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**C**hallenge  
**P**anel

## **CCP28 Advice to the AER**

**Victorian Gas Distribution Network Access Arrangement 2023–28  
Draft Decision and Revised Access Arrangement Proposals**

**24 February 2023**

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### **Acknowledgement of Country**

The networks and facilities owned by the Victorian Gas Distribution network businesses traverse the lands of many Indigenous nations. We recognise the traditional owners of these lands and honour their customs and traditions and special relationship with the land as well as those where this report is being prepared. We respect the elders of these nations, past, present and emerging.

### **Confidentiality**

To the best of our knowledge this report does not present any confidential information.

## 1 Focus of this advice

The Australian Energy Regulator (AER) appointed CCP28 in November 2021 to review the following Victorian Gas Access Arrangement resets:

- APA Victorian Transmission Service (VTS) (2023-27)
- AGN (Victoria & Albury), AusNet Services and Multinet Gas Networks (MGN) (2023-28)

This advice relates to the AER's Draft Decisions on the AGN (Victoria & Albury), AusNet and MGN gas distribution network access arrangement proposals (2023-28), which were published on 9 December 2022, and the network businesses' revised access arrangement proposals lodged with the AER on 24 and 25 January 2023. Hereafter, these documents are referred to collectively as the *revised proposals* or individually as the *AGN Revised Plan*, the *AusNet Revised Proposal* or the *MGN Revised Plan*.

This advice builds on both CCP28's 30 September 2022 advice to the AER on the Victorian gas distribution network (VGDN) businesses' access arrangement proposals and addenda<sup>1</sup>, and the 31 March 2022 advice to the AER in relation to the three VGDN draft proposals. It focuses on the networks' engagement since preparation of CCP28's 30 September advice.

In line with CCP28's role as agreed with the AER, and within the time and resources available, this advice focuses on the following:

- An assessment of the networks' consumer engagement activities, including the extent the *Revised Proposals* reflect consumer preferences in line with the AER's expectations for consumer engagement as outlined in the *Better Resets Handbook*
- Key considerations for the AER in making its final decision in relation to the three VGDN (2023-28) access arrangements

As the three VGDN businesses have continued to collaborate on elements of their stakeholder engagement activities through their co-designed integrated consumer and stakeholder engagement program, it makes sense to provide one advice to the AER, noting issues that are common and those that are unique to each network as appropriate.

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<sup>1</sup> CCP28, *Victorian Gas Distribution Network Access Arrangement 2023–28 Proposals*, CCP28 Advice to the AER, 30 September 2022

## 2 Consumer engagement

Since September 2022, the VGDN businesses have continued to engage with consumers, consumer representatives, and retailers. As the draft decisions accepted significant proportions of the initial proposals for each of the businesses, the scope of engagement in this phase of the reset was narrowed considerably. In their draft decisions however, the AER encouraged the VGDN businesses to undertake further engagement on specific topics, including:

- accelerated depreciation and associated price paths
- payment for abolishment of gas connections
- the Priority Services Program
- certain non-tariff terms and conditions.

These topics have been the focus of engagement activities since the draft decision in December 2022. The consumer engagement program undertaken by the businesses is described further below. A detailed list of activities is provided in Appendix A.

### 2.1 VGNSR/RRG roundtables

The VGDN businesses have continued to host joint VGNSR/RRG Roundtable meetings, with three online meetings held since September 2022 viz:

- 10 November 2022 which provided a customer sentiment update for each of the businesses post the Victorian Government's announcement of updated emission targets and revised demand forecasts, information about the proposed Greenhouse Gas Emissions Safeguard Mechanism, and high-level responses to issues raised by stakeholders in submissions on the initial proposals. This Roundtable pre-dated the draft decisions which were released on 9 December 2022.
- 15 December 2022 which explained the key elements of the draft decision for each business and described the issues which would be the subject of further engagement.
- 6 February 2023 which provided participants with a summary of the revised proposals, and advised participants about a proposed new cost pass-through event to mitigate the risk of retailers being unable to recover gas service abolishment costs.

The networks continued to provide participants with copies of their presentation materials to scrutinise (albeit with limited lead time before each roundtable, usually around 2 hours). The presentation material was clear, and well-presented. While participants were encouraged to ask questions during the sessions, they would have benefitted from an opportunity to review and consider the material several days in advance of the meeting, which would have better equipped them to raise questions and any concerns on the day. The number of stakeholder attendees (excluding retailer representatives) continued to be concerningly low, varying between 3 and 5 attendees at each workshop.

The purpose of the Roundtables was largely to *inform* participants about the reset progress and the issues in play.

