



**Australian
Gas Networks**

Attachment 5.2

Customer and Stakeholder Feedback Summary Tables

Final Plan 2023/24 – 2027/28

July 2022

Future of Gas – Customer and Stakeholder Insights

What we heard	Our response
<ul style="list-style-type: none"> • While stakeholders agree on the need to reduce carbon emissions and that a reduction in natural gas consumption will play a role in that, they have differing views on how we should be preparing for the future and who should bear the costs. • Most customers feel positively about the future of renewables, and renewable gas. • 89% of customers indicated that they were comfortable with our plans to prepare the network for renewable gas. • Customers stressed the importance of keeping energy prices sustainable and stable in the pursuit of decarbonisation to ensure equity for all customers. • 78% of customers supported our proposal to accelerate depreciation and acknowledge that doing so will protect future price stability, as well as ensure equity for those connected to the network. • Other stakeholders said that they considered there is a tension between accelerated depreciation on one hand and increased capex and hydrogen readiness expenditure on the other hand that is difficult to reconcile. • Given the current policy uncertainty, stakeholders expressed an inability to decide, at this time, whether they could support accelerated depreciation, together with growth capex and investment in hydrogen readiness. • Retailers noted that the retention of accelerated depreciation in our Final Plan as a core issue. • There were broad views that the four scenarios developed by the Expert Panel are not equally likely and that we should put more effort into preparing for some or others. • Stakeholders want to see our response to final policy direction by the Victorian Government, before they can accept our Plans as they relate to the future of gas. 	<p>Our accelerated depreciation proposal is new, not only in respect of making a change to depreciation (which has rarely happened over the past 20 years) but also in respect of the need to address the uncertainty faced by the industry at the moment. This requires some different thinking than is traditionally the case for a regulated business, and was challenging for our stakeholders.</p> <p>We acknowledge the challenges our stakeholders felt in considering our Plans in the current uncertain environment. However, it is necessary for this Final Plan to balance the need to continue to deliver safe and reliable services to our customers over the next AA period, while also starting to address the evolving risks as the energy sector transitions to net zero. In particular:</p> <p>We propose to start taking small steps now (eg-modest acceleration of depreciation) to ensure the transition to a net zero future is smooth. The earlier these risks are addressed, the better we are able to manage the transition in the long-term interests of customers. This includes ensuring customers are not faced with significant price volatility and asset stranding risk.</p> <p>Ensure options are kept open for the future, for example, small amounts of expenditure to enable use of networks to transport renewable gases and ensuring cost competitiveness in the future.</p> <p>We consider our Plans reflect an appropriate way to balance these issues. We will continue to engage on this topic, including after the publication of the Gas Substitution Roadmap</p>
<h3>Final Plan Outcome</h3>	
<p>We have kept our accelerated depreciation proposal</p>	
<p>Customers were highly supportive of our future of gas plans, including our proposal to accelerate depreciation.</p>	
<p>Stakeholders found it difficult to accept our future of gas plans in the absence of policy certainty in Victoria.</p>	

Pipeline and Reference Services – Customer and Stakeholder Insights

What we heard	Our response
<ul style="list-style-type: none">Stakeholders supported the proposed reference and non-reference services.	We propose to largely maintain the same suite of reference and non-reference services in the next AA period, which is consistent with our Reference Service Proposal approved by the AER in November 2021.
Final Plan Outcome	
Stakeholders support our proposal to largely maintain the same suite of reference and non-reference services in the next AA period, which is consistent with our Reference Service Proposal approved by the AER in November 2021.	
Stakeholders (retailers) were supportive of our proposed pipeline and reference services.	

