

Consumer

Challenge

Panel

**CCP24 Advice to Australian Energy Regulator on
Australian Gas Networks**

Customer initiated opex programs

for AGN Gas Networks (South Australia) Access Arrangement

July 2021-June 2026

Consumer Challenge Panel (CCP) Sub-Panel CCP24

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6 October 2020

1. Introduction and Summary

On 24th September 2020, the AER requested Advice from CCP24 regarding AGN (SA)'s consumer engagement activities for the opex customer-initiated programs:

- Digital customer experience program (step change),
- Vulnerable customer assistance program (step change), and
- Purchasing renewable unaccounted for gas (at a premium).

Specifically, the AER asked whether ‘in the CCP24’s opinion, the outcomes of AGN (SA)’s consumer engagement supports or does not support (as the case may be) AGN’s proposed ‘customer initiated’ opex expenditure programs’.

This Advice is provided in response to that request.

It begins by summarizing AGN’s engagement program and CCP 24’s involvement in that engagement, providing context for answering the questions the AER has posed. As we said in our CCP24 Advice on the AA, AGN has a strong track record of genuine and effective engagement and this current regulatory process extended that record.

Our specific responses to the questions asked are:

<p>1. <i>Do you consider the AER should allow step changes where the primary driver is based on customer engagement outcomes and where there is no underlying new regulatory obligation or capex/opex tradeoff?</i></p> <p><i>If so, what threshold of customer support (or other criteria) should be required before a step change is allowed.</i></p>	<p>Yes – and we provide some initial thoughts on what the threshold might look like</p>
<p>2. <i>How would you assess AGN (SA)'s engagement on each proposed project - digital customer experience, vulnerable customer program and purchasing renewable unaccounted for gas - with respect to the following elements of consumer engagement:</i></p> <p><i>– nature of engagement, breadth and depth, clearly evidenced impact and assessment of outcomes</i></p>	<p>Digital customer experience – sound engagement approach and strong support from the range of customers who were consulted.</p> <p>Vulnerable customer assistance program – engagement supports the proposed VCAP in principle, with a number of stakeholders seeking further clarification of project details</p> <p>Purchasing renewable unaccounted for gas – strong residential and small business support and no strong opposition from other consumer classes</p>

COVID 19 Implications

Many submissions on the Final Plan mentioned COVID-19 in the context of the need to keep costs as low as possible.

While the engagement discussed in this Advice was largely completed by mid-March 2020, submissions on the Final Plan were made in early August 2020, so it is reasonable to assume that stakeholders' views on the proposed opex changes would have incorporated to some extent their views on whether COVID-19 might change what they had expressed back in February/March.

Nevertheless, we consider that the best next step is for AGN to seek the views of a reasonable representation of the customers they have previously engaged with about whether their views have changed regarding the three opex initiatives. This is consistent with an approach that is customer focused and which shares problem-solving at a time of uncertainty. We also believe that this reflects a 'no surprises' approach, in a time of external 'surprises.'

2. AGN's Stakeholder Engagement Process and CCP24's Involvement

Stakeholder Engagement Process

AGN's four stage strategy for customer and stakeholder engagement is set out in the diagram below.



Figure 1: Source AGN Final Plan

(a) Residential and Small Business Customer Workshops

During stages 2 and 3, the engagement program included three rounds of customer workshops involving the same participants on each occasion. Each round comprised a series of 7 workshops as follows:

- Residential customers in Adelaide
- Business customers in Adelaide
- Residential and business customers in Barossa Valley
- Residential and business customers in Port Pirie
- Residential and business customers in Mount Gambier
- Culturally and linguistically diverse customers in Adelaide
- Culturally and linguistically diverse customers in Murray Bridge

In total, over 100 participants contributed to the 7 workshops in each round of consultation, with the same participants invited for each round. Participants were recruited through a specialist third-party provider, had nominated to participate in market research activities, and were provided a financial incentive for attending. Participants were recruited from a diversity of geographical locations and backgrounds. Participants for the two workshops focused on engaging culturally and linguistically diverse (CALD) communities were selected based on their position as a leader of a multicultural community in South Australia (SA) and may not have been customers of AGN.

Due to the geographical spread of the workshops, the focus on attracting representatives from different customer cohorts, and the 'arms-length' participant selection process, CCP24 considers that workshop participants were a fair representation of AGN's residential and small business customer base.

The timing and objectives of each round of workshops were as follows:

Round	Timing	Workshop Objectives
1	July, August 2019	<ul style="list-style-type: none"> - understand customer values, service expectations and priorities to inform future investment plans - genuinely engage with and listen to customers as part of AGN's business planning process - educate customers about AGN and its role, to facilitate ongoing and informed engagement.
2	October 2019	<ul style="list-style-type: none"> - validate customer feedback and input from phase 1 - test and seek feedback on draft proposals (including cost impacts where appropriate) and ideas, - further explore issues of importance to customers and AGN; - continue to inform and educate customers.
3	February, March 2020	<ul style="list-style-type: none"> - to share and seek feedback on the Draft Plan and confirm it reflects customer feedback to date. - to explore whether customers support the inclusion of specific additional proposals into the Final Plan.

(b) South Australian Reference Group (SARG) and Retailer Reference Group (RRG)

AGN engaged regularly with its two standing Reference Groups – the South Australian Reference Group (SARG) and the Retailer Reference Group (RRG).

The role of the AGN Reference Group is for members to provide regular input, on behalf of the bodies they represent, into all relevant issues and concerns regarding AGN's price and service offering. This includes AGN's five-yearly AA proposal. The jurisdictional Reference Group comprises a broad range of community stakeholder groups relevant to the jurisdiction. Typically, this includes groups representing general consumers; the disadvantaged or vulnerable; businesses (including large users), primary producers; the environment and local government.

