

Consumer
Challenge
Panel

CCP28 Advice to the AER

**Victorian Gas Distribution Network Access Arrangement 2023–28
Proposals**

30 September 2022

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Acknowledgement of Country

The networks and facilities owned by the Victorian Gas Distribution 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.

Disclosure Statement

Robyn Robinson in her capacity as Non-Executive Director, Council on the Ageing Queensland was a member of the judging panel for the Energy Consumers Australia and Energy Networks Australia, Network Consumer Engagement Award 2022. Her interest is also declared on the AER's Consumer Challenge Panel Conflict of Interest Register.

Robyn was one of a group of seven judging panel members who selected AusNet Services, Australian Gas Networks (AGN) and MGN Gas Networks (MGN), as winners of the 2022 Energy Networks Industry Consumer Engagement Award. The businesses won the award for “coming together to design and deliver a single, integrated, consumer and stakeholder engagement program for their regulatory reset engagement plans ... providing a single forum to discuss issues of importance to the sector.”¹

The Judging Panel's Report notes that “the assessment by the Judging Panel does not reflect whether a particular revenue outcome is in the long-term interests of consumers, either in a revenue proposal or as determined by the Australian Energy Regulator.”²

This CCP28 advice focuses on our assessment of the businesses' consumer engagement activities, in the context of their influence on the networks' access arrangement proposals, which is a different assessment to the judging criteria that led to the award.

¹ Energy Consumers Australia, *2022 Energy Networks Consumer Engagement Award Winners Announced*, 20 September 2022, <https://energyconsumersaustralia.com.au/news/2022-consumer-engagement-award-winners-announced>

² Energy Networks Australia, *Consumer Engagement Report, 2022 Report*, https://energyconsumersaustralia.com.au/wp-content/uploads/ConsumerEngagement2022_04.pdf

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1 Focus of this advice

CCP28 was appointed 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 AGN (Victoria & Albury), AusNet and MGN gas distribution network access arrangement proposals (2023-28), which were lodged with the Australian Energy Regulator (AER) on 1 July 2022. Hereafter we refer to these documents collectively as the *proposals* or individually the *AGN Plan*, the *AusNet Proposal* or the *MGN Plan*. This advice incorporates the Victorian Gas Distribution Networks' (VGDN) respective addenda in response to the Victorian Government's Gas Substitution Roadmap (the Roadmap) published on 11 August 2022 after the businesses lodged their proposals.

This advice builds on our 31 March 2022 advice to AER in relation to the three VGDN draft proposals and focuses on the networks' engagement and published reports since we prepared our March 2022 advice.

In line with our role agreed with the AER, and within the time and resources available, our advice focuses on the following:

- An assessment of networks' consumer engagement activities, including the extent the *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 draft decision in relation to the three VGDN (2023-28) access arrangements

As the three VGDN businesses collaborated on much 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.

2 Consumer engagement

2.1 Summary of consumer engagement activities

2.1.1 Engagement to inform draft proposals

Our March 2022 advice to the AER on the VGDN draft proposals includes a list of engagement activities we observed in the lead up to the businesses' release of their draft proposals.^{3,4} In our March advice we noted the following in relation to their engagement activities:

- The businesses had engaged broadly with consumers, consumer representatives, retailers and others consistent with their engagement plans⁵
- They had engaged deeply on some aspects of their proposals, with the depth of engagement customised to suit the knowledge and interests of different stakeholder groups
- The three networks invested considerably in their engagement, establishing a dedicated engagement website and producing detailed written materials to support their activities, inform stakeholders and customers, and seek their feedback on proposals
- The three networks' intent to genuinely engage was apparent.

Nevertheless, we also raised concerns about the following:

- How the engagement topics emerged, i.e., whether they were selected by the networks based on network experience or whether they were topics initially raised by consumers or other stakeholders
- Whilst the networks' intent to engage was genuine, we were uncertain as to the extent customers were adequately "consulted" or "involved" with the evidence available to us
- Assumptions in the draft proposals that consumer support for values-based services, such as their proposed Priority Service Program (PSP) and communications, and customers' willingness to pay for these services

2.1.2 Post draft proposal consumer and stakeholder engagement

The three VGDN businesses published their draft proposals on 17 January 2022, with consultations on their draft plans open until 28 February 2022. CCP28 provided advice to the AER on the VGDN businesses' draft proposals on 31 March 2022.

