018, followed by 2.5% increases

As suggested by St Vincent de Paul, Gavin Dufty (GD), AGN to provide assistance/background information to the group to assist making an informed decision on network price.

GD to share any insights with AGN/Group.

Operating Expenditure:

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

- AGN received broad support for the base year roll forward approach which was used to develop the opex forecasts in our plans.
- The rejection by the AER of an allowance to market gas in metropolitan Melbourne was discussed.
 - AGN believe that the reason businesses in Victoria haven't marketed natural gas in metropolitan Melbourne in the past is because there are three distribution business (which prevents any single business from marketing as any expenditure incurred would benefit the other businesses) and this was the first time the three businesses were aligned for a joint marketing program.
 - AGN undertakes marketing because gas is a fuel of choice. Through the engagement process, stakeholders understood that and largely accepted AGN's marketing proposal on the provision that AGN demonstrated that the benefits of the marketing program outweigh the costs.

- The AER in its Draft Decision said it considers marketing to be a business as usual activity to be considered within its existing base year opex forecast.
- AGN, AS commented that whilst our current position is to accept the AER's Draft Decision, AGN felt the reasoning put forward by the AER may not have considered that:
 - There has been an under investment in marketing due to the reasons highlighted by CdL (three businesses operating in metropolitan Melbourne);
 - The methodology to calculate the value of marketing to customers should be undertaken over a period greater than five years, consistent with the fact that when customers connect to natural gas, they generally connect for more than five years (one regulatory control period). Additionally, appliances are likely to have a life that goes beyond the regulatory period (10-15 years).
- One member noted that he was supportive of marketing step change and understood the need and value for marketing.
- One member commented that he believed that the AER's position on marketing was more the quantum, and questioned whether marketing was a step change. His view was that there was certainly scope for marketing but it was a question as to whether it really required a step change.
- One member discussed electricity provisions for distributing customer charters to all connections, and suggested the requirements for gas distributors should not be different. He suggested that a charter creates an opportunity for a strong framework and model for ongoing communication between businesses and customers.
- Stakeholders observed the need for gas distributors to be actively engaging with customers to correct misconceptions in respect of the cost of gas, that in fact it is cheaper than electricity despite the current narrative of high gas costs and shortages of supply.

Stakeholders also commented that the issues around gas have been created by upstream gas production (who are outside the regulatory regime), so as gas distributors, it's in AGN's best interests to take on that marketing role, as upstream producers and downstream retailers will not. Therefore the damage caused to the perception of natural gas is out of AGN's control, yet AGN are required to repair it.
- EUAA noted that they would support AGN taking a more active role in addressing misconceptions around gas in the market for energy.
- AGN, AS commented on a current price campaign underway in South Australia, where AGN are advertising on the changes to electricity and gas prices over the last two year period, AGN will provide a copy of this information with the minutes.

AGN is proposing to accept the AER's Draft Decision because we understand the role that using the base year to forecast opex going forward plays in the regulatory framework.

Action:

AGN to provide sample of South Australian price education media release and advertisement.

Capital Expenditure (Capex):

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

- AGN noted that a great deal of stakeholder input was received on capex in the lead up to submission of our Final Plan.
- Reference group members acknowledged the significant engagement undertaken in the lead up to preparation of the Final Plan and did not raise concerns with our intent to accept the AER's Draft Decision.

Capital Base:

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

- AGN will complete their low pressure mains replacement program at the end of the next regulatory period. Consistent with this, AGN will align economic and technical lives of assets and reflect this in our capital base which was accepted by the AER in its Draft Decision.
- On forecast of expected inflation, AGN believe the market-based approach aligns more closely with actual inflation, however the AER has continued to apply its current and preferred approach to estimating inflation relying on RBA targets. The AER has also initiated a dedicated review on the forecast of expected inflation.
 - Consistent with AGN's approach, we have applied the AER preferred approach to estimating inflation and will continue to participate in the review of the treatment of inflation.
 - AGN is pleased that the AER has initiated dedicated engagement on and the forecast of expected inflation and encourages all to participate in the AER's discussions. See the documents available on the AER's website, including the CCP11's submission and alternative views [here](#).

Reference Group members acknowledged the work currently underway in respect of the AER's review of expected inflation and were supportive of AGN's decision to apply the AER's preferred approach until the outcome of the review was known.