In the lead up to lodgement of the 2021-26 AA proposal, the SARG met 9 times and the RRG met 5 times. Each group regularly discussed development of the AA proposal, and the customer and stakeholder engagement program, and contributed their perspectives to the process. The combined SARG/RRG also met on 3 occasions to review the Draft and Final Plans.

(c) A major (large user) customer survey

AGN makes reference to this in its Final Plan (p.34).

CCP24's Involvement

(a) What we participated in

CCP24 was appointed in late July 2019, part way through Stage 2 of the Stakeholder Engagement Program. This timing meant that CCP24 members were unable to observe Stage 1 engagement activities, or to attend the first round of Stage 2 customer workshops.

Stage 1 of the AGN engagement program was primarily focused on the process for engagement rather than specific topics that would be the focus of the subsequent engagement, AGN did ask stakeholders questions relation to the issues of importance and topics for engagement.

Specifically, they asked

- *What are the most important aspects of our services?*
- *What issues should be considering in our future planning?*
- *What aspects of our future plan would you like to engage on?*

More specific topics for engagement in Stage 1 were also considered at the first couple of SA Reference Group meetings.

CCP24 did not observe the process that produced the draft customer and stakeholder engagement plan for consultation published in April 2019, but we were able to read the report and discuss aspects of it with AGN, once the sub-panel was established later in the year.

CCP24 members were able to attend and observe several round 2 customer workshops, and the majority of round 3 customer workshops. Appendix 3 details CCP24 representatives in attendance at each event.

Members of CCP24 also observed the initial Vulnerable Customer Co-design workshop, and have been regular attendees at SARG meetings.

CCP24's observations of AGN engagement activities were heavily biased towards residential and small business customers. We did observe engagement in the SARG with a representative of business customers, SA Business. We understand that AGN undertook one-on-one discussions and surveys with their larger customers, but CCP24 was not involved nor did we see any particular outcomes apart from the summary outcome presented in the Draft and Final Plans.

(b) What we observed

CCP24 notes that AGN has a strong track record for genuine and effective customer and stakeholder engagement. For example:

- Reporting on AGN's 2018-22 AA proposal for its Victoria and Albury networks in 2017, CCP11 noted that "AGN has clearly met its objective of presenting an access arrangement proposal which is underpinned by effective stakeholder engagement."

- Soon after, AER Chair, Paula Conboy said at the ENA 2017 conference in Brisbane: “There is, of course, another way... Australian Gas Networks has continued the genuine stakeholder engagement it began with its South Australian access arrangement in the context of its Victorian access arrangement. This is an approach we have encouraged more businesses to adopt.”
- In our CCP24 Advice to the AER in August 2020 regarding the AGN AA proposal for SA for 2021-26, we reported that:

“We are confident that the AGN consumer engagement strategy accurately reflects the preferences and priorities they heard from customers and have reflected this faithfully in the Access Arrangement proposal.

When AGN senior staff say that they want to put customers at the centre of their business, they clearly demonstrate this by their active participation in every engagement activity that the business conducts. It is evident that the culture of wanting to engage with customers is embedded in the business and what’s more, all staff clearly enjoy meeting with their customers - whether they are grumpy or happy with AGN’s service.”
- In considering the question of “Capability of Acceptance” of AGN’s 2021-26 AA proposal, CCP24 said

“If:
AGN delivers on our suggested commitments outlined above – based on past performance and recent discussions with AGN we expect they will, and
AER’s review of the Final Plan shows that it meets all of the AER rules requirements, then we believe the AGN AA proposal is capable of acceptance.”

We highlight these examples to support our opinion that AGN has a history of pro-active consumer engagement and that they deliver on their commitments. AGN’s record of genuine consumer engagement has been recognised by AER, CCP and we suggest, local consumers, for at least 4 years, as evidenced by the quotes above.

Our experience in observing various elements of AGN’s engagement processes has confirmed our view that AGN are genuine in their desire to understand customer needs and perspectives, and welcome challenge and customers’ questioning and testing of assumptions.

3. Response to Question 1

Question 1 – Do you consider the AER should allow step changes where the primary driver is based on customer engagement outcomes and where there is no underlying new regulatory obligation or capex/opex tradeoff? If so, what threshold of customer support (or other criteria) should be required before a step change is allowed.

Background

The response here is designed to be a general one applying to all network resets, not just AGN, though it does draw on our experience with the AGN reset.

Under the AER's expenditure guideline, step changes cover two categories of costs that are not reflected in base year opex:

- (i) Costs due to changes in regulatory obligations and the external operating environment beyond the network's control, or
- (ii) Capex/opex trade-offs where increasing opex and reducing capex are in the long-term interests of consumers

Consideration of the step change is a two-step process:

- (i) Does the proposed expenditure meet one of the two categories, then
- (ii) Is the proposed expenditure 'prudent and efficient' – as the Guideline notes¹ :

"Generally, we consider it is likely cost-benefit analysis will be required for all material step changes..."

Further, consideration is also given to whether the proposed step change can be funded through other aspects of the expenditure allowance eg the cost of a step change is funded through the savings associated with the step change and the associated rewards from CESS or EBSS². This is consistent with what happens in a workably competitive market. Companies are unable to increase prices to cover the costs of a measure that will eventually decrease their costs. Further, the company takes the risk that the cost reduction idea will actually work and consumers do not have to pay for an idea that does not work.

Response

For the AER to 'create a new precedent', while still meeting its obligations under the rules, would require the AER to have confidence that the consumer engagement both established widespread support for the measure and that the costs proposed were 'prudent and efficient'. We believe there is an arguable case for such a new precedent being set subject to it meeting these two hurdles.

The former would involve the network meeting a very high engagement threshold. The Elements of Consumer Engagement set out in Appendix 1, which was applied in the recent Draft Decisions on Victorian DNSPs, provides a good start on defining this threshold.

Fundamental to this view is the increasing sophistication and effectiveness of networks' engagement activities as well as the increased knowledge and experience of those consumer advocates participating in this process. Thankfully we are moving beyond the past practice of some networks to use (and abuse) willingness to pay surveys to justify particular expenditures. The 'cup of coffee' cost equivalent has been a popular, but very misleading, benchmark.