Between publishing the draft proposals and providing our advice to the AER, the VGDN undertook a significant program of consumer engagement to seek feedback on their draft plans including:

- Joint network engagement:
 - Two VGNSR/RRG roundtables

³ CCP28, *AusNet Services Gas Access Arrangement 2024–28 Draft Proposal*, CCP28 Advice to the AER, 31 March 2022, Appendix A

⁴ CCP28, AGIG (AGN and MGN) *Gas Access Arrangement 2024–28 Draft Proposal*, CCP28 Advice to the AER, 31 March 2022, Appendix A

⁵ Predominantly online engagement due to constraints imposed by the COVID-19 pandemic and lockdowns in Victoria through much of the period of their engagement.

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- One major users' forum
- Four stakeholder deep dives
- PSP workshop
- Network-specific online customer workshops (AGN six workshops, AusNet 5 workshops, MGN 5 workshops)

Our feedback on these engagement activities was included in our 31 March 2022 advice, although we draw on our insights from these activities to reflect on the networks' engagement reports published since that date.

2.1.3 VGDN engagement post 31 March 2022

In Appendix A we provide a detailed list of VGDN engagement activities since 31 March 2022. In summary, network engagement activities were predominantly with VGNSR and RRG members through joint roundtables (5 sessions) and one deep dive. These sessions were internally facilitated by the businesses with the intent of gathering feedback on draft proposals, and to present and discuss implications of the Roadmap. We observed three roundtables and the deep dive.

The businesses also jointly and independently met with developers, predominantly to inform them about their draft proposals and the Roadmap. We observed one of these sessions.

Additionally, KPMG facilitated three review sessions with VGNSR and RRG members, in its capacity as an "independent" reviewer for AGN, AusNet and MGN's stakeholder engagement. CCP28 members were present as observers at two of these events.

Specifically, KPMG was engaged to:

*"independently obtain feedback from VGNSR and RRG on key components of the Draft Plans, overall engagement process and any other matters of interest."*⁶

⁶ KPMG, *Draft Five Year Plans for the Victorian Network (July 2023 – June 2028) Stakeholder Engagement Report*, 27 June 2022, prepared for the Australian Gas Infrastructure Group (comprised of Australian Gas Networks and MGN Gas Networks), p. 3

3 Assessment of consumer engagement activities

This assessment focuses on VGDN engagement activities since our 31 March 2022 advice. As previously mentioned the networks did not directly engage with consumers after 31 March 2022.

Our assessment of the networks’ engagement considers the context for their engagement, our observations and other evidence we have gathered from VGDN meeting minutes and their proposals. Importantly we have framed our assessment in terms of the AER’s expectations as outlined in the *Better Resets Handbook*⁷.

Table 3-1: Overall assessment of VGDN engagement against AER *Better Resets Handbook*

<i>AER Better Resets Handbook</i>	Strengths/improvements	Concerns – issues for the AER to consider
Engage sincerely, openly and genuinely with consumers, such that consumers have confidence in the process	<ul style="list-style-type: none"> • Networks have continued to engage with consumer representatives, retailers and developers and more specifically, with the short time available consulted with them through the VGNSR/RRG and developer workshops in relation to the Roadmap (VGNSR/RRG Meeting #11) • Participants were provided with detailed presentations and opportunities were given to participants to ask questions and the networks were responsive • The networks also maintained an offer to talk with stakeholders one-on-one • As demonstration of their significant commitment to their stakeholder engagement as they finalised their proposals, all 	<ul style="list-style-type: none"> • None of the networks has directly engaged with end consumers in relation to the addenda prepared in response to the Roadmap <ul style="list-style-type: none"> ○ Instead, they have relied on the earlier feedback from consumers, and feedback in the combined VGNSR/RRG meeting on 10 August 2022 attended by five consumer representatives, as reported in the meeting minutes.⁸

⁷ AER, *Better Resets Handbook*, December 2021

⁸ AGN, AusNet Services, MGN, *Minutes (Combined) Victorian Gas Networks Stakeholder Roundtable and Retail Reference Group meeting #11*, 10 August 2022, available from <https://gasmatters.agig.com.au/victorian-engagement-plan>