## 2.2 Response to submissions on the businesses' initial proposals

Fourteen submissions were registered for each of MGN and AusNet Services' initial proposals, while fifteen submissions were registered for AGN's initial proposal. Each of the businesses provided a high-level response to the submissions at the 10<sup>th</sup> November Roundtable, with more detailed information set out in their revised proposals. Apart from a proposed change to credit support arrangements to address retailer concerns, it is not evident that stakeholder submissions led to any changes in the revised proposals.

## 2.3 Priority Service Program Advisory Panel

The VGDN businesses jointly reconvened the Priority Service Program (PSP) Advisory Panel in an online meeting on 17 November 2022 to:

- provide an update on the PSP included in the initial proposals,
- re-test the key features of the PSP and identify any refinements to be made in the revised proposals
- consider implementation issues.

Concerns voiced by representatives of community organisations who attended the workshop included issues such as:

- funding the PSP will increase prices for all customers, including beneficiaries of the program,
- the need for close coordination with programs offered by electricity and water companies, and the existing emergency management network,
- how customers would access the program,
- whether the program is consistent with the Government's electrification agenda.

## 2.4 AGN/MGN Customer Workshops

AGN and MGN each held two online workshops on 16<sup>th</sup> and 17<sup>th</sup> January respectively, inviting residential customers who had participated in the previous customer engagement workshops leading up to lodgement of the initial proposals. 51 customers attended the AGN workshops, and 40 attended the MGN sessions. The objective of the workshops was to clarify customer preferences with respect to accelerated depreciation and the related price paths, and how abolishment charges should be recovered.

As in the earlier engagement program, the workshops were facilitated by KPMG, and used the 'Menti' tool to record customer input.

In our September 2022 advice, CCP28 said:

*KPMG’s insights are predominantly statistical, based on the various polls they conducted during the consumer workshops. KPMG has aggregated the results from each poll to report overall statistics.*

*While KPMG quite appropriately does not make any formal statistical inferences as to the proportions of customers who supported various propositions, readers of the reports should nevertheless take heed that these statistics are not meaningful quantitative measures of consumer support.*

*To obtain meaningful statistical evidence of support would require properly designed and executed surveys of representative samples of AGN and MGN customers.*

KPMG used the same methodology to report results from AGN and MGN’s January 2023 workshops, and our comments apply equally to the most recent workshop insights reports.

## 2.5 AusNet Customer Survey

AusNet chose a different approach to engagement during preparation of the revised proposal to AGN and MGN. Rather than reconvene customer workshops, AusNet conducted a survey of customers in December 2022 to test price path preferences over a 5 and 10 year horizon, and views on how abolishment charges should be recovered. AusNet indicates that it chose this approach because “we knew exactly what we wanted to test with customers, with the more nuanced matters having already been addressed in customer workshops”. 813 gas customers completed the survey, including 523 AusNet gas customers and 290 customers of other networks. The survey also investigated how gas customers interact with their gas bills, and which component/s of the bill they are most interested in. The survey was tested with a trial group of customers.

Information on whether an independent market research specialist was engaged to design and conduct the survey, and how the survey was administered i.e. in a wholly online or hybrid mode is not provided.

Demographic breakdown of the sample population is provided, however it is not clear how closely the sample population aligns with overall population demographics in Victoria, and hence whether it is a representative sample. For example, 6% of the sample group are reported as speaking a language other than English at home<sup>2</sup>, whereas the Victorian Department of Health Demographic Data reports that 32% of Victorians speak a language other than English at home<sup>3</sup>.

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<sup>2</sup> AusNet Services, *Access Arrangement Information Day, date month year Gas access arrangement review 2024-28 Revised AA Proposal*, 24 January 2023, p. 19

<sup>3</sup> <https://www.health.vic.gov.au/chief-health-officer/demographic-data-2018>

## 2.6 CCP28 observations on engagement

CCP28 makes the following observations on the engagement carried out by the VGDN businesses in preparing their revised proposals.

- Speedy response: The three businesses responded quickly to facilitate engagement with stakeholders and customers in the short timeframe between the draft decision on 9<sup>th</sup> December 2022 and lodgement of the revised proposals on 24/25 January 2023, noting that this is normally a holiday period for many Australians
- With reference to the IAP2 Spectrum of Public Participation, engagement with the VGNSR/RRG was at the ‘inform’ level. Engagement with customers and the PSP Advisory Group was at the ‘consult’ level.
- Matters not consulted on: Although stakeholders were made aware of a proposed new cost pass through for unrecovered abolishment costs, and the proposed approach to applying charges for the Federal Government’s changes to the Safeguard Mechanism, CCP28 did not observe any consultation on these issues
- Linkage to business- as-usual engagement: The Better Resets Handbook encourages a close alignment between engagement on regulatory proposals, and the ongoing business-as-usual engagement conducted by a business. Throughout the reset process, CCP28 has not had an opportunity to observe how the reset engagement process relates to and interacts with each business’s regular business-as-usual customer and stakeholder engagement. The future of the VGNSR/RRG forum has not been a topic for discussion at the various Roundtables, and so it is not clear how engagement on issues of ongoing shared concern, including the PSP, will be progressed.