Operating Expenditure – Customer and Stakeholder Insights

What we heard	Our response
<ul style="list-style-type: none"> Customers expect us to maintain current levels of reliability, safety and customer services. Stakeholders would like us to minimise expenditure while the future is uncertain. Stakeholders would like to better understand the drivers of our change in capitalisation proposal before they can support it. Customers strongly supported the idea of new services designed to support customers experiencing vulnerability, noting the impacts of Covid-19 in their communities. Most stakeholders support our proposal to introduce a Priority Services Program in Victoria. A few expressed the need to ensure effective safeguards are established when developing the Priority Service Register. Stakeholders are keen to see more detail on the PSP including the specific activities being proposed and where spend is being allocated. Some questioning whether these activities should be funded through a step change. Social Service Organisations had a strong preference for the Priority Services Program to be Victoria wide, as opposed to network specific. Customers asked AGN to do more to engage and community with customers on renewable gas. Customers strongly support AGN's proposal for a renewable gas communications and education package that includes community activities and student learning and education. We received mixed levels of support from other stakeholders for investment in renewable gas communication and education. Stakeholders felt strongly that communication and marketing activities should not be funded as part of a step change. Stakeholders questioned whether the 0.4%p.a. productivity is sufficiently ambitious, and whether AGN South Australia is a good comparison. 	<p>Our opex proposal has been developed to maintain current levels of safety, reliability and customer service.</p> <p>We recognise there is policy uncertainty and have used the most up to date information available to inform our proposals. We note we must continue to maintain and invest in our network to ensure we meet our safety and reliability obligations and deliver on the expectations of our customers.</p> <p>Sections 8.4.1 and 8.4.2 explain the drivers for our proposed changes in capitalisation of overheads and capex to opex activities. An independent review of the changes is also provided as Attachment 8.3 to this Final Plan.</p> <p>We have included the Priority Services Program in our Final Plan. The proposed program which has been developed through engagement with the Priority Services Panel is outlined in Section 8.6, with more detail available in our PSP Business Case (Attachment 8.2).</p> <p>We have reduced the opex step change we are seeking in relation to our proposed renewable gas communication and education program by over half from our Draft Plan. The proposed communication and marketing activities will be funded by the business (no step change) and the uplift in community education activities and school program will be funded by customers through a step change (see Section 8.7 and Attachment 8.2).</p> <p>We have listened and engaged ACIL Allen to undertake some further opex productivity analysis for AGN Victoria and Albury which is provided in Attachment 8.6. We will use this work to engage further with stakeholders post-lodgement.</p> <p>We will continue to engage on our opex plans during our post-lodgement engagement program.</p>
<h3>Final Plan Outcome</h3>	
<p>Our opex proposal will ensure we can maintain strong safety and reliability performance and continue to meet customer service expectations.</p> <p>This Final Plan provides detailed supporting information to support our proposed opex programs (see Attachments 8.1 – 8.6).</p>	
<p>Customers were highly supportive of our opex plans, particularly Renewable Gas Education and the PSP.</p>	
<p>Stakeholders wanted to see us minimise opex expenditure while the future is uncertain.</p>	

Capital Expenditure – Customer and Stakeholder Insights

What we heard	Our response
<ul style="list-style-type: none">• Customers trust our track record of strong safety and reliability performance and 88% of customers were comfortable with our plans to maintain our safety and reliability performance.• Stakeholders have indicated a preference for discretionary capex to be minimised and some struggled to support parts of our capex proposals (e.g. growth capex) given the uncertain policy position.• 89% of customers who participated in our workshops were supportive of our proposed approach to preparing our networks for renewable gas.• Stakeholders welcome the reduction in our proposed hydrogen readiness expenditure based on draft plan feedback but were undecided on support for our plans given policy uncertainty.• 77% of customers in our workshops supported the proposed digital services package, of which 59% strongly supported.• Stakeholders are generally supportive of our plans to meet customers’ communication expectations, which have shifted to more digital preferences.• We received limited detailed feedback on IT-related aspects of our plans. Stakeholders welcome the benefits of consolidating the IT environments across AGIG.	<p>Our capex proposal has been developed to maintain current levels of safety and reliability.</p> <p>Section 9.4 explains how we have developed our capex forecasts. Our review processes in terms of risk, cost, deliverability and efficiency ensure discretionary capex is minimised.</p> <p>We recognise there is policy uncertainty and have used the most up to date information available to inform our proposals. We note we must continue to maintain and invest in our network to ensure we meet our safety and reliability obligations and deliver on the expectations of our customers.</p> <p>As is current practice, we only connect new customers who want to connect to our network. We also undertake an economic test for all new connections to ensure it is economic to do so (i.e. beneficial to existing customers). An upfront charge is applicable to cover any shortfall. For most new connections we find the payback period falls within six years for new homes and 11 for existing homes.</p> <p>Our Hydrogen Network Readiness Strategy is provided in Attachment 9.10 to this Final Plan. It sets out in more detail the drivers and support for our proposed hydrogen readiness activities in the next AA period. We have also addressed a number of stakeholder queries on our hydrogen readiness activities in earlier chapters of this Final Plan.</p> <p>Our IT Investment Plan (Attachment 9.9) and IT Business Cases (Attachment 9.14) provide more detail on our proposed IT capex including our digital customer experience and AGIG One IT programs.</p> <p>We will continue to engage on our capex plans during our post-lodgement engagement program.</p>
Final Plan Outcome	
<p>Our capex proposal will ensure we can maintain strong safety and reliability performance, continue to meet customer service expectations (including by providing more services digitally) and economically connect new customers. Our proposal also takes small steps towards preparing our network for a decarbonised future.</p> <p>Following refinement of our plans, we have reduced our proposed capex by around \$13 million.</p> <p>This Final Plan provides detailed supporting information to support our proposed capex programs (see Attachments 9.1 – 9.14).</p>	
Customers were highly supportive of our capex plans, including efforts to prepare the network for renewable gas.	
Stakeholders found it difficult to accept some parts of our capex plans because of policy uncertainty.	

