

Attachment 11.2

# Response to Draft Decision on Incentives

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SA revised Final Plan July 2021 – June 2026  
January 2021

# 1. Response to Draft Decision on Incentives

**We support the use of effective, outcome-based incentive schemes that promote the long-term interests of our customers.**

## 1.1. Overview

This attachment sets out our response to the AER’s Draft Decision on the incentive arrangements to apply over the next (2021/22 to 25/2026) Access Arrangement (AA) period. We will be continuing with the opex efficiency scheme (EBSS) and introducing the capital expenditure sharing scheme (CESS) over the next AA period, both accepted in the Draft Decision.

## 1.2. Stakeholder and customer feedback

In preparing the revised Final Plan we have continued to engage with stakeholders, including our Reference Groups and through consideration of submissions received by the AER on our Final Plan. We have also commenced a sector-wide customer and stakeholder engagement program in partnership with Jemena Gas Networks and Ausnet Services on the merits of a gas network innovation incentive scheme. This is discussed further in section 1.4.1.

A summary of the feedback provided on our incentive arrangements is provided in Table 1.2 below.

Table 1.2 Summary of customer and stakeholder feedback

Customer and Stakeholder Feedback	Our Response
<p>On the Opex EBSS:</p> <ul style="list-style-type: none"> <li>CCP24 considered the continuation of the EBSS is consistent with the objective of the regulatory framework.<sup>1</sup></li> <li>ECA sought the AER to confirm if modifications made to the standard EBSS in Jemena Gas Networks’ plan will also apply to us.<sup>2</sup></li> </ul>	<p>We agree with the AER’s Draft Decision to allow the continuation of the opex EBSS, with minor amendments.</p>
<p>On the Capex CESS:</p> <ul style="list-style-type: none"> <li>CCP24 considered the introduction of the CESS is consistent with the objective of the regulatory framework.<sup>3</sup></li> <li>ECA encouraged alignment with the CESS applied by Jemena Gas Networks.<sup>4</sup></li> <li>Origin is supportive of incentive regimes that interact with one another.<sup>5</sup></li> </ul>	<p>We agree with the AER’s Draft Decision to allow the introduction of the Capex CESS, with a modification to exclude connections capex.</p>

<sup>1</sup> CCP24, Advice to the AER on AGN SA Final Plan, 10 August 2020 (CCP24 Advice) p. 33.

<sup>2</sup> ECA, Evoenergy and AGN SA Gas AA proposals 2011-26 Submission, August 2020 (ECA Submission), p. 24.

<sup>3</sup> CCP24 Advice, p. 33.

<sup>4</sup> ECA Submission, p. 24.

<sup>5</sup> Origin, Submission on AGN 2021-26 AA Proposal, August 2020, p. 3.

**Customer and Stakeholder Feedback**

**Our Response**

- The SA Minister for Energy and Mining considered the AER to be the best place to assess the merits.<sup>6</sup>

On the Network Innovation Allowance:

- CCP24 supported it in principle.<sup>7</sup>
- ECA needs further information before it could support a scheme and would need to be satisfied that other mechanisms outside of the NGL (eg ARENA funding) aren't sufficient to incentivise the adoption of the type of innovation projects being considered.<sup>8</sup>
- The SA Minister for Energy and Mining observed that the problem we are addressing is unclear and how consumers would benefit in the long run.<sup>9</sup>

A summary of the customer and stakeholder feedback received as part of the engagement on a gas network innovation scheme (GNIS) is outlined in Table 1.4 below.

We have responded to feedback by continuing to engage with our customers and stakeholders including the AER, in partnership with Jemena Gas Networks and AusNet Services, to explore the merits of a gas network innovation incentive scheme. This is discussed further in section 1.4.1.

### 1.3. AER Draft Decision

The AER has approved the continued application of the opex EBSS and the proposal to introduce the capex CESS for the next AA period, subject to the following modifications summarised in Table 1.2 below.

Table 1.2: Summary of the AER's Draft Decision on incentives

	AER Draft Decision	AER Comment
<b>Opex EBSS carryover amounts</b>	<b>Modify</b>	Reduced the carryover amounts by \$4.2 million (\$2020-21) due to using different inflation figures to convert amounts into 2020-21 dollars. <sup>10</sup>
<b>Opex EBSS</b>	<b>Modify</b>	Accepted the continuation of the EBSS to be applied in the next AA period, subject to minor amendments made to be consistent with version 2 of the EBSS for electricity service providers and other gas distribution businesses equivalent mechanisms. <sup>11</sup>

<sup>6</sup> SA Minister for Energy and Mining, Submission on 3 August 2020 (SA Minister for Energy and Mining Submission), p. 2.

