

Attachment 5.6

KPMG Draft Five Year Plan for the South Australian Network (July 2021 - June 2026) Stakeholder Engagement Report

SA Final Plan July 2021 – June 2026

July 2020



Draft Five Year Plan for the South Australian Network (July 2021 - June 2026)

Stakeholder Engagement Report

8 May 2020

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Prepared for
Australian Gas Networks



Context and Purpose

As part of a regulated process, Australian Gas Networks (AGN) is planning its future investment priorities and services for its South Australian gas distribution network for 2021-26.

These priorities and services will be documented in its Final Plan (otherwise known as an Access Arrangement).

Customer and stakeholder engagement is an important part of this process to help ensure investment priorities reflect customer and stakeholder needs now and in the longer term, and to ensure the strategy has their support.

AGN is committed to developing a Final Plan that:

- is underpinned by effective stakeholder engagement
- delivers on the long-term interests of customers
- is capable of acceptance by customers and stakeholders.

AGN's approach to meeting these objectives includes engaging with a range of stakeholders across a variety of mechanisms, which is detailed in the *Customers are at the Centre of our Planning: Draft Stakeholder and Engagement Plan*.

On 17 February 2020, AGN published a Draft Plan for a six week consultation period. The Draft Plan was published on the AGN website and distributed to key stakeholders. Supporting information and other engagement resources were made available on AGN's online engagement platform, Gas Matters. Publication of a draft plan is a key component of AGN's Engagement Program, facilitating discussion and seeking feedback on AGN's draft proposals.

AGN held two deep-dive engagement sessions, facilitated by KPMG, with key stakeholders from AGN's Stakeholder Reference Group and Retailer Reference Group.

The two engagement workshops were held on 13 March and 9 April. The first session was hosted at KPMG offices. The second session was conducted virtually via teleconference in response to social distancing measures in place for COVID-19.

At each session AGN presented detail on key components of the Draft Plan as follows:

Workshop 1

- CapEx and OpEx proposals
- Future of Gas
- Incentives

Workshop 2

- Response to COVID-19
- Pricing
- Terms and Conditions
- Demand
- Rate of Return
- Capital Base

Participants were invited to ask questions and provide feedback. As part of the workshop, KPMG facilitated discussion with the group to allow participants to explore key areas for further feedback. This feedback is captured and reflected in this report.

This feedback in this report was documented and circulated to participants to ensure it accurately and comprehensively reflected participant feedback.

Stakeholder Feedback

Stakeholder feedback on the process was very positive. Stakeholders appreciated the consultative process AGN has undertaken with more than one stakeholder as being one of the best processes in which they have been involved.

Overall, stakeholders were generally satisfied with AGN’s Draft Plan, including:

- OpEx and CapEx proposals
- the proposed price reduction of 8%
- proposed investment in hydrogen and renewable gas
- the process of engaging key stakeholders in a co-design process for supporting vulnerable customers.

Stakeholder feedback related to these key areas:

- the impacts of COVID-19 for customers, both immediately and in the longer-term
- the proposed price path, and the merits of the current price reduction model (i.e. a larger price reduction followed by incremental price increases in line with inflation) or a ‘smoothed out’ model (i.e. consistent price reductions)
- the positioning of ‘business as usual’, given the impacts of the summer 2019-20 bushfires, increasing need for renewable energy sources, and COVID-19
- AGN’s longer-term vision into the next regulatory period and potential price impacts
- customer impacts in the transition to hydrogen (e.g. billing impacts, need to purchase new appliances).

Topic	Stakeholder Feedback
Overall	<ul style="list-style-type: none"> • Stakeholders are broadly supportive of AGN’s Draft Plan. • Stakeholders appreciate the consultative process AGN has undertaken in developing its Draft and Final Plans, noted by more than one stakeholder as being one of the best processes in which they have been involved. • Stakeholders recognise that the Australian Energy Regulatory will undertake detailed analysis and assessment of AGN’s detailed proposal.
Capital Expenditure (CapEx) and Operating Expenditure (OpEx) Proposals	<ul style="list-style-type: none"> • One stakeholder queried whether AGN is incentivised to increase OpEx spending during the early part of the regulatory period, ensuring the final year is efficient (allowing AGN to receive benefits associated with underspending in this final year). <ul style="list-style-type: none"> • It was noted, however, that the Efficiency Benefits Sharing Scheme addresses this risk. • In context of AGN’s Input Cost Calculation, stakeholders: <ul style="list-style-type: none"> • noted that vulnerable customers are experiencing financial stress associated with recent stagnation in wage growth • queried the assumption that input costs escalate at 0.5%, suggesting that this may be a conservative estimate. • One stakeholder posed the following key questions in regards to the residual cost of the mains replacement program and the inclusion of this cost in the depreciation allowance: <ul style="list-style-type: none"> • Why the residual cost is so large? • How it is determined given there is no official Regulated Asset base register? • What is in this value • What does this extra charge on consumers mean for the business case sitting behind the replacement of the mains? • Stakeholders indicated broad support for AGN’s OpEx and CapEx proposals.