Financing Costs:

AGN outlined we will be accepting the Draft Decision and continuing to adopt the AER's preferred approach. It was noted that the AER will be conducting further dedicated engagement on the Rate of Return Guideline. AGN encourages all to get involved in the conversation and believes this is the appropriate place to have the debate on the rate of return, rather than through the regulatory review processes.

Reference Group members acknowledged the upcoming Rate of Return Guideline review and were supportive of AGN's approach of applying the AER's preferred methods to determine the rate of return.

Incentive Arrangements:

AGN outlined that the AER accepted our proposal with respect to the Efficiency Benefits Sharing Scheme (EBSS), the Contingent Capital Expenditure Sharing Scheme (Contingent CESS), but did not accept our proposal to introduce a Network Innovation Scheme (NIS).

- AGN noted that it was pleased with the decision relating to the Contingent CESS and EBSS, and outlined the high degree of consultation with stakeholders and the AER in relation to designing the CESS, with both the stakeholders and the AER strongly influencing the ultimate design of contingent CESS.

- AGN noted that whilst the NIS was not accepted, we believe it is an important mechanism for the industry. We will accept the AER's decision but will continue to engage with stakeholders, including the AER with a view to designing a scheme that supports innovation.
- The NIS was a key point of discussion:
 - One member noted that she was disappointed it was not accepted.
 - Members agreed that there was real value in innovation.
 - One member suggested that a NIS is something that can be worked on over the next few years to ensure there is a well-designed scheme.
 - An observer commented that there may be a better approach which demonstrates clearly to consumers how this is delivering better outcomes.

Demand, Revenue, Network Pricing and Network Access:

- AGN described that the AER largely accepted our proposed demand, revenue, network pricing and network access provisions and that AGN would in turn accept the AER's Draft Decision.
 - Reference Group members had no further comments on our approach to demand.
- On network pricing, (slide 32), two options were discussed:
 - *AER approach*: 8% price cut from 1 Jan 2018, followed by 1.3% increases.
 - *AGN approach*: 10% price cut from 1 Jan 2018, followed by 2.5% increases

CdL encouraged the group to review the AER's reasons to assist make an informed decision on preferred path. AGN will provide additional information to assist in this process.

One member agreed that there was not much of a spread in gas retail prices at the moment but any insights into what retailers are doing would be welcomed.

3. Other Business

- CdL noted that there was an opportunity for a further meeting before 14 August when AGN submits our revised proposal, and/or before 15 September when public submissions are due to the AER. AGN would appreciate guidance on whether an additional meeting is required.
- CdL reminded members that AGN is seeking feedback on any items in the plan and that this feedback can be provided at any time.
- CdL encouraged members to get in touch when/if writing a submission to assist.
- AS thanked all for contributing to the meeting, the task is for AGN to take away what was heard today and ensure that is reflected in our response to the AER.
- AS also asked members to start thinking about ideas to ensure AGN's plans to engage beyond the regulatory period effectively and will provide further information in due course.

Actions:

- *Reference Group to advise if additional meeting is required.*
- *Prior to next meeting, send information outlining how we see engagement with the Reference Group working in the future (business as usual engagement) for further discussion with the Reference Group*

4. Thanks and close

AS thanked all in attendance.

The meeting concluded at approximately 4.00pm.

Next Meeting: Meeting 8 | 7 December 2017, 2.00pm – 4.00pm (unless stakeholders request additional meeting, as per Action Items).

Action Items

Reference Group	Who	When
One week after circulation: Provide feedback on meeting minutes	All	Wed 9 Aug
Members to provide feedback on preferred price path to AGN by Wed 9 August	All	Wed 9 Aug
Gavin Dufty to share any 'price' insights with AGN/Group	GD	Ongoing
Advise if additional meeting is required prior to submissions due	All	Fri 11 Aug
Advise if additional support is required	All	Ongoing

AGN	Who	When
Circulate draft meeting minutes	AM	Thu 3 Aug
Provide background information to the group to facilitate making an informed decision on network price	AGN	With minutes
Provide sample of South Australian price education media release and advertisement	AGN	With minutes
Send information outlining how we see engagement with the Reference Group working in the future (business as usual engagement) for further discussion with the Reference Group	AGN	Prior to next meeting