Possible examples of how the Elements could be assessed, in addition to those proposed in Appendix 1 would include:

- what level of engagement has been characterised with reference to the IAP2 Spectrum of Public Participation?
- focus on the question that is part of the current analysis – should that cost be a normal part of business and hence funded through the 'base year' costs?

¹ See p. 62 <https://www.aer.gov.au/networks-pipelines/guidelines-schemes-models-reviews/expenditure-forecast-assessment-guideline-2013>

² Ibid p.70.

- consultation on whether the proposed step change should be ‘compulsory’ or ‘voluntary’ eg a proposal to support a community service like a rescue helicopter service
- have implications for customers who may be worse off been considered?

Further elements that might be added to Appendix 1 in assessing the ‘threshold’ are discussed in Appendix 2.

The focus of the first three elements in Appendix 1 is on consumer engagement and it is important that this include all categories of consumers. There needs to be a clear majority of all categories of consumers supporting the proposed change ie both those who benefit and those who pay for a particular step change.

We would highlight the importance of the fourth element “Assessment of outcomes” which comes to the ‘prudent and efficient’ role of the AER role to assess:

- whether the proposal fits with the rules, and
- is it the most efficient level of expenditure to achieve the agreed proposal, and
- is this a one-off step change with non-recurring costs or should the costs be incorporated in the base opex for the subsequent regulatory period?

Consumer advocates, let alone the consumers themselves, do not generally have a detailed understanding of the rules and how they should be applied. Consumer advocates also do not have the knowledge to assess the efficient cost of an initiative they may support. This is what they look to the AER to interpret according to the NEO/NGO - eg is the expenditure prudent and efficient in the first regulatory period? should it continue in the base costs for the next and subsequent periods?

We can apply this two-part (engagement and ‘prudent and efficient’ in the first regulatory period) approach to the example of the vulnerable customer assistance programme.

We saw AGN undertake quality engagement – a co-design process involving representatives from community service organisations and other bodies that support vulnerable members of the community, and then wider engagement through customer workshops and the SARG and RRG. As the AGN AA concluded from the Stage 4 engagement:

“Stakeholders supported the proposal to include the VCAP recognising that AGN will continue to work with customers and stakeholders in developing the model for implementation.”³

AGN submitted a comprehensive business case⁴ that was not subject to detailed consumer consultation. It is the role for the AER to review the business case and assess whether the proposed expenditure is ‘prudent and efficient’.

4. Response to Question 2

Question 2 - How would you assess AGN (SA)’s engagement on each proposed project with respect to the following areas (reflecting the four criteria outlined in Appendix A):

Nature of Engagement

³ See p. 74 https://www.aer.gov.au/system/files/AGN%20-%20AGIG%20-%20Final%20Plan%20-%201%20July%202020_0.pdf

⁴ See Attachment 7.2 <https://www.aer.gov.au/system/files/AGN%20-%20Attachment%207.2%20-%20Opex%20Business%20Cases%20-%201%20July%202020.pdf>

- *What was the customer interest in the project?*
- *Was the engagement process appropriate for the project type?*
- *Were a fair representation of customers consulted (diversity and number)?*

Breadth and Depth

- *To what degree was the intent of the project clearly communicated?*
- *How much of the project detail had been planned?*
- *How robust was the engagement process?*
- *Were clear alternative options (to engaging in the project) provided?*

Clearly evidenced impact

- *Were the impacts (outputs and inputs) of project explained to customers?*

Assessment of Outcome

- *What level of support for the proposed project was given by customers?*

a) Digital customer experience project

Nature of Engagement

- *What was the customer interest in the project?*
- *Was the engagement process appropriate for the project type?*

Stage I of AGN's engagement is not relevant since the methodological focus of Stage I meant that there was no consideration of specific questions that would be the focus of later engagement.

The methodology for each of the seven stage 2 workshops was that discussion topics were presented by an AGN staff member, often CEO Ben Wilson, who summarised development since the first workshop and provided a clear proposal with voting at the end of each session through "Zeetings" website, on mobile phones. Discussion followed from the 'vote' for each question. The discussion was exploratory, and not observed to be trying to change people minds, more to understand their thinking.

- *Were a fair representation of customers consulted (diversity and number)?*

Our observation is that all participants were actively engaged in the workshop sessions, in part because a considerable amount of the time of each workshop was spent in small groups at tables discussing specific, relevant questions that customers were able to have clear views on without extensive background.

Breadth and Depth

- *To what degree was the intent of the project clearly communicated?*

Ben Wilson said at the workshops:

“The headlines for the next AGN Access Arrangement (AA) is for no big changes, business as usual with the aim for lower costs. There will be some innovation”

Regarding digital experience, the input presented included a rationale for increased spending on digital experience which was to improve customer focus and customer responsiveness for AGN. Two specific questions were posed regarding digital experience:

1. A response to the statement “ I expect AGN to deliver more services using digital channels for now to 2026.”
2. Improved online self-service options with three being presented
 - i. improved online self-service and I'm prepared to pay \$2.50pa
 - ii. improved SMS communications at \$5.50 pa
 - iii. no change.

We observed that these options were clearly explained and well understood by participants.

- *How much of the project detail had been planned?*

The input and the detail around options being proposed had been well considered by AGN prior to the workshops and provided adequate “straw man” options for discussion and meaningful customer advice back to AGN

- *How robust was the engagement process?*

The AGN session objective was to provide an update on their thinking and to test thinking about emerging proposals.

The process was robust with an independent facilitator leading the process and AGN staff available for input on questions of detail.

- *Were clear alternative options (to engaging in the project) provided?*

We observed that the alternatives provided were clear and that no change was presented as a viable option.