<sup>7</sup> CCP24 Advice, p. 33.

<sup>8</sup> ECA Submission, p. 24.

<sup>9</sup> SA Minister for Energy and Mining Submission, p. 5.

<sup>10</sup> AER Draft Decision, Attachment 8, p. 4.

<sup>11</sup> AER, Draft Decision, Attachment 8, p. 8.

	AER Draft Decision	AER Comment
<b>Capex CESS</b>	<b>Modify</b>	<p>Approved the introduction of the CESS for the next AA period but has:<sup>12</sup></p> <ul style="list-style-type: none"> <li>modified the design to exclude connections capex from the CESS; and</li> <li>corrected the calculation for the unplanned SAIDI target.</li> </ul>

Note: In this 'traffic light' table, green shading represents the AER's acceptance of our Final Plan, orange represents the AER's modification of our Final Plan and red shading represents the AER's rejection of our Final Plan.

## 1.4. Our Response to the Draft Decision

We agree with the AER's Draft Decision in respect of the continued application the opex EBSS and the introduction of the capex CESS. The combination of the EBSS and the CESS will provide an appropriate incentive to balance the most efficient mix of opex and capex over the next AA period. Our response to the AER's Draft Decision is summarised in Table 1.3 below.

Table 1.3: Summary of our response to the AER's Draft Decision on Incentives

	AER Draft Decision	Our response	Our comment
<b>Opex EBSS carryover amounts</b>	<b>Modify</b>	<b>Accept</b>	We have updated the 2019/20 opex with full-year actuals and aligned earlier year actuals with our recently submitted Annual RIN. This results in a revised carryover amount of \$5.3 million. The updated model is provided in Attachment 11.3.
<b>Opex EBSS</b>	<b>Modify</b>	<b>Accept</b>	We agree with the AER's Draft Decision to continue to apply the EBSS in the next AA period with slight modifications to reflect the most recent version of the mechanism in place for other service providers.
<b>Capex CESS</b>	<b>Modify</b>	<b>Accept</b>	We agree with the AER's Draft Decision to introduce the CESS for the next AA period with slight modifications to exclude connections capex in line with its most recent decision for Jemena and correct the calculation of the unplanned SAIDI target.

Note: In this 'traffic light' table, green shading represents the acceptance, orange represents a modification and red shading represents a rejection

### 1.4.1. Network Innovation Allowance

In our Final Plan we proposed to introduce a network innovation allowance (or scheme). This was in response to customer support we received for a network innovation allowance during our

<sup>12</sup> AER, Draft Decision, Attachment 13, p. 7.

customer and stakeholder engagement program and because we see the value that could be delivered to customers and to our business through greater support for innovation.

As proposed in our Final Plan, we have undertaken further consultation on the scope and form of the allowance with our customers and stakeholders, the AER and the wider industry.

### Update on our sector-wide engagement

In September, we commenced a sector-wide engagement program on a gas network innovation scheme (GNIS) in partnership with Jemena Gas Networks and AusNet Services, supported by KPMG. The scope of the engagement includes:

- Exploring innovation in gas networks and customer benefits;
- Understanding levels of stakeholder and customer support for the development of a GNIS;
- Developing a GNIS framework (if there is stakeholder and customer support) that has been shaped by stakeholders in the interests of customers, and is capable of being accepted by our customers and stakeholders; and
- Developing a scheme framework that should be simple to apply for and access funding (low administrative burden on GDBs and the AER).

The joint engagement is being conducted in two phases to first understand levels of support, and if there is support, to co-design a potential scheme. The project methodology is summarised in Figure 1.1 below.

Figure 1.1: Summary of the project methodology

<b>Phase 1</b>	<ul style="list-style-type: none"> <li>✓ Understand the level of support from stakeholders to utilise regulatory incentives as a mechanism to promote innovation in the gas sector</li> </ul>
Engagement on potential scheme & design principles	<ul style="list-style-type: none"> <li>✓ Identify and explore stakeholder expectations for how an Innovation Scheme could be designed</li> <li>✓ Identify preferences for engaging on a more detailed design</li> <li>✓ Identify what information, stakeholder/consumer engagement activities or research would be required to develop an industry scheme capable of acceptance by customers and stakeholders</li> </ul>
<b>Phase 2</b>	<ul style="list-style-type: none"> <li>✓ Subject to feedback from the first workshop, co-design incentive mechanisms that promote innovation in the gas sector for the benefit of both consumers and network businesses</li> </ul>
Co-design with stakeholders	<ul style="list-style-type: none"> <li>✓ Develop a framework for a Network Innovation Scheme which is supported by stakeholders, and is in the long-term interest of consumers</li> </ul>