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Consultation Report

Topic	Stakeholder Feedback
Future of Gas	<ul style="list-style-type: none"> Stakeholders are very supportive of AGN investing in Hydrogen and ‘green gas’. Stakeholders queried the impact on customers of moving towards a Hydrogen blend of gas in the longer term, with concerns about whether customers would be required to purchase new compatible appliances. Stakeholders noted that AGN is engaging with appliance manufacturers to address this and suggested this action be captured within the Final Plan. With regard to UAFG consumption, stakeholders suggested that AGN provide volume graphs in addition to price graphs in the Final Plan, for clarity. Some stakeholders are interested in validating AGN’s UAFG replacement proposal to review the price of gas and ensure AGN’s proposal is in line with that price path. One stakeholder expressed the need to ensure that the introduction of Hydrogen into SA’s network does not result in any incorrect billing for customers as a result of the substantially different heating value the hydrogen would have relative to natural gas. <ul style="list-style-type: none"> One retailer has suggested that AGN introduce additional measuring devices to monitor the gas flows to ensure there is a better understanding of the gas dynamics and ability to apply an appropriate gas heating value for customer billing.
Pricing	<ul style="list-style-type: none"> Stakeholders are supportive of AGN’s proposed 8% price reduction. There are different views among stakeholders as to the preferred price path: while retailer representatives and some other stakeholders indicated a preference for ‘smoothing out’ the price reduction over the five-year period (i.e. consistent price reductions each year), some stakeholders indicated a preference for AGN’s current price reduction model (i.e. a larger price reduction followed by incremental price increases in line with inflation) as this provides more immediate financial relief. Some stakeholders suggested that AGN’s price reduction model (i.e. a larger price reduction followed by incremental price increases in line with inflation) may be confusing for customers and should be clearly communicated. Stakeholders queried how COVID-19 might impact AGN’s revenue and debt costs (and by extension impact on price), noting that further assessment is required. Stakeholders queried the impact of potentially reduced asset lives on AGN’s price model. Stakeholders queried whether AGN’s figures should be adjusted downwards to reflect the impact of current low interest rates on AGN’s cost of capital and cost of debt, but noted that AGN’s estimates are based on a 10-year average.
Demand	<ul style="list-style-type: none"> Stakeholders queried how AGN accounts for changes in the electricity market (e.g. batteries, virtual power plant) influencing demand for gas; AGN advised that their demand model accounts for elasticity. s, virtual power plant).
Terms and Conditions	<p>No specific comments received. Note: a parallel consultation process is underway to incorporate feedback from Retailer Reference Group.</p>
Incentives	<p>No specific comments received.</p>
Rate of Return	<ul style="list-style-type: none"> A stakeholder questioned whether AGN’s proposed Rate of Return should be reduced to reflect currently low interest rates; however, after discussion it was recognised that AGN’s Rate of Return is based upon a 10-year trailing average.