Clearly evidenced impact

- *Were the impacts (outputs and inputs) of project explained to customers?*

Assessment of Outcome

- *What level of support for the proposed project was given by customers?*

In each of the workshops we observed there was agreement to the proposition presented as question 1, namely that AGN should deliver more services through digital channels. A small number of people strongly agreed with the proposition, almost all of the participants agreed, with a couple being neutral about the proposition.

In responding to the second question about options to improve the digital experience, there was clear rejection in all of the workshops to SMS communications being provided at a cost of about \$5.50 per customer.

In most workshops a slim majority supported the proposition of improving online self-service at a cost of up to \$2.50 per annum although there was quite a bit of discussion about whether this could be done at a lower price. The proposal of developing an 'app' was also proposed in at least one workshop with AGN committing to further consider this option

We note that AGN rated their engagement for this round of workshops as being at involve /collaborate. We consider this to be a reasonable assessment of the level of engagement.

Nature of Engagement

- *What was the customer interest in the project?*
- *Was the engagement process appropriate for the project type?*

The third round of workshops was with the same people and locations as the round 1 and round 2 workshops, with the focus being on seeking responses to the Draft Plan and in particular, four topics were discussed including digital experience.

We note that the Draft Plan did not include a specific question about the digital experience in its list of 25 questions, but presented outcomes from the experience discussions in stage 2 in figure 5.7 of the Draft Plan. Specifically, AGN said in the Draft Plan under the heading of customer and stakeholder feedback:

“customers expect that digital communication channels will become increasingly available but are sensitive to price. Customers consider online services to be a better investment than SMS communications.

- 54% agreed with paying \$2.50 on their bill so AGN can invest in improved online services
- 63% disagreed with paying \$5.50 on their bill per annum so that AGN can invest in SMS communications.”

AGN's response was:

- “our capex proposal includes investment of \$32 million on projects and programs to continue to meet customer service expectations
- our Capex investment proposal includes improving online services via digital channels in response to feedback from customers. We will be further testing a revised proposal with customers as part of this draft plan consultation.”

We consider these comments from AGN to be accurate and confirm that further consideration of the proposed expenditure on digital customer service was an active part of the stage 3 engagement with customers.

- *Were a fair representation of customers consulted (diversity and number)?*

The locations for engagement and the representation of customers consulted was the same for this stage as for stage 2. Our response therefore is the same.

Breadth and Depth

- *To what degree was the intent of the project clearly communicated?*

As with the previous stage, the digital experience proposal from the Draft Plan was presented to customers in the workshops with posters outlining the proposal being displayed to enable “post-it” note comments and small group discussion responses.

- *How much of the project detail had been planned?*
- *How robust was the engagement process?*
- *Were clear alternative options (to engaging in the project) provided?*

Clearly evidenced impact

- *Were the impacts (outputs and inputs) of project explained to customers?*

For options considered in stage 2, participants were asked to provide greater focus to their degree of support for the proposed expenditure on a digital platform and the extent of price sensitivity of customers.

Assessment of Outcome

- *What level of support for the proposed project was given by customers?*

The final Access Arrangement proposal was for expenditure of \$1.50 per customer per year to enable AGN to improve its capacity to respond to customers through digital platforms.

At the post lodgement Stakeholder Forum AGN said, in a PowerPoint slide:

“Digital customer experience project

We are proposing to provide more digital services, enhancing two-way interactions and customer notifications

- ~\$280,000 pa opex and \$2 million total capex or ~\$1.50 per customer pa
- We will implement a CRM and self-service to capture, track, respond to and update customers on enquiries and requests
- This follows testing of potential functionality with our customers
- When we spoke to customers, they told us a more simple, web-based self-service for common and frequent enquiries and requests was likely to meet their requirements, with many considering full SMS capability (at a much higher bill impact) was not seen as value for money

Customers support AGN’s proposal to invest in digital communication and customer services in a cost-effective way, with varying individual preferences for specific functionality”

We observed that submissions to the AER in response to the AGN access arrangement have not mentioned the proposed expenditure on digital platforms, whereas there were responses to both UAFG and vulnerable customer assistance program proposals. We infer from this lack of response and from the engagement undertaken in stages two and three that there is no opposition to the digital experience spending proposal nor to the engagement that led to it.

Conclusion

The available evidence shows that there is strong residential and small business consumer support for the “digital experience” expenditure proposed by AGN in their Access Arrangement proposal. We are unaware of any opposition from other stakeholders or customer groups. In CCP24’s opinion, the outcomes of AGN’s consumer engagement support the proposed digital customer experience project.

b) Vulnerable customer program

Engagement on a VCAP was not included as a topic in the initial round of customer workshops conducted by AGN during July 2019, however one of the observations reported by workshop facilitators, KPMG was that:

*'Some customers are interested in AGN's role supporting vulnerable customers. Customers expect that low-income earners and other financially vulnerable customers should be provided with concessions or other support (such as hardship plans). Some regional and CALD customers expect AGN to provide support for vulnerable customers including pensioners and the elderly, those with large or intergenerational families, and those in relationships experiencing domestic violence or abuse. Some customers would also like to see AGN play an increased role through corporate social responsibility initiatives. This latter point was particularly evident in Mount Gambier.'*⁵

Specific VCAP initiatives were also not included as a discussion topic in Round 2 of the customer workshops in October 2019, although participants were asked to nominate ideas or suggestions about how AGN can support vulnerable customers.

During November 2019, AGN hosted a series of 3 VCAP Co-design workshops which were facilitated by KPMG. Ten stakeholders with experience of working with vulnerable individuals and communities were invited to participate, including representation from not-for-profit organisations, an energy retailer, peak bodies and the public sector. Working with AGN representatives at the 'collaborate' level of the IAP2 Spectrum of Public Participation, workshop participants generated and assessed ideas for addressing the core question: 'How might AGN better support vulnerable customers – now and in the future?'