<i>AER Better Resets Handbook</i>	Strengths/improvements	Concerns – issues for the AER to consider
	<p>three networks had a strong presence at their roundtables and workshops, for example:</p> <ul style="list-style-type: none"> ○ Between 8 and 12 AGIG representatives (for AGN and MGN) and 6 to 8 AusNet (including the AGIG CEO, and executive managers and subject matter specialists as required from each) attended each of the VGNSR/RRG meetings ● For transparency all meeting minutes were published soon after each event on the Gas Matters website 	
<p>Consider consumers as “partners”, rather than simply being asked for feedback</p>	<ul style="list-style-type: none"> ● We acknowledge a number of consumer representatives and retailers have attended numerous engagement activities, and the networks have published detailed presentations ● The networks’ ongoing engagement has allowed these stakeholders to become sufficiently informed that they could meaningfully provide the networks with feedback on their proposals 	<ul style="list-style-type: none"> ● While the networks may consider members of the VGNSR/RRG as “partners”, we question the extent those members genuinely felt like they were partners, and there are no direct references to “partnership” in the KPMG <i>Independent Reviews</i>^{9,10} ● As noted above, the networks did not engage with consumers after March 2022

⁹ KPMG, *Draft Five Year Plan for the Victorian Network (July 2023-June 2028), Stakeholder Engagement Report*, prepared for AGIG, available from <https://gasmatters.agig.com.au/victorian-engagement-plan>

¹⁰ KPMG, *Draft Five Year Plan for the Victorian Network (July 2023-June 2028), Stakeholder Engagement Report, prepared for AusNet Services*, available from <https://gasmatters.agig.com.au/victorian-engagement-plan>

<i>AER Better Resets Handbook</i>	Strengths/improvements	Concerns – issues for the AER to consider
Equip consumers with accurate and unbiased information so they can engage effectively	<ul style="list-style-type: none"> • The networks have been providing stakeholders with copies of their presentation materials to scrutinise (albeit with limited lead time before each roundtable) • Stakeholders have been encouraged to ask questions • Timely publication of presentations and meeting minutes on the Gas Matters website 	<ul style="list-style-type: none"> • As noted above, the networks did not engage with consumers after March 2022

<i>AER Better Resets Handbook</i>	Strengths/improvements	Concerns – issues for the AER to consider
Be accountable to consumers	<p>The three networks demonstrated accountability by:</p> <ul style="list-style-type: none"> • Their "open-door" invitations to stakeholders as mentioned • Encouraging stakeholders an opportunity to talk and ask questions during Roundtables • Publishing their proposals on the Gas Matters website • Listing in their proposals what they heard from customers and providing related responses, although we cannot locate any direct references to written submissions in the material provided. 	<ul style="list-style-type: none"> • Although the businesses described in their proposals what they heard from customers and provided related responses, we cannot locate any direct references to written submissions, and the links between what networks heard and reasoning for responses is not always clear. For example, the AGN <i>Consumer and Stakeholder Feedback Summaries</i> acknowledge that stakeholders had “mixed levels of support for investment in renewable gas communication and education”¹¹, yet AGN and MGN are still seeking an opex step change for this item. • Given the significant changes in economic conditions since the networks last engaged with consumers, and publication of the Roadmap we are concerned that none of the networks have revisited any of their proposals with consumers. • In our advice to AGIG’s (AGN and MGN) draft proposals we indicated: <i>“AGN and MGN need to provide stronger evidence of claims that customers and stakeholder support their investment in values-based expenditures, such as the PSP”¹²</i> <p>See Section 4.1.3 for further comments</p>

¹¹ AGN, *Final Plan Attachment 5.2 Customer and Stakeholder Feedback Summary Tables, Final Plan 2023/24 – 2027/28*, July 2022, p.4

¹² CCP28, *Advice to the AER, AGIG (AGN and MGN) Gas Access Arrangement 2024-28 Draft Plans*, 31 March 2022, p. 25