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Consultation Report

Topic	Stakeholder Feedback
Capital Base	<ul style="list-style-type: none"> • One stakeholder queried whether AGN had undertaken modelling to determine the impact of AGN reducing asset lives in the next regulatory period (commencing 2026) and the potential impact on price. AGN is undertaking this assessment and will share the results with stakeholders once complete. • Stakeholders discussed the long-term prospects of gas, and one stakeholder expressed the view that that customers should not be left with stranded assets. • Stakeholders are supportive of AGN's current approach to review asset lives in the next regulatory period on account of both price impact and uncertainty if the future of the gas network in a low carbon economy.
Support for vulnerable customers	<ul style="list-style-type: none"> • Stakeholders appreciate the genuine consultation undertaken in regards to the role of AGN in supporting vulnerable customers. • Stakeholders recognise the complex ecosystem of stakeholders in supporting vulnerable customers, including the role of State and Federal governments. • Stakeholders expressed a desire to understand AGN's plans to support vulnerable customers in more detail once determined.
Covid-19 Response	<ul style="list-style-type: none"> • Stakeholders are supportive of AGN providing assistance during COVID-19. • Stakeholders clarified that AGN is funding the relief package and that the financial impact won't be passed onto residential customers. • Stakeholders queried whether AGN could support customers more directly. • One stakeholder queried whether the eligibility criteria is set too high (customers need to demonstrate a 75% reduction in energy use compared to normal use), and suggested a lower threshold (e.g. 50% energy reduction) would be more suitable. • Stakeholders advised that timing is critical – businesses require support to maintain cashflow immediately. • One stakeholder also commented that the network waiver does not flow immediately through to impacted businesses; it only allows retailers to write-off an unpaid quarter four bill and be rebated, and that it is expected that retailers and networks will work together to facilitate this. Additionally, it was noted that there is no relief for large market customers, in contrast to the electricity market. • While stakeholders support AGN's short-term proposal for support, stakeholders are interested in AGN's long-term plans for responding to COVID-19, with consideration to broader economic impacts. Stakeholders expressed support for AGN to undertake modelling and analysis of long-term price impacts of COVID-19 on financeability, and to share this in its Final Plan. • Some stakeholders are concerned that should COVID-19 reduce demand for gas, a corresponding increase in gas prices will have negative outcomes (particularly for vulnerable customers). • One stakeholder noted that customers' preferences and priorities may have or be likely to change in the period since AGN has undertaken its customer engagement program, as a result of COVID-19 and its potential economic impacts. Stakeholders recognise that while the immediate changes and impacts may be difficult to quantify, and that AGN considers customer input as just one consideration in developing its plans, it will remain important for AGN to be cognisant of potential changes to customer preferences.
Other topics raised	<ul style="list-style-type: none"> • One stakeholder queried whether the increases in insurance premiums associated with the 2019-20 bushfire season will increase AGN's insurance levels. It was noted, however, that AGN's assets are typically unaffected or less affected by bushfire due to being largely underground. • Stakeholders advised that AGN's message that its Draft Plan is 'largely business as usual' does not resonate in a world affected by bushfires, climate change, and COVID-19.

End of feedback.

Consultation Participation

Stakeholder	Organisation	Reference Group	Meeting 1 13 March 2020	Meeting 2 9 April 2020
Helena Kyriazopoulos	Multicultural Communities Council of SA	SA Reference Group	Attended	Attended
Anthony Moore	Consumers SA	SA Reference Group	Attended	Apology
Reeva Brice	COTA SA	SA Reference Group	Attended	Attended
Wendy Shirley	SA Financial Counsellors Association	SA Reference Group	Attended	Attended
Kevin Kaeding	SA Federation of Residents and Ratepayers	SA Reference Group	Attended	Attended
Stephen Myatt	Australian Industry Group	SA Reference Group	Attended	Apology
Tamsyn Hinksman	ESCOSA	SA Reference Group	Attended	Attended
Torie Brown	Property Council of Aust (SA)	SA Reference Group	Apology	Attended
Glenn Hordacre	UDIA (SA)	SA Reference Group	Attended	Apology
Jordan Smith	Business SA	SA Reference Group	Attended	Apology
Andrew McKenna	Business SA	SA Reference Group	Apology	Attended
Rebecca Law	SACOSS	SA Reference Group	Attended	Attended
Shaun Cupitt	Alinta	Retailer Reference Group	Attended	Attended
Aakash Sembey	Simply Energy	Retailer Reference Group	Attended	Attended
Con Noutso	Lumo/Red Energy	Retailer Reference Group	Attended	Attended
Mark Riley	AGL	Retailer Reference Group	Attended	Attended
Patrick Whish-Wilson	AGL	Retailer Reference Group	Apology	Attended
Courtney Markham	Origin Energy	Retailer Reference Group	Attended	Attended
Gary Davies	Origin Energy	Retailer Reference Group	Apology	Attended
Mark Grenning	AER CCP	N/A – observer	Attended	Attended
Mark Henley	AER CCP	N/A – observer	Attended	Attended
Matthew Pearce	KPMG	N/A – facilitator	Attended	Attended
Grace Smith	KPMG	N/A – facilitator	Attended	Attended

Members of the AGN executive and staff also attended both workshops.



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Inherent Limitations

This report has been prepared as outlined in the Context and Purpose Section. The services provided in connection with this engagement comprise an advisory engagement, which is not subject to assurance or other standards issued by the Australian Auditing and Assurance Standards Board and, consequently no opinions or conclusions intended to convey assurance have been expressed.

The findings in this report are based on a qualitative study and the reported results reflect a perception of Australian Gas Networks (AGN) but only to the extent of the sample surveyed, being AGN's SA Reference Group and Retailer Reference Group. Any projection to the wider stakeholder base is subject to the level of bias in the method of sample selection. No warranty of completeness, accuracy or reliability is given in relation to the statements and representations made by, and the information and documentation provided by, AGN customers and stakeholders consulted as part of the process.

KPMG have indicated within this report the sources of the information provided. We have not sought to independently verify those sources unless otherwise noted within the report.

KPMG is under no obligation in any circumstance to update this report, in either oral or written form, for events occurring after the report has been issued in final form.

The findings in this report have been formed on the above basis.

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