Based on the outputs of these VCAP co-design workshops, the Draft Plan identified a set of potential new initiatives that could be incorporated over the next AA period to improve services for vulnerable customers. The identified initiatives were:

- A priority services register that allows proactive customer contact in circumstances such as outages,
- Rebates or discounts for connection fees or plumbing assistance,
- Policy advocacy for vulnerable customers, and
- Specialised training programs for customer facing service roles.

Feedback on the VCAP proposal was sought through submissions to the Draft Plan, and through customer engagement incorporated within the third round of customer workshops. At the 3rd round workshops, participants were asked to nominate their level of support for these initiatives with a forecast average residential bill impact of \$1-\$2 per year.

AGN reports that at these workshops, 76% of participants supported or strongly supported investment in a VCAP at a cost of between \$1-\$2 per annum on their bill (for residential consumers). The SARG and RRG were supportive, but requested more information be provided in the Final Plan.

The Final Plan identifies the need for additional funding for new VCAP initiatives ie:

- A dedicated resource to run the program;
- Assistance for appliance rebates and audits for vulnerable customers;
- Rebates for new connections;

⁵ AGN_Customer_Workshops_Phase_1_Report_-_FINAL, page 25

- Rebates for switching to more efficient gas appliances;
- Gas efficiency audits; and
- CRM enhancements for improved/targeted services.

Other activities such as process reviews, staff training and improving communication material will be funded from existing operating expenditure allowances. AGN note that the VCAP initiatives are not intended to replace or duplicate the support that is already available to vulnerable customers. Rather, they are intended to complement and supplement existing measures.

AGN state that they intend to continue collaborating with community organisations, government agencies and other parts of the energy supply chain to ensure the assistance provided is best practice and appropriately targeted.

Assessment against consumer engagement criteria

Nature of Engagement

- *What was the customer interest in the project?*

It is noteworthy that the impetus for a VCAP arose from participant feedback during the initial round of customer workshops, rather than from AGN. CCP24 had not been appointed at that time, and so was not able to observe this series of workshops.

Interest in and commitment to the VCAP co-design process from co-design workshop participants was extremely high. Participants viewed the workshops as a unique opportunity to improve conditions for vulnerable gas consumers across South Australia.

CCP24 observed that participants in the 3rd round of customer workshops generally acknowledged that there is a cohort of vulnerable customers who need assistance, and that 'it is the right thing to do' for AGN to seek opportunities to provide support to those customers if possible.

- *Was the engagement process appropriate for the project type?*

Yes – it was highly appropriate to draw upon the knowledge and expertise of representatives from community service organisations with experience in working directly with vulnerable customers, and to work with them collaboratively to devise strategies by which AGN might better support vulnerable customers. Our observation is that this engagement was indeed conducted as a collaborative effort.

It was also appropriate to seek endorsement of program content and funding proposals from a wider group of customer representatives through the 3rd round of customer workshops.

- *Were a fair representation of customers consulted (diversity and number)?*

Yes - A significant proportion of the South Australian-based community organisations, and other bodies supporting vulnerable consumers were involved in the co-design workshops.

CCP24 considers that the series of customer workshops involved a fair representation of South Australian residential and small business gas consumers. Apart from SARG meetings however, CCP24 was not able to observe consultation on the VCAP with medium and large business representatives.

Breadth and Depth

- *To what degree was the intent of the project clearly communicated?*

The intent of the VCAP was clearly and consistently set out in the published Draft Plan, in the briefing material on the Draft Plan provided to the SARG, and in the workshop presentation material for the round 3 customer workshops.

- *How much of the project detail had been planned?*

Elements of the proposed VCAP initiative evolved during the 12 months leading up to AGN's lodgement of its AA proposal. At the Draft Plan stage, AGN identified a number of opportunities that were under consideration, and sought feedback from stakeholders by posing the questions: Do you support investment in a vulnerable customer assistance program? Do you have any feedback on the activities we have proposed?

The proposed VCAP was further refined in the Final Plan, which includes a Business Case for elements of the proposed VCAP requiring additional investment over and above 'business as usual'. A number of stakeholders however, have requested additional clarity on issues such as:

- the scope of the program,
- respective roles of AGN, retailers, government and other support agencies,
- cost sharing arrangements,
- forecast bill impacts for medium and large businesses.⁶

- *How robust was the engagement process?*

CCP24 observed engagement on the proposed VCAP with co-design workshop participants, SARRG members and participants in the 7 third round customer workshops. We consider that the engagement process leading up to lodgement of the Final Plan was inclusive and transparent, with the status of the proposals as well as indicative bill impacts for residential customers well communicated.

- *Were clear alternative options (to engaging in the project) provided?*

AGN worked collaboratively with a group of 10 representatives with expertise in recognising and addressing the needs of vulnerable members of the community. AGN and co-design workshop participants canvassed and analysed approximately 100 options, before narrowing the initiatives down to a small number that were put forward in the Final Plan.

At each engagement opportunity, the broader stakeholder groups were invited to provide additional ideas for inclusion in the VCAP, and to provide feedback on proposed inclusion.

⁶ See: CCP24 Submission at <https://www.aer.gov.au/system/files/CCP24%20-%20AGN%20AA%20Advice%20-%2010%20August%202020.pdf>, page 26; SA Minister for Energy & Mining submission at <https://www.aer.gov.au/system/files/SA%20Minister%20Energy%20%26%20Mining%20-%20Submission%20AGN%20Access%20Arrangement%20-%203%20August%202020.pdf>, page 3; Business SA submission at <https://www.aer.gov.au/system/files/Business%20SA%20-%20Submission%20on%20AGN%20Access%20Arrangement%20-%2010%20August%202020.pdf>, page 2; Energy Australia submission at <https://www.aer.gov.au/system/files/EnergyAustralia%20-%20AGN%20proposal%20-%2010%20August%202020.pdf>, page 2; SACOSS submission at <https://www.aer.gov.au/system/files/SACOSS%20-%20Submission%20AGN%20AA%20-%2011%20August%202020.pdf>, page 5; ECA submission at <https://www.aer.gov.au/system/files/ECA%20-%20Submission%20on%20AGN%20Access%20Arrangement%20-%2011%20August%202020.pdf>, page 15.