### 3 Other matters

#### 3.1 Gas service abolishments

##### Customer perspectives

In their customer workshops, AGN and MGN presented four options for paying the cost of abolishing the gas service which was estimated to be around \$950 for each premise. The options were:

1. The disconnecting household pays
2. The cost is spread across all remaining gas customers (approximately \$25 pa each over the next regulatory period)
3. A hybrid approach combining 1) and 2)
4. The Government pays (through state taxes).

AusNet sought customer views on three options corresponding to 1), 2) and 4) above.

While we have questioned the statistical significance of the workshop & survey findings, CCP28 did observe strong support from customers for the ‘user pays’ option, and low levels of support for the ‘smeared cost’ approach. We did also observe a reasonable level of support for the ‘government pays’ option, but note that this option is beyond the scope of the AER’s final decision.

##### Stakeholder perspectives

At Roundtable meetings, retailers seemed to generally be of the view that a ‘smeared’ approach which is simpler for them to administer and minimises their risk of being unable to recover their costs is preferred, whereas community representatives consider that ‘user pays’ is the ‘least-worst’ of the two options available to the AER. This is in spite of the fact that it is seen as a significant barrier to transitioning away from gas for many customers. Their position is based on concerns around the cost impacts for low-income customers.

##### CCP28 assessment

###### The least-worst option

Of the two options presented by the AER, the ‘user pays’ option is currently the one most supported by customers and stakeholders. However CCP28 consider that whichever option is implemented for this reset, it can only be a stop-gap measure. A longer-term strategy and plan is required to decommission parts of the gas network that are unutilised or underutilised following customer defections. It makes no sense, and is surely the most expensive approach to decommission a gas network one connection at a time. Abolishments must be considered as part of the discussions around stranded asset risks for both businesses and customers.

###### Other complexities

Most of the discussion around abolishments has been in the assumed context of owner-occupied single-premise dwellings. Questions about how these proposed charges would apply in rental properties where the account holder may be different to the connection owner, or how

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abolishments could be progressed in multi-unit dwellings warrant further consideration and discussion with stakeholders.

### Cost pass through

The proposed cost pass through for ‘smearing’ unrecovered abolishment fees has not been reviewed in detail by VGNSR/RRG members. CCP28 suggest that if accepted, the cost pass through arrangement will have unintended consequences. It is likely to become the default approach rather than the exception, when retailers are faced with the challenge of recovering the significant costs from ex-customers.

### Conclusion

We agree with the views expressed by Evoenergy in their submission to the Victorian Gas Resets:

*‘regulatory and policy frameworks will need to account for the new class of costs of decommissioning gas networks and supporting an equitable and orderly transition to electrification and renewable energy’<sup>4</sup>*

## 3.2 Accelerated depreciation and related price paths

In the draft decisions, the AER agreed in principle that the VGDN businesses should be able to use accelerated depreciation to manage the equitable recovery of costs from a declining, and sometimes vulnerable, customer base over time. This is consistent with considerations set out in the AER’s ‘Regulating gas pipelines under uncertainty’ information paper. In making the draft decisions the AER calculated accelerated depreciation to target a 0% p.a. real price change for the next regulatory period, which had the effect of significantly reducing accelerated depreciation allowances for AusNet and MGN.

The AER requested that customers be further consulted on this topic in the context of other components of the regulatory proposal, particularly considering current cost-of-living pressures.

The question for the network businesses then boiled down to “how much accelerated depreciation should customers pay in the next regulatory period, and what are customer preferences for future price paths and risk sharing with the businesses”.

### Customer perspectives

AusNet engaged with customers on this topic through the Customer Survey described in Section 2.5.

The survey commences with a series of questions about energy bills. AusNet reports that customers have a strong focus on their bill total. Hence when customers are asked to respond to the statement “It is important to keep bills stable and predictable over time”, it is reasonable to conclude that customers are referring to the total bill, rather than the network component of the bill. The survey questions do not appear to provide contextual information to explain that the other components of the bill may also vary over time eg wholesale gas prices. So, when expressing preferences for various

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<sup>4</sup> Evoenergy: *Submission to AER’s review of Victorian gas access arrangements and regulating gas pipelines under uncertainty*, September 2022, p. 6

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price paths, it is highly likely that customers were expressing preferences for total bill price paths. To satisfy customer preferences, it may be necessary for network businesses to respond by adjusting the level of depreciation to balance forecast changes in wholesale gas prices to deliver stable total bill price paths to the extent possible.

