



Victoria and Albury Draft Plan

Stakeholder Workshops Summary

September 2016

Stakeholder Consultation

Workshop 1 – Overview, Opex and Capex

23 August 2016

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

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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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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Capital Expenditure

- 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.

Stakeholder Consultation

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

30 August 2016

Attendees

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

Overview

- 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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Return on Capital & Inflation

- 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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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.

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Demand & Network Pricing

- 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.