AER <i>Better Resets Handbook</i>	Strengths/improvements	Concerns – issues for the AER to consider
<p>Engage broadly and deeply with consumers, including defining their expected level of participation and influence/ Allow consumers to guide the development of network proposals, based on consumers' desired outcomes</p>	<ul style="list-style-type: none"> Following publication of their draft proposals, the networks' engagement continued to include small numbers of residential, commercial and industrial consumer representatives and retailers who participated in various roundtables and workshops The networks also independently engaged with developers given their interest in urban development and planning. Beyond that interest, and informing them, their purpose of engaging with developers it is not clear to us, even when considering the V DGN engagement plan¹³. 	<ul style="list-style-type: none"> As noted above, the networks did not engage with consumers beyond March 2022. There was a significant turnover and attrition in VGNSR representatives between initial formation of the group in March 2021 and May 2022, which constrained the extent the networks could fully engage deeply and broadly with consumer representatives. Limited numbers of VGNSR/RRG members participated in later roundtables and other meetings, and we believe some may not have participated in earlier stages to fully appreciate the issues being discussed (see Appendix A). The <i>Better Resets Handbook</i> states that: <i>“Where consumer views on an issue are diverse, network businesses need to set out those views and how they were balanced in developing their regulatory proposal. Network businesses should seek to find mutually acceptable solutions where there are divergent consumer views”</i>¹⁴ <p>We are not confident that the proposals sufficiently consider the divergent stakeholder views on some issues, for example accelerated depreciation (see also our comments in Section 4.3).</p>

¹³ AGN, AusNet Services & MGN, *Engaging Victorians on the Future of our Networks*, July 2023 to June 2028

¹⁴ AER, *Better Resets Handbook*, December 2021, p. 16

<i>AER Better Resets Handbook</i>	Strengths/improvements	Concerns – issues for the AER to consider
Use a variety of engagement methods	<ul style="list-style-type: none"> ● Engagement methods continued to include: <ul style="list-style-type: none"> ○ Informing via the joint network engagement online platform ○ Informing and consulting via online Roundtables accompanied by verbal and written presentations ○ Informing and consulting individual stakeholders on request ● Seeking submissions on the draft proposals 	<ul style="list-style-type: none"> ● Engagement was predominantly online, and notwithstanding COVID, the methods were largely determined by the VGDN businesses rather than consumers/VGNSR/RRG members
Provide evidence of consumer impacts on their regulatory proposal	<ul style="list-style-type: none"> ● The three networks’ final proposals provide links between consumer and stakeholder feedback, and the proposals ● Examples of consumer and stakeholder impacts include: <ul style="list-style-type: none"> ○ The businesses reported strong support from consumers for hydrogen readiness expenditure, which the businesses presented as “preparing our networks for renewable gas”. However, stakeholders’ lack of support for the proposed hydrogen readiness expenditure set out in draft proposals led to AGN and MGN significantly reducing proposed expenditure in the final proposals (AGN reduced from \$25m to \$10m, and MGN from \$21m to \$9m). AusNet removed hydrogen readiness expenditure from its final proposal. ○ All three businesses decided not to proceed with a Gas Network Innovation Scheme as mooted in their draft proposals. 	<ul style="list-style-type: none"> ● It is outside CCP28’s scope to examine the technical merits of the networks’ proposals, however we anticipate the AER will consider stakeholders’ expectations in its detailed assessment of each network’s proposal. ● In relation to hydrogen readiness expenditure, it is not clear why AGN and MGN gave more weight to reported views of consumers than informed advice from stakeholders; and why AusNet weighted the perspectives of those two groups differently. ● Other areas where divergent consumer and stakeholder views were reported but not resolved were application of accelerated depreciation, PSP and the Renewable Gas Communication and Education Program. ● Despite the evidence of consumer impacts on their regulatory proposals to support their proposed renewable gas communication and customer education and PSP opex step changes, the AER needs to consider the networks’ framing of the topics with consumers that informed this evidence. For example,

<i>AER Better Resets Handbook</i>	Strengths/improvements	Concerns – issues for the AER to consider
	<ul style="list-style-type: none"> Additionally, AGN and MGN prepared business cases for their renewable gas communication and customer education and PSP opex step changes, that includes evidence of customer support and willingness to pay for these initiatives^{15, 16}. Following publication of their draft plans AGN and MGN confirmed support for the proposed programs with customers. 	<p>from our review of customer workshop materials and based on our observations the networks did not explore the extent to which customers believe these initiatives should be business as usual items, whether the businesses or other parties such as government should be responsible for educating consumers on renewable gas and whether the proposed PSP should fall within the domain of corporate social responsibility.</p>
<p>Demonstrate independent consumer support for the proposal</p>	<ul style="list-style-type: none"> All three businesses engaged KPMG in an attempt to “independently obtain feedback from VGNSR and RRG on key components of the Draft Plans, the overall engagement process and any other matters of interest.”^{17, 18} 	<ul style="list-style-type: none"> The KMPG reports do not demonstrate independent consumer support for the networks’ respective proposals (see Section 4.1 for details).

