

Minutes

AGN South Australian Reference Group | Meeting 4

Date

Tuesday, 21 June 2016

Where

Australian Gas Networks Offices - Adelaide

Time

2:00pm - 4:00pm

Attendees

Reference Group	AGN
Mark Henley (Uniting Communities)	Craig de Laine (Chair)
Tim Kelly (Conservation SA)	Ben Wilson
Reeva Brice (COTA SA)	Vicky Knighton
Heather I'Anson (Primary Producers SA)	Anna Mitchell (dial-in)
Anthony Moore (Consumers SA)	
Jo De Silva (SACOSS)	
Andrew McKenna (Business SA)	
Amber Miller (ESCOSA) Guest	

Apologies

Reference Group	AGN
David Hossen (Property Council of SA)	
Sandy Canale (EWOSA) Guest	
Nathan Petrus (ESCOSA) Guest	

Minutes

The meeting commenced at approx. 2.10pm

1. Welcome

AGN, Craig de Laine (CdL) welcomed the South Australian Reference Group ("Group") and thanked them for their attendance.

2. Review of Minutes from previous meetings and action items

CdL noted that the meeting minutes for meeting 3 have been circulated. Action item from meeting 3 were discussed.

Discussed future agenda items:

- ACT decision update remain as a standing agenda item for discussion as the review progresses;
- Environmental Policy – *Action Item: Conservation SA to give a presentation at the next meeting on best practice environmental reporting;*
- East Coast Wholesale Gas Market – a member of the group asked if we had a relationship with gas generation. AGN (Ben Wilson) responded that we do not. *Action Item: Presentation on East Coast Wholesale Gas Market at the next meeting;* and
- Group reminded to bring any issues to AGN that they would like to add to the agenda.

3. AER Final Decision: AGN's South Australian Access Arrangement

AGN, Ben Wilson (BW) provided an overview of the key components of the AER Final Decision for SA and that AGN is the only privately owned network not appealing (slide 3 and 4). AGN was disappointed with the AER decision for Two Wells and Mt Barker.

One member discussed the challenges of communicating the components of retail bills

BW discussed that AGN may need to increase its profile although customers should see a reduction in their gas bill after 1 July 2016.

AGN, Craig de Laine (CdL) discussed the media coverage of the Final Decision and asked the group how their organisations felt about the impact of the decision (slide 5).

One member said their organization was happy to mirror AGN's release regarding the price cut was good for households and business.

Another member said under consultant advice they were cautious, they thought the mains replacement was very technical and in the end the decision was sensible and pragmatic

Another member supported the continuous build approach for the mains replacement program. There needs to be long term Federal and State policy stability.

One member said the price cut was good, although they would always want more of a price cut. They had concerns relating to the mains replacement program and increasing regulatory asset base with the demand decreasing. Please to see that AGN is not appealing the decision. Any appeal results in uncertainty for customers and prices. They are concerned regarding the Wholesale cost of electricity. Wholesale prices for gas are opiate and gas price not transparent.

BW discussed the difficulties for obtaining a contract price for unaccounted for gas for the five year period

Another member discussed townships with limited access to gas and those using bottled gas. Need jobs in regional areas including apprenticeships. Discussed that infrastructure goes through regional areas but it does not benefit the area.

BW discussed why AGN used the 8.66% Rate of Return due to the merits review that was underway (slide 6).

BW discussed explained the price path and how it matches the RAB growth (slide 7).

CdL discussed these were AER graphs and the waterfall graph shows that the key driver for difference between the revised AA Proposal and the Final Decision is the rate of return (slide 8).

CdL discussed the operating expenditure was fairly non-controversial with no step changes. Discussed the capital expenditure which reflects the increase with the modified mains replacement program (slide 9).

CdL discussed further the components of the capital expenditure and the modified mains replacement program (slide 10).

BW discussed Mt Barker and that AGN is committed to conducting a detailed feed study which will include the lowest cost route and detailed market analysis (slide 11).

One member questioned the size and amount of connections.

CdL discussed the forecasts include no existing houses or business just greenfield developments. In Mt Barker the conservative forecast is for approximately 5,000 customer over 20 years.

BW AGN is committed to undertake further detailed work for Mt Barker and Two Wells. We will be working with the AER as we go forward and will keep the group updated.

The group asked questions regarding the forecasting of connection, what businesses do we include and why we do not include existing homes or businesses.

CdL we do not include existing homes or businesses as the AER believes that most will not connect due to the cost and disruption (digging up roads). We can bring the market analysis back to the group.

BW explained the Funds from operation (FFO) to debt ratio and how this is the cash flow available to pay debt off (Financeability). FFO to debt is used by the international credit agencies including Standards and Poor's and Moody's. The lower your rating the higher it costs for a business to raise debt. The slower that customers pay down the RAB the lower the credit rating and the higher the debt costs to businesses. The AER uses a benchmark BBB+ rating when they set the cost of debt, they do not then look at the decision as a whole to see if the business will be able to maintain a BBB+ rating with the decision (slide 12).

BW explained the timeline for SA with the new Access Arrangement Period commencing on the 1 July 2016 (slide 14).

4. Incentive mechanisms: Ongoing engagement

BW explained that this presentation was given to the Victorian and Albury Reference Group as part of the work that the three Victorian gas distribution businesses, AGN, AusNet Services and MultiNet Services are conducting on incentive mechanisms.

The group was invited to the joint Victorian Gas Distribution Businesses Stakeholder Forum on Incentive Mechanisms, at the RACV Club on Monday, 11 July 2016.

Action Item: Anna to resend invitation

As part of the engagement an Issues Paper has been developed that will be discussed at the workshop. Submission are due by 5pm on 29 July 2016.

The AER are supportive of the engagement approach.

5. Other business

CdL explained our Draft Plan, which is a new initiative, and a first for a gas distributor, which we are releasing in July for the Victorian and Albury gas distribution network. It outlines the feedback we have so far received from stakeholders and our preliminary views on the activities and expenditure we propose to undertake during the next (2018 to 2022) Access Arrangement period. We also provide an indication of the likely movement in the gas network prices.

One member asked to be invited in the activities in Victoria and Albury

Action Item: Anna to send Draft Plan to group when published

6. Thanks and close

CdL & BW thanked all for attending.

Next meeting: Meeting 5: ~~Monday 15 August 2016, 10am – 12pm~~

Changed on 02/08/16 to Tues 20 September 2016, 2.00pm – 4.00pm

7. Action Items

South Australian Reference Group	Who	When
One week after circulation: Provide feedback on meeting minutes	All	< Date >
Advise potential agenda items (at least three weeks prior to meeting)	All	ongoing
Conservation SA to give a presentation at the next meeting on best practice environmental reporting	Tim Kelly	20 Sept 2016

AGN	Who	When
Circulate draft meeting minutes	Vicky Knighton	15 July 2016
Resend invitation for the incentive workshop	Anna Mitchell	Complete
Send Draft Plan to group when published	Anna Mitchell	Complete
Presentation on East Coast Wholesale Gas Market at the next meeting	AGN	20 Sept 2016