Clearly evidenced impact

- *Were the impacts (outputs and inputs) of the project explained to customers?*

From the initial formulation of the potential VCAP in the Draft Plan, stakeholders have been clearly informed about likely bill impacts of \$1-\$2 per annum for residential consumers, and \$10-\$20 per annum for business customers. This has been a consistent cornerstone of AGN's engagement on the VCAP initiatives.

While the intent and focus of the VCAP has been clear from the beginning, as indicated previously, a number of stakeholders, are seeking more clarity around proposed project outputs.

Assessment of Outcome

- *What level of support for the proposed project was given by customers?*

CCP24 observed 7 of the 3rd round workshops where customers were invited to express their level of support for the VCAP proposed in the Draft Plan, at a cost of \$1-\$2 per annum for residential consumers. Workshop facilitators report that overall, 76% of participants either supported or strongly supported this proposal. These results accord with our impressions of the sentiment at each of the workshops.

We also observed general verbal support for the initiative by SARRG members. The VCAP initiative received strong support in submissions provided by EWOSA and SAFCA.

The following verbatim comments from the customer workshops are reflective of discussions CCP24 members overheard in the customer workshop sessions.

- ***Yes. Yes. Yes! You don't know what you don't know. There are so many people out there without jobs, with multigenerational dysfunction & poverty. You can tell a lot about a community, in how they treat their vulnerable people!***
- ***This is possibly the most important option. We are obliged to take care of the vulnerable / elderly***
- ***We should all help those who can't help themselves***
- ***I do see this as a need in the community but I think there is a safety net of services available to help in this area***
- ***I would support it, however, I think it should be optional to those who don't feel they can***

Conclusion

In CCP24's opinion, the outcomes of AGN's consumer engagement support the proposed VCAP in principle, with a number of stakeholders seeking further clarification of project details prior to lodgement of the revised AA.

c) Renewable unaccounted for gas (UAFG)

Nature of Engagement

A key outcome of Stage 1 and 2 engagement with residential and small business customers was a strong consumer commitment to lower carbon emissions. This led to AGN proposing in its Draft Plan⁷ to use renewable hydrogen or bio-methane for all or part of its UAFG – specifically 20% at an estimated cost of \$1.50/customer/year. This could draw on the Edinburgh Park bioenergy project. AGN expected other renewable gas projects would commence over the AA period.

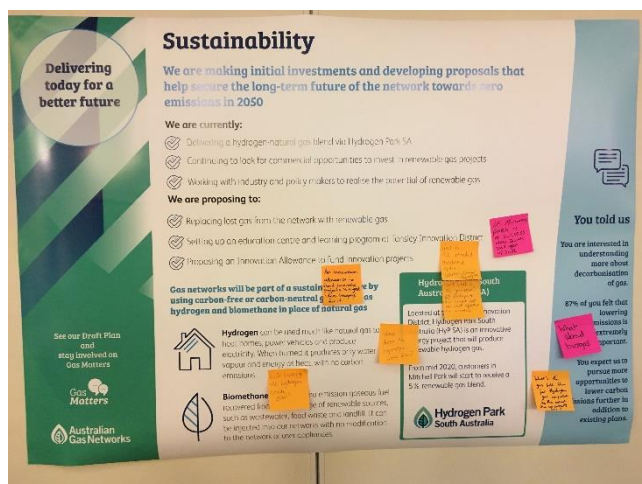
Further engagement on this was a key part of Stage 3 in February/March 2020 following publication of the Draft Plan. This involved a combination of round 3 customer workshops and SARG/RRG member meetings.

Breadth and depth

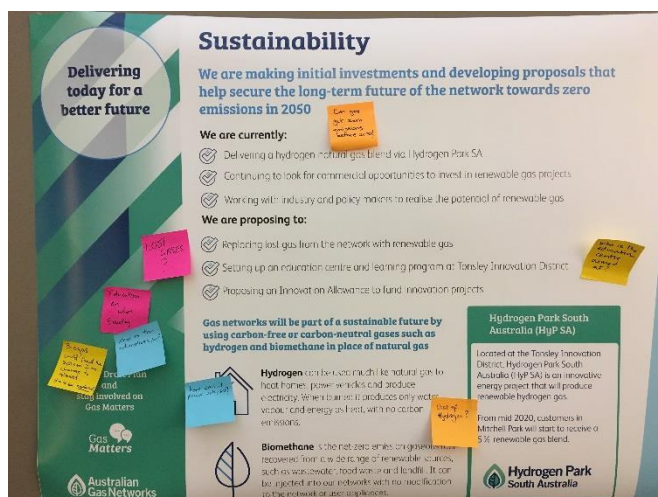
At the workshops AGN spoke to their initiatives around gas of the future and the benefits of blending trials to help progress the transition to lower carbon gas. AGN saw it as an important part of its leadership role in looking to a gas future based on hydrogen and renewable gas. It was also consistent with the SA Government's lead role in developing the first state to release a hydrogen roadmap in 2017.

That introduction lead into a more focussed discussion on the relative importance of sustainability and specific discussion on renewable gas as part of UAFG.

In the customer workshops, participants were given the opportunity to put post it notes across a number of topic story boards – including customer experience, sustainability, reliability of supply and public safety. The sustainability board which discussed the renewable gas proposal was consistently the most commented on. Here are two examples for the February/March 2020 engagement.



⁷ See the discussion at p. 71 in the Draft Plan



AGN’s AA noted that 87% of customers⁸ considered it very important or extremely important that AGN consider ways to lower carbon emissions. We are unable to confirm that number, but it is certainly consistent with the feeling in the rooms where we observed engagement.