Incentives – Customer and Stakeholder Insights

What we heard	Our response
<ul style="list-style-type: none">• Customers view innovation as an enabler to transition cleaner energy. They are supportive of innovation funding to trial new ideas and technology.• 84% of customers who attended our workshops support at least some level of innovation funding.• Some stakeholders were not supportive of the proposed GNIS, with questions around whether there are existing (and potentially more appropriate) mechanisms in place to fund innovation expenditure for gas networks and whether the GNIS was consistent with our plans for accelerated depreciation.	<p>We maintain our Draft Plan positions on the ECM and CESS.</p> <p>We have updated the Contingent CESS API for latest performance.</p> <p>We have decided not to propose a GNIS at this time and therefore have removed the GNIS from our Final Plan.</p>
Final Plan Outcome	
<p>Our incentives proposal will maintain existing incentives to seek out efficiencies and maintain strong performance. Following refinement of our plans, we have not proposed the introduction of a new Gas Network Innovation Scheme at this time.</p>	
Customers were supportive of our plans to invest a small amount into innovation spending.	
Stakeholders were less supportive of our innovation scheme proposal and support its removal.	

Demand – Customer and Stakeholder Insights

What we heard	Our response
<ul style="list-style-type: none">• Stakeholders acknowledged the decarbonisation journey we need to take to satisfy both our customers' expectations and our vision to be environmentally responsible.• Stakeholders appreciated the complexities faced by AGN when forecasting demand in the current environment.• Some stakeholders queried whether our demand forecasts might be overly optimistic, particularly considering the 2022 GSOO, speculation around the Roadmap and anecdotal evidence of changing customer preferences.• Stakeholders noted that they were comfortable with the approach to forecasting demand, including taking account of decarbonisation policies which will affect future demand.• Stakeholders support our reduction in commercial forecasts in response to Draft Plan feedback• Stakeholders also queried whether consideration can be given to local government intentions, given that some councils have flagged a desire for new estates to pursue electrification.	<p>We have considered this feedback and taken the view that our forecasts should only factor in existing policy i.e., the Victorian Energy Upgrades Program (VEU). There remains a lot of uncertainty at the time of lodgement of this Final Plan, and we must use the best information available at this time. The Roadmap is expected to be released around the time of our Final Plan submission on 1 July 2022. When the Roadmap is released and the policy detail known, we will examine it and factor it into our revised proposal.</p> <p>Similarly, in relation to potential actions by Local Government, we consider it prudent to wait until any such policies are announced. At a federal level, considerable funding has been earmarked to upgrade the electricity grid to fast-track electrification, subsidise electric vehicles, invest in green metals (the production of which currently requires natural gas) and to support solar and battery projects.</p> <p>We have not factored Federal Government intentions or the Roadmap into the demand forecast but we will continue to monitor developments over the coming months and update our forecast as these policies are rolled out.</p> <p>We will continue to engage on demand during our post-lodgement engagement program.</p>
Final Plan Outcome	
<p>We have revised down our residential and commercial forecasts in response to this feedback.</p> <p>We will continue to engage on our demand forecasts during post-lodgement activities, and review these numbers based on any new information (i.e., policy positions).</p>	
<p>Stakeholders are seeking further engagement on this topic as new information becomes available (i.e., policy).</p>	

Revenue and Pricing – Customer and Stakeholder Insights

What we heard	Our response
<ul style="list-style-type: none">• Customers and stakeholders told us that affordability is their highest priority.• Customers told us affordability means fair and transparent prices, manageable risk and forward visibility to avoid 'bill shock'• Gas is a significant cost for many major users (commercial and industrial customers) and they stressed the importance of keeping costs low.• Stakeholders have also queried the existing declining block tariff structure, which structure reflects the low marginal cost of increasing the supply of gas to customers and is designed to encourage greater network utilisation.• Stakeholders have also raised whether encouraging utilisation of our network is appropriate given the current decarbonisation of the energy sector. As a regulated business, we have regard to the NGR when designing our tariffs. In its current form, the NGR encourages us to design tariffs in such a way that network utilisation is maximised such that the cost of our service to each customer is minimised to the greatest extent possible.	<p>In developing this Final Plan we have had regard for the impact individual aspects of the plan will have on the affordability of natural gas. Our proposal is for a price cut to distribution charges and accordingly we believe we have responded to this feedback.</p> <p>Our tariffs are designed so that a customer's bill does not rise dramatically during peak periods such as winter when space heating in Victoria and Albury drives high consumption. We believe that customers are able to respond to price signals because retailers largely reflect our distribution tariffs in their retail tariffs.</p> <p>This enables customers to consume according to their heating needs, responding to cold weather, rather than under a flat tariff structure which would reduce the affordability of our services, meaning heating needs would not be met and demand would be curtailed. Customers can respond to our tariffs because they are reflected in the retail price and understand that in the event of an unusually cold winter, they can increase consumption without commensurate increases in winter bills.</p>
Final Plan Outcome	
Our Final Plan focuses on affordability and keeping prices low for customers.	
Customers were pleased to see that prices for the gas distribution component of their bill would not be increasing.	
Stakeholders were encouraged to see that AGN was not proposing price increases for customers.	