¹⁵ AGN, *Attachment 8.2 Opex Business Case, Final Plan 2023/24 – 2027-28*, July 2022, p. 23

¹⁶ MGN Gas Networks, *Attachment 8.2 Opex Business Case, Final Plan 2023/24 – 2027-28*, July 2022, p. 21

¹⁷ KPMG, *Draft Five Year Plans for the Victorian Network (July 2023 – June 2028) Stakeholder Engagement Report*, prepared for AGIG, 27 June 2022, p. 3

¹⁸ KPMG, *Draft Five Year Plans for the Victorian Network (July 2023 – June 2028) Stakeholder Engagement Report*, prepared for AusNet Services, 27 June 2022, p. 3

4 Other matters

In this section we elaborate on selected matters referenced in our assessment table in Section 3.

4.1 Independent reviews

The *Better Resets Handbook*, encourages networks to provide an “independent report setting out consumer perspectives on a proposal as lodged to the AER”.¹⁹ The AER has mandated this report for networks that are seeking an early signal pathway, otherwise it is optional. Although none of the VGNR businesses were seeking an early signal pathway, an independent report as described in the *Better Resets Handbook* is nevertheless good practice.

4.1.1 VGNSR and RRG reviews

As previously stated, AGIG and AusNet commissioned KPMG to:

*“independently obtain feedback from VGNSR and RRG on key components of the Draft Plans, overall engagement process and any other matters of interest.”*²⁰

While the KPMG review process with stakeholders was combined, KPMG prepared separate reports for AGIG (AGN and MGN) and AusNet.

KPMG ran an initial workshop with VGNSR/RRG members on 14 April 2022, which was not well received. Stakeholders present at the workshop questioned why after seeing little evidence of network consideration of stakeholder views in the draft proposals they were being consulted yet again. Further the slide presentation at that session did not appear to acknowledge previously provided perspectives of VGNSR/RRG members.²¹ Consequently the session was abandoned. Subsequently, KPMG in association with the networks revised its approach, which involved separate online “deep dive” workshops with the VGNSR/RRG, with the networks presenting key components of their draft plans followed by a KPMG facilitated session.

We have significant concerns about the extent the KPMG reviews are consistent with the AER’s vision of an “independent report” of the effectiveness of the networks’ engagement and the extent the proposals reflect consumer preferences and desired outcomes for the following reasons:

The review process

1. We do not consider the review process and subsequent reports were genuinely independent as we understand the networks selected the consultant, there is no evidence that stakeholders provided input into the selection of consultant or the Terms of Reference for the review, and their input was limited to the few who attended the sessions and/or chose to comment on the draft reports.

¹⁹ AER, *Better Resets Handbook*, p. 17

²⁰ KPMG, *Draft Five Year Plans for the Victorian Network (July 2023 – June 2028) Stakeholder Engagement Report*, 27 June 2022, prepared for the Australian Gas Infrastructure Group (comprised of Australian Gas Networks and MGN Gas Networks), p. 3

²¹ As directly observed by CCP28 members.

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2. The KPMG facilitated independent workshops were “optional” for VGNSR/RRG members. Consequently, few stakeholders attended the KPMG feedback sessions, for example only 7 of the 16 VGNSR members attended the 14 April session and only 4 VGNSR and 6 RRG members attended the subsequent deep-dive sessions, although all members were given a chance (one week) to review and sign off on the report. The feedback gathered and documented in the KPMG reports is therefore limited to the views of those who participated in the review, and we cannot be confident it represents all participants’ views.
3. More observers than VGNSR/RRG members combined attended the review session (4 KPMG plus 8 AER/ACCC) and, we question the extent that their attendance, even as observers may have subtly influenced or constrained participants from providing candid feedback.

The review reports

4. Most of the content in the KPMG reports focuses on the headline topics presented by the VGDN businesses in the roundtable sessions and participants’ feedback on discussions. The reports contain little contextual information to help the reader understand how the topics emerged, or the information provided that helped shape participants’ views and there are no direct cross-references to earlier roundtables where the topics were discussed.²²
5. The KPMG reports reflect participants’ views on the networks’ engagement only insofar as they applied to the VGNSR and RRG members, not those members’ views on the networks’ broader consumer engagement, such as the consumer workshops.