Clearly evidenced impact

Attendees were then presented with the following renewable gas in UAFG options. The price of renewable gas was not disclosed because the actual cost was not then known – but AGN said that the \$ costs provided were based on a reasonable idea of the likely cost. It was made clear that it would be a pass-through cost.

How much?	How green?	Bill Impact (Estimate)
Replace 20% lost gas with renewables	<ul style="list-style-type: none"> 12 tonnes carbon reduction 4,000 cars off the road 	\$1.50
Replace 40% lost gas with renewables	<ul style="list-style-type: none"> 21 tonnes carbon reduction 7,200 cars off the road 	\$3
Replace 100% lost gas with renewables	<ul style="list-style-type: none"> 46 tonnes carbon reduction 16,000 cars off the road 	\$5.50

Each table then undertook its own discussion which CCP24 observed. AGN reports that the overall level of support across all stakeholder engagement for at least some renewable gas to be used, was 84%. Again, we cannot independently verify this as we did not see the vote counting, but it is very consistent with the vibe in the rooms we observed.

There was only limited comment in the submissions on the Final Plan, perhaps reflective of the strong support in the engagement sessions. SACOSS⁹ was supportive but wanted assurance about a cap on the additional cost; the SA Government¹⁰ was supportive in principle but wanted further

⁸ Final Plan July 2020 p.82

⁹ <https://www.aer.gov.au/system/files/SACOSS%20-%20Submission%20AGN%20AA%20-%202011%20August%202020.pdf>

¹⁰ <https://www.aer.gov.au/system/files/SA%20Minister%20Energy%20%26%20Mining%20-%20Submission%20AGN%20Access%20Arrangement%20-%20203%20August%202020.pdf>

information; SAFCA¹¹ and SAFRRA¹² expressed no particular view but were very complementary of the overall consumer engagement and the future gas plans; ECA¹³ sought additional information on renewable gas cost and price risk to consumers.

Finally, we note that CCP24's observations were concentrated on residential and small business customers. There was some observation of larger business/C&I customer views through the SARG and reviewing the submissions from Business SA. As we noted above AGN did undertake a major (large user) survey but we do not know if it covered this matter eg what would have been the average annual cost increase for a large C&I customer? The SA Business submission on the Final Plan¹⁴ indicated strong support for the quality of AGN's engagement and fully supported AGN's hydrogen initiatives. However, it made no specific comments on the use of renewable gas for UAFG.

Conclusion

In summary, the available evidence suggests that there is strong residential and small business consumer support and no strong opposition from other consumer classes, for the proposed 20% of UAFG to be sourced from hydrogen/renewable gas. In CCP24's opinion, the outcomes of AGN's consumer engagement support the proposed purchase of renewable unaccounted for gas.

¹¹ [https://www.aer.gov.au/system/files/SAFCA%20-](https://www.aer.gov.au/system/files/SAFCA%20-%20Submission%20on%20AGN%20Access%20Arrangement%20-%202010%20August%202020.pdf)

[%20Submission%20on%20AGN%20Access%20Arrangement%20-%202010%20August%202020.pdf](https://www.aer.gov.au/system/files/SAFCA%20-%20Submission%20on%20AGN%20Access%20Arrangement%20-%202010%20August%202020.pdf)

¹² [aer.gov.au/system/files/SAFRRA%20-%20Submission%20on%20AGN%20South%20Australia%202021-](https://www.aer.gov.au/system/files/SAFRRA%20-%20Submission%20on%20AGN%20South%20Australia%202021-26%20Gas%20Access%20Arrangement%20-%202010%20August%202020.pdf)

[26%20Gas%20Access%20Arrangement%20-%202010%20August%202020.pdf](https://www.aer.gov.au/system/files/SAFRRA%20-%20Submission%20on%20AGN%20South%20Australia%202021-26%20Gas%20Access%20Arrangement%20-%202010%20August%202020.pdf)

¹³ [https://www.aer.gov.au/system/files/ECA%20-](https://www.aer.gov.au/system/files/ECA%20-%20Submission%20on%20AGN%20Access%20Arrangement%20-%202011%20August%202020.pdf)

[%20Submission%20on%20AGN%20Access%20Arrangement%20-%202011%20August%202020.pdf](https://www.aer.gov.au/system/files/ECA%20-%20Submission%20on%20AGN%20Access%20Arrangement%20-%202011%20August%202020.pdf)

¹⁴ See [https://www.aer.gov.au/system/files/Business%20SA%20-](https://www.aer.gov.au/system/files/Business%20SA%20-%20Submission%20on%20AGN%20Access%20Arrangement%20-%202010%20August%202020.pdf)

[%20Submission%20on%20AGN%20Access%20Arrangement%20-%202010%20August%202020.pdf](https://www.aer.gov.au/system/files/Business%20SA%20-%20Submission%20on%20AGN%20Access%20Arrangement%20-%202010%20August%202020.pdf)

Appendix 1 – Elements of consumer engagement

Element	Examples of how this could be assessed
Nature of the engagement	<ul style="list-style-type: none"> • Consumers partners in forming the proposal rather than asked for feedback on the distributors proposal • Relevant skills and experience of the consumer representatives and advocates • Sincerity of engagement with consumers • Independence of consumers and their funding • Multiple channels used to engage with a range of consumers across the distributors consumer base
Breadth and depth	<ul style="list-style-type: none"> • Clear identification of topics for engagement and how these will feed in the regulatory proposal • Consumers consulted on broad range of topics • Consumers able to influence topics of engagement • Consumers encouraged to test the assumptions and strategies underpinning the proposal • Consumers were able to access and resource independent research and engagement
Clearly evidenced impact	<ul style="list-style-type: none"> • Proposal clearly tied to expressed views of consumers • High level of business engagement e.g. consumers given access to the distributors CEO and/or Board • Distributors responding to consumer views rather than just recording them • Impact of engagement can be clearly identified • Submissions on proposal show consumers feel the impact is consistent with their expectations
Assessment of outcomes	<ul style="list-style-type: none"> • Reasonable opex and capex allowances proposed <ul style="list-style-type: none"> - In line with or lower than, historical expenditure - In line with or lower than, the AER’s top down analysis of appropriate expenditure - If not in line with top down, can be explained through bottom up category analysis

Appendix 2 – Threshold (or other criteria) of Customer Support

CCP24 initial responses to AER Appendix 1 – Elements of consumer engagement with additional examples of how the elements could be assessed and initial suggestions for thresholds of customer support.