Notwithstanding, that they were most likely thinking about the total bill, a majority of customers expressed a preference for the flat 5-year price path, and the most stable 10-year price path.

For AGN and MGN, this issue was explored in the customer workshops. The question that was posed in the workshops was “Should there be a price increase to mitigate future risk?”.

Three options were presented for consideration in the AGN workshops:

- Option 1 – flat prices today and **wear future price risk** (our emphasis)
- Option 2 – pay a little more today (up to \$10 per annum), and reduce risk in the future
- Option 3 – pay more today, up to \$20 per annum if it reduces the risk that prices increase in future.

(For the MGN workshops, the numbers were \$15 and \$30 per annum)

The negative and scary connotations of customers having to **wear the risk of a future unknown and possibly very large price rise** may have deterred many from selecting option 1.

For AGN, the workshop finding “47% of AGN customers are comfortable paying up to \$20 more today to reduce the risk of future price increases” could equally be reported as “53% of participants at the AGN workshop want either no increase in prices, or a price rise of less than \$10 per annum”.

Participant comments observed by CCP28 included:

- The questions are somewhat vague. Eg. What does ‘reduces the risk’ mean? It’s very subjective.
- What does it mean in terms of dollars? Can you quantify the risk?
- I need assurance that paying more now would help.
- It’s best to wait, because of the high cost of living.
- I’m not sure I’ll pay less later.

### Stakeholder perspectives

Stakeholders were not consulted on this matter. Many stakeholders do not support including any accelerated depreciation for the next regulatory period due to future of gas uncertainties and cost of living concerns for vulnerable consumers.

### Conclusion

Customer engagement may provide the overall direction of consumer sentiment on future price paths, however the conclusions are not robust.

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### 3.3 Priority Services Program

Funding to introduce a Priority Services program has been approved for all Victorian gas distribution businesses. We understand that the businesses intend to establish a PSP modelled on the equivalent program that was approved for AGN SA in 2021. We also note that a group of the 8 main Victorian community organisations are strongly opposed to additional funding being provided for implementation of a PSP, and hold the view that support for vulnerable customers should be funded as part of business-as-usual funding. The community organisations report that:

*“Higher prices in the near term will affect households dealing with a cost-of-living crisis, inflation, real wage decreases and rising interest rates, in an economy impacted by the disruptions of the pandemic. Consumers engaging through our organisations’ frontline services are aware of and anxious about the prospect of continued increases in energy costs, driven by global fuel prices”<sup>5</sup>*

At the PSP Advisory Group Workshop in November 2022, AGN advised that they are “still doing foundational work in South Australia” and expect to implement the program there in early 2023. This is clearly not a straightforward program to design and implement. As agreement on the need for the program in Victoria, and elements of program design are still being debated by the Priority Services Advisory Group, it is extremely unlikely that a new PSP will be up and running in Victoria for the commencement of the next regulatory period on 1 July 2023.

As a result, in South Australia and likely in Victoria, customers will be required to pay through their tariffs for services they are not receiving from the network businesses.

CCP28 advise the AER to consider a mechanism for quarantining PSP funding, and releasing the funds only when agreed services are available to be delivered.

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<sup>5</sup> Victorian community organisations’ submission to gas distributors’ initial proposals: 2023–2028 Access Arrangements, p. 2

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**Appendix: VGDN engagement activities**

Since providing our 30 September 2022 advice the three VGDN businesses have undertaken the following stakeholder engagement activities:

Activity	Date	CCP28 Observed
Joint VGNSR/RRG No. 12 – Customer sentiment update, high-level responses to submissions on initial proposals	Thu, 10 Nov 2022	Yes
Joint VGNSR/RRG No. 13 – Key elements of the AER draft decisions	Thu, 15 Dec 2022	Yes
Joint VGNSR/RRG No. 14 – Summary of revised proposals	Mon, 6 Feb 2023	Yes
Joint Priority Services Program Advisory Group Meeting	Thu, 17 Nov 2022	Yes
AGN Customer Workshop (1/2)	Mon, 16 Jan 2023	No
AGN Customer Workshop (2/2)	Mon, 16 Jan 2023	Yes
MGN Customer Workshop (1/2)	Tue, 17 Jan 2023	No
MGN Customer Workshop (2/2)	Tue, 17 Jan 2023	No
AusNet Customer Survey	Dec 2022	n/a