Our engagement is being informed via a series of one-on-one interviews and workshops over six months with consumer representative groups and key stakeholders from across Australia. At the time of submitting the revised Final Plan, we have conducted:

- 12 interviews with 16 representatives from consumer representative groups and key stakeholders from across Australia. The purpose of these interviews was to seek feedback on several key themes including value to customers, scope of innovation and views on a gas network incentive scheme to inform the workshops;
- Three stakeholder reference group meetings, with representation from the AER, other major gas distributors, Energy Consumers Australia and Energy Networks Australia. The purpose of

these meetings was to provide advice and feedback on the design and delivery of the GNIS engagement program; and

- The first stakeholder and customer workshop as part of Phase 1.

A summary of the feedback from the interviews and Phase 1 workshop is provided in Table 1.4 below.

Table 1.4: Summary of customer and stakeholder engagement feedback to date - GNIS

Customer and Stakeholder Feedback	Our Response
<b>Phase 1 Interviews: Initial views on a GNIS</b>	
<ul style="list-style-type: none"> <li>• About half of the customers and stakeholders were highly supportive of the introduction of a GNIS, while others were largely neutral and a few indicated low levels of support.</li> <li>• Majority of customers and stakeholders rated the current level of innovation in the sector today as being low and insufficient for the longer-term future. Others thought the level was good but may need to be increased in the future.</li> <li>• Customers and stakeholders wanted more information on why a GNIS is needed, the current mechanisms and gaps in funding available to GDBs, customer perspectives, early design principles and potential safeguards.</li> </ul>	<ul style="list-style-type: none"> <li>• We took on feedback from the interviews to help form the design of Workshop 1 which focussed on exploring the current context for innovation, in particular the types of innovations GDBs are currently investing in, an overview of the current mechanisms used to promote innovation and the potential gaps.</li> </ul>
<b>Workshop 1: Understanding the current context and opportunities innovation</b>	
<ul style="list-style-type: none"> <li>• Customers and stakeholders were comfortable that the key themes we presented were reflective of their feedback.</li> <li>• Customer and stakeholder support for a customer funded scheme to complement existing funding mechanisms was mixed.</li> <li>• More information is needed on the problem that needs to be addressed, the types and levels of benefit that may flow to customers and the funding arrangements.</li> <li>• Customers and stakeholders had varying ideas on where innovation funding could be targeted or prioritised. Ideas included safety of the network infrastructure, expanding biogas availability and renewables.</li> </ul>	<ul style="list-style-type: none"> <li>• In response to feedback from workshop 1, we have refined the problem definition after holding a facilitated workshop by KPMG. We have also tested the problem definition with the stakeholder reference group and sought their feedback.</li> </ul>
<b>Workshop 2: What is the problem that a GNIS is trying to solve?</b>	
<b>Workshop 2 will be held in mid-January 2021.</b>	
<b>Phase 1 Outcome</b>	

Based on the outcomes of Phase 1, KPMG will present its findings in a report on whether there is sufficient customer and stakeholder support to explore the potential scheme design of a GNIS in Phase 2.

### Next steps

We will hold the second workshop as part of Phase 1 in mid-January 2021 to further explore the key issues identified by workshop participants including:

- Defining the problem we are trying to solve through a customer funded innovation incentive scheme;

- The benefits of innovation to customers and appropriate funding arrangements for a scheme; and
- Potential areas for innovation in the gas sector.

We will also go back to our stakeholder reference group to get their feedback on our approach to Workshop 2 and further refine our engagement materials.

Upon conclusion of Phase 1, KPMG will summarise the findings from the Phase 1 engagement. This will be in the form of a report, which will be provided to all stakeholders and will outline whether there is sufficient support to progress to Phase 2 of the engagement, which is to consider the scheme design of a potential GNIS.

If timing permits, and subject to the outcomes of Phase 1 and Phase 2 of our engagement, we may make a separate submission to the AER before it makes its Final Decision in April 2021 on the potential inclusion of a GNIS as part of this Access Arrangement. Alternatively, we would like to explore with the AER the options available for the GNIS to apply in the next AA period for SA if the engagement program concludes after the AER has made its Final Decision, and the outcome is in favour of a GNIS.

## **1.5. Summary**

We will continue to apply an opex EBSS and introduce a capex CESS in the next AA period, which together will strengthen our incentive to deliver expenditure cost savings and continuously pursue efficiency improvements. This will allow the benefits of ongoing efficiencies made to be shared with our customers.