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# **AusNet Gas Services Pty Ltd**

## **Gas Access Arrangement Review 2018–2022**

### **Appendix 5D: Energy Research Study 3 Report**

**Submitted: 16 December 2016**



# Gas Access Arrangement Review 2018-22



Customer Advocate Workshop: Report

June 2016

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missionzero

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# Summary

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Every five years, AusNet Services submits a proposed plan outlining the gas services that we will offer, the costs associated with the provision of these services, and the prices to be charged to customers. This process is known as the Gas Access Arrangement Review (GAAR). We are currently developing the next 5-year plan, commencing 1 January 2018.

To ensure that our GAAR submission accurately and genuinely reflects our customers' views, we conducted a workshop on 19<sup>th</sup> May 2016 with customer and stakeholder advocates to gather their thoughts on key business decisions facing the gas network.

Customer advocates supported the view that maintaining safety and reliability should remain key drivers of our 5-year plan.

There was discussion on the future of the gas network and the role of gas in a carbon-neutral economy. The implications of the evolving energy landscape on AusNet Services' gas network were discussed.

The insights from this workshop will not only assist us in developing our plans for the upcoming GAAR submission but also future planning for the gas network.

# Background and purpose

## Background

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AusNet Services owns and operates the gas distribution network, transporting gas to more than 660,000 customers living and working in central and western Victoria. Our network spans more than 10,000 kilometres of distributions mains across an area of 60,000 square kilometres.

In Victoria, gas distribution is regulated by the Australian Energy Regulator (AER) under a national framework. Under this framework, we are required to submit a proposed plan outlining the gas services that we will offer, the costs associated with the provision of these services, and the prices to be charged to customers over a five year period. This process is known as the Gas Access Arrangement Review (GAAR). This plan will commence 1 January 2018.

To ensure that our GAAR submission accurately and genuinely reflects the views of our customers, we have developed a comprehensive customer and stakeholder engagement program comprising of four studies. This program is designed to understand the preferences of our customers and stakeholders.

## Purpose of the workshop

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The third study in our customer and stakeholder engagement program for the GAAR was a customer advocate workshop held 19<sup>th</sup> May 2016. It followed a series of focus groups (study 1) and an online survey (study 2) with residential customers of our gas network.

The purpose of the workshop was to:

- (i) inform customer advocates on findings from recent customer engagement efforts; and
- (ii) gather customer advocates' thoughts on how these insights could inform key business decisions for the gas network

The key business decisions for the 2018 GAAR focus on five key areas:

1. Reduce the safety risk of the network by maintaining the **mains replacement program**
2. Shifting the **rate of depreciation** based on a 'user-pays' model
3. Continuation of a **price cap form of control**
4. Strengthening **incentive schemes** in the next regulatory period
5. **Marketing of gas services** to lower the average network in the long-term interest of customers.

# Methods



## Research design

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A two-hour workshop was conducted with customer advocates representing a range of customer and stakeholder groups. To protect participants' anonymity and privacy, the specific organisations that they represent will not be disclosed.

The workshop was run by an external facilitator to ensure independence. There were, however, a number of internal subject matter experts present at the workshop. Their purpose was to assist in the explanation of theoretical concepts and clarify any questions that arose during the workshop. All participants were sent a copy of the discussion guide prior to the workshop.

The workshop was audio recorded and later transcribed. Thematic analysis was used to analyse the workshop transcript. This method for analysing qualitative data categorises the data according to common themes and issues. The findings are then presented according to these common themes and issues.

# Mains replacement



## What we told advocates ...

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Before consulting advocates on AusNet Services' mains replacement program, we informed them that:

- Mains replacement forms 25% of our capital expenditure allowance.
- The primary driver of decommissioning deteriorating mains is to reduce the safety risk of the network.
- We are replacing deteriorated low and medium pressure cast iron and unprotected steel mains in order to reduce network leak rates.
- Leakage rates have typically been maintained as a result of current investments in mains replacement.
- The current mains replacement program intends to:
  - Maintain the current risk profile
  - Maintain compliance
  - Meet stakeholder expectations of completing the low pressure replacement program by 2015
- Findings from our recent customer engagement studies suggest when it comes to the gas network, safety is the number one priority, followed closely by reliability.

## Advocate insights

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All advocates agreed with the direction of our mains replacement program and our commitment to remove the low pressure mains from our network by 2025. They also confirmed that the reliability and safety of the gas network are indeed salient issues for customers.

Other issues raised include:

1. Manufacturing trends and future industrial activity should be taken into account when developing our 5-year plan. In particular, it was noted that there are a number of large businesses operating within our gas network who rely on the gas network.
2. The training and safety of fieldworkers should be a priority during the replacement programs.