CCP24 suggestions are shown in red.

Element	Examples of how this could be assessed	Application: Threshold (other criteria) of Customer Support
Nature of the engagement	<ul style="list-style-type: none"> • Consumers partners in forming the proposal rather than asked for feedback on the distributors proposal • Relevant skills and experience of the consumer representatives and advocates • Sincerity of engagement with consumers • Independence of consumers and their funding • Multiple channels used to engage with a range of consumers across the distributors consumer base • Methodology applied and its 'place' on IAP2 spectrum 	<ul style="list-style-type: none"> • Level achieved on IAP2 spectrum (minimum level "Involve")
Breadth and depth	<ul style="list-style-type: none"> • Clear identification of topics for engagement and how these will feed in the regulatory proposal • Consumers consulted on broad range of topics • Consumers able to influence topics of engagement • Consumers encouraged to test the assumptions and strategies underpinning the proposal • Consumers were able to access and resource independent research and engagement. 	<ul style="list-style-type: none"> • Minimum of 5 participants from each of the vulnerable customers, household, SME and C&I consumer sectors actively engaged through whole process.
Clearly evidenced impact	<ul style="list-style-type: none"> • Proposal clearly tied to expressed views of consumers • High level of business engagement e.g. consumers given access to the distributors CEO and/or Board • Distributors responding to consumer views rather than just recording them <p>Impact of engagement can be clearly identified</p>	<ul style="list-style-type: none"> • Clear documentation of how input from customers and stakeholders has been applied in the regulatory proposal. • Not more than 20% of submissions to the AER in response to a revenue proposal are opposed to the proposal • A threshold in the range 67% – 80% (or higher) acceptance

	<ul style="list-style-type: none"> • Submissions on proposal show consumers feel the impact is consistent with their expectations • Identification of customers who may be worse off from the proposal considered. 	<p>(support + high support if using survey responses) from each category of customers consulted would indicate strong consumer support.</p> <ul style="list-style-type: none"> • At least 5 ‘representative’ customers (in the case of SME and C&I) customers or consumer / sector advocates would be a minimum number of supporting groups from each (of the 4) customer sector(s). • Responses acceptable to “worse off” parties identified and documented.
<p>Assessment of outcomes</p>	<ul style="list-style-type: none"> • Does the proposal fit within the Rules? • Reasonable opex and capex allowances proposed, is expenditure proposed the most prudent and efficient to achieve outcome <ul style="list-style-type: none"> - In line with or lower than, historical expenditure - In line with or lower than, the AER’s top down analysis of appropriate expenditure - If not in line with top down, can be explained through bottom up category analysis • Is the proposal a one-off change or a recurrent step change – to be incorporated into ongoing opex ‘base’ • Should the business be doing this already? • Should it be ‘compulsory’ or ‘voluntary’ • No surprises 	<ul style="list-style-type: none"> • Is the proposal prudent and efficient – using established AER approaches?

Appendix 3 – CCP24 attendance at engagement events

Date	Activity	Venue/Location	CCP24
17 October 2019	Customer Workshop Phase 2 (Business)	Adelaide	Mark Henley
21 October 2019	Customer Workshop Phase 2 (Residential + Business)	Port Pirie	-
22 October 2019	Customer Workshop Phase 2 (Residential + Business)	Barossa Valley	-
23 October 2019	Customer Workshop Phase 2 (Residential)	Adelaide	-
23 October 2019	SA Reference Group Meeting	Adelaide	Mark Henley
24 October 2019	Customer Workshop Phase 2 ((Metro CALD)	Adelaide	Mark Henley
28 October 2019	Customer Workshop Phase 2 (Regional CALD)	Murray Bridge	Mark Henley
29 October 2019	Customer Workshop Phase 2 (Residential + Business)	Mount Gambier	-
4 November 2019	Co-design workshop	Adelaide	Robyn Robinson Mark Grenning
11 November 2019	Co-design workshop	Adelaide	-
21 November 2019	Co-design workshop	Adelaide	-
4 December 2019	SA Reference Group Meeting	Adelaide	Mark Henley
18 February 2020	SA Reference Group Meeting	Adelaide	Mark Grenning Mark Henley
18 February 2020	Customer Workshop Phase 3 (Residential)	Adelaide	Mark Grenning Mark Henley
25 February 2020	Customer Workshop Phase 3 (Business)	Adelaide	Robyn Robinson Mark Henley
26 February 2020	Customer Workshop Phase 3 (Metro CALD)	Adelaide	Robyn Robinson Mark Henley
3 March 2020	Customer Workshop Phase 3 (Regional CALD)	Murray Bridge	-
3 March 2020	Co-design Workshop	Adelaide	-
5 March 2020	Customer Workshop Phase 3 (Mount Gambier)	Mount Gambier	Mark Grenning
10 March 2020	Customer Workshop Phase 3 (Port Pirie)	Port Pirie	-
11 March 2020	Customer Workshop Phase 3 (Barossa Valley)	Barossa Valley	Mark Grenning Mark Henley
13 March 2020	SA and Retailer Reference Groups	Adelaide	Mark Grenning Mark Henley
9 April 2020	SA and Retailer Reference Groups	Adelaide	Mark Grenning Mark Henley Robyn Robinson
28 May 2020	SA and Retailer Reference Groups	Adelaide	Mark Grenning Mark Henley Robyn Robinson
4 August 2020	SA and Retailer Reference Groups	Adelaide	Mark Grenning Mark Henley Robyn Robinson