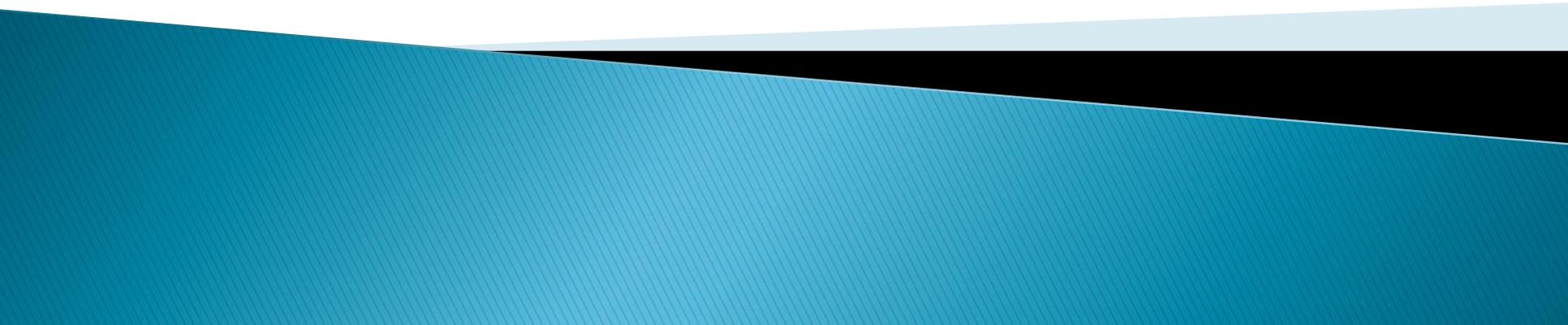


AUSTRALIAN GAS NETWORKS
(SOUTH AUSTRALIA)
2016–2021 PLAN
Consumer Group Meeting – 27 July 2015

Presentation by AER's Consumer Challenge
Panel

David Prins and Robyn Robinson



AGENDA

1. Introduction to the Consumer Challenge Panel
 2. Our initial observations
 3. Your feedback
 4. Next steps
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What is the Consumer Challenge Panel?

- ▶ The CCP assists the AER to make better regulatory determinations by providing input on issues of importance to consumers
- ▶ We advise the AER on
 - Whether a network business proposal is justified
 - Whether the proposal is in the long term interest of consumers
 - The effectiveness of the business' consumer engagement
- ▶ We challenge the network businesses, and we challenge the AER

Our initial observations (1)

▶ Overall proposal

- Maintains current levels of safety, customer service and reliability
- Delivers immediate price reduction of 11%, followed by 5% per annum price increases (in real terms)
- 9% reduction in revenue allowance (in real terms)
- Increased investment levels
- Informed by a structured stakeholder engagement program

▶ Stakeholder engagement

- Stakeholder Engagement Strategy
- AGN Reference Group
- Retailer Reference Group
- Community Workshops
- Key Stakeholder Interviews
- On-line survey
- Ongoing engagement

Our initial observations (2)

▶ Demand forecasts

- Previous AER forecasts have not been met
- AGN forecasts significant decreases in demand:
 - Residential: 17% less than current period actual
 - Commercial: 6% less than current period actual

▶ Capex

- 28% increase over current allowance (\$547 million to \$699 million)
- 60% for Mains Replacement Program
- 16% for Growth Assets
- 10% for IT

Our initial observations (3)

- ▶ Proposed rate of return
 - Reduced from 10.28% to 7.23%
 - Approximately 50% of revenue
 - SAPN Preliminary Decision 5.45%
 - Some departures from AER Guideline
 - Australian Competition Tribunal review
- ▶ Regulated Asset Base
 - Grows from \$1 428.8 million to \$21 16.0 million (48% increase)
- ▶ Tariffs
 - Reduction by 11% in 2016, then 5% increases annually (in line with growth in regulatory asset base)
 - For both residential and business customers

Our initial observations (4)

▶ Opex

- Reduction in opex from \$367 million to \$353 million (4%)
- Benchmarking with other gas distribution networks

▶ Incentives

- Efficiency Benefit Sharing Scheme (opex) – continuation proposed, but with 50% share of benefits
- New incentives proposed: Capital Efficiency Sharing Scheme, Customer Service Incentive Scheme, Innovation Incentive Scheme

▶ Cost pass throughs

Your feedback:

- ▶ Stakeholder engagement
- ▶ ‘Willingness to Pay’ surveys
- ▶ Consultation on:
 - Proposed capex
 - Variation from Rate of Return Guideline
 - Proposed tariff price path
 - Incentive Schemes
 - Benefit sharing ratios
 - Price cap vs revenue cap
 - Cost pass throughs
 - Removal of zero consuming meters
 - Other

Next Steps ...

- ▶ CCP members will be meeting with AGN
 - ▶ CCP members invite feedback on any aspect of the proposal
 - ▶ Submissions to the AER are due by 10 August 2015
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THANK YOU