# Rate of depreciation



## What we told advocates ...

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Prior to gathering the advocates thoughts on our depreciation plans, they were told that:

- Depreciation represents the decline in asset value over time.
- Depreciation costs were 15% of AusNet Services revenues in 2013-17.
- In response to recent changes in customer demand for traditional energy sources, it has been suggested that network businesses increase the rate at which depreciation costs are recovered.
- There has been an emerging policy debate around asset stranding risk and the future allocation of future liability for the networks' sunk costs.
- This has led us to consider the potential to propose accelerating depreciation in the next regulatory period.
- Our recent consultation with residential customers on accelerated depreciation suggested that:
  - Customers find questions relating to future costs difficult to answer due to the level of uncertainty.
  - Factoring in potential decreases in gas usage by future generations is difficult for some to conceptualise.
  - In principle, customers believe that gas infrastructure cost should be distributed fairly across the life of an asset and between generations.

# Advocate insights

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The future of the gas network was discussed in the context of a low emissions future. It was agreed that the future role of gas was uncertain, as the economy shifts from fossil fuels towards renewables. The transitional role that gas could play as the economy shifts away from coal-powered electricity was discussed. The advocates appreciated that the future stranding risk for gas network assets was high.

Given the level of uncertainty regarding the future utilisation of the gas network, the basic principles for accelerated depreciation were well understood. Advocates agreed that prices should reflect the value of the network.

Some advocates warned that network providers would have to be transparent about the rationale for accelerating depreciation. The importance of getting the messaging and terminology correct when seeking a revised depreciation schedule was acknowledged.

There was also discussion regarding the potential 'electrification' of homes in readiness for a low-carbon future and the potential impact this could have on gas consumption.



Strengthening incentives

## What we told advocates ...

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During the workshop, we spent some time explaining our intentions as they relate to potential incentive schemes for the next regulatory period:

- The Gas Rules provide AusNet Services with the opportunity to introduce new incentive schemes to encourage efficiency in the provision of gas services
- We intend to propose a more comprehensive set of incentive arrangements:
  - the retention of the AER’s operating expenditure incentive scheme (the EBSS)
  - the introduction of the AER’s capital expenditure efficiency sharing scheme (CESS), which does not automatically apply to gas networks
  - the development and introduction of a customer satisfaction incentive scheme (CSIS)

# Advocate insights

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Advocates recognised that incentives are an important feature of the current regulatory framework. Designing a regime which provides incentives for cost efficiency, while maintaining reliability and quality of supply is critical to the regulatory construct. Advocates noted that each incentive scheme cannot be assessed in isolation. That is, the incentive regime in its entirety should be examined.

In principle, the advocates supported incentives which focussed on expenditure efficiency and customer satisfaction. They noted that this needs to be carefully balanced with incentives to maintain the quality of supply.

The advocates stated that the introduction of a capital expenditure efficiency scheme for gas networks, needs to be in the long term interests of consumers, as reflected by the National Gas Objective.

# Gas marketing

## What we told advocates ...

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Before consulting advocates on AusNet Services gas marketing plans, they were informed that:

- Australian gas markets are entering a period of significant change.
- Over the last decade, little has been done to proactively grow our network, unlike some of our industry peers.
- Other gas businesses engage in targeted marketing activities to grow their customer base, and thereby support lower average network prices over time.
- Our preliminary plans for gas marketing include to:
  - position gas as an essential fuel for modern living
  - make it easier and more effective to install gas
  - provide incentives and information to encourage customers to connect to gas and install appliances
  - increase influence over appliance purchase decisions
  - work with builders/manufacturers to expand the range of gas appliances available to customers

# Advocate insights

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A targeted gas marketing program was supported in principle by the advocacy group. It was raised that with the future of gas networks uncertain, any gas marketing activities need to be targeted and sustainable.

Advocates were concerned of any unintended consequences that may arise from gas marketing efforts. Advocates believed there was a need for clear information to customers around the features and functionality of certain gas appliances (i.e., outputs, running costs, purchase costs etc.) to ensure that customers make an informed decision.

# Form of control

## What we told advocates ...

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- As gas is a fuel of choice, price cap regulation is consistent with the principle of keeping services reasonably priced.
- AusNet Services is focused on providing high levels of network reliability and customer service.
- AusNet Services believes that a price cap form of control provides incentives for regulated network businesses to set efficient prices. This is because the business can grow its revenues by setting tariffs that lead to greater use of the network.

# Advocate insights

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- Advocates agreed that a price cap form of control placed a stronger incentive on the business to target areas of sustainable network growth and ensure that valued services are provided to its customer base.

# Conclusion



## Conclusion

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The motivation for conducting this research was to consult with customer advocates on key business decisions for our gas network.

Customer advocates were in agreement that maintaining the safety and reliability of the network were the main issues for customers and should drive our future planning for the network.

The future of the gas network was discussed, in the context of a push towards a low carbon emissions future. It was agreed that there was potential for the utilisation of the gas network to be less in the future due to the emergence of alternative technologies.

It was agreed that gas is a valued energy source which consumers envisage using into the future. However, gas consumption is expected to decrease over the coming decades as new technologies are further developed and adopted.