Context and framework

6. The KPMG review was based on feedback gathered at a point in time and does not consider the evolution or history of the engagement activities and how stakeholder perspectives evolved and shaped network perspectives and proposals, or meeting attendance and participation.
7. The *Better Resets Handbook* suggests an effective review report should:

“provide a consumer view of the effectiveness of the identification of the pre-engagement lodgement process in identifying consumer preferences and outcomes and how they have been incorporated into the proposal ... and whether consumers support those outcomes”²³
8. We would have greater confidence in a review that also assesses the quality of engagement and outcomes more broadly and one which is based on a more formalised evaluative framework. For example, a more rigorous review would:
 - a. Clearly state the intent of obtaining “independent” feedback, in terms of its intended use, with direct links back to the engagement plan
 - b. Consider who selected the content for the engagement activities (i.e., the networks or consumers and other stakeholders)

²² We acknowledge the presentation materials have been published, on the Gas Matters website but these are not specifically referenced in the KPMG reports.

²³ AER, *Better Resets Handbook*, December 2021, p. 17.

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- c. Consider the delivery of the engagement activities
 - i. How the methods were chosen and their suitability for the engagement purpose and participants
 - ii. Group diversity
 - iii. Individual participation over time
 - iv. Objective, unbiased, timely and transparent delivery of information suited to the audience’s interests and knowledge
 - v. The extent that participants felt valued and had fair opportunities to influence outcomes
- d. Clearly defining outcome criteria for engagement activities, (e.g., informing, consulting, involving) and associated evaluation questions
- e. Evidence of participant support for the engagement outcomes

Overall, we do not consider that the KPMG reports meet the independent consumer report requirements set out in the *Better Resets Handbook* and they are of limited value as supporting documents for the VGDN proposals.

4.1.2 AGIG consumer engagement report

Additionally, as AGIG engaged KPMG to independently facilitate its customer engagement activities, KPMG was also asked to collate, synthesise and document data captured in its customer engagement and prepare reports for each of the gas networks. These reports document insights from the AGN²⁴ and MGN²⁵ *community and customer* engagement program which helped inform the networks’ draft proposals.

However, we have some concerns that the AER should consider in its assessment:

Potential biases in the methodology to elicit customer support

The methodology described in the reports provides no evidence that the topics discussed were driven by customers and even suggests customers were led in a particular direction. For example, in relation to renewable gas communications and education:

- In Phase 1 customers expressed an interest in learning about the future of gas, the networks presented some cost options (\$3, \$2 and \$1 bill impact options) and customers were asked which option they preferred, with most agreeing to the options presented.
- We cannot find any evidence of an open discussion as to who should fund this education, whether it is the networks’ role to educate customers or even if it is reasonable for customers to pay for it?

We note a similar approach was adopted with customers around the PSP, i.e., we can find no evidence of an open discussion as to who should fund the program and if it is reasonable for

²⁴ 164 Phase 1 participants of whom 118 participated in phase 2 and 88 who participated in phase 3

²⁵ 106 Phase 1 participants of whom 92 participated in phase 2 and 67 who participated in phase 3

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customers to pay for it. In relation to the PSP, we would have expected discussions around corporate social responsibility to vulnerable consumers to emerge but have found no evidence of such discussions.

The extent customers were genuinely involved and collaborated, or even felt part of a collaboration

We have also considered the intended IAP2 levels of engagement for each phase, and in particular Phase 2, in which the intended level of engagement was “Involve and Collaborate”.²⁶ However the questions that followed suggest little more than consultation, and from our observations much of the feedback was obtained via live polls asking participants to respond to closed response questions. Aside from the fact that live polls can bias the answers of people who are slow to respond, polling is not a form of collaborative engagement

Reporting of statistics as evidence of support

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.

The extent customers were genuinely satisfied with the process

We note substantial attrition from one customer workshop phase to the next. For example, for 164 AGN customers participated in the Phase 1 workshops, only 118 joined in Phase 2 and only 88 in Phase 3.

The KPMG reports suggest high levels of satisfaction (>95%) among workshop participants with engagement processes, opportunities to contribute their thoughts and the workshop activities.

However, the feedback survey sample sizes are not reported, and we are unsure how 95% satisfaction can apply to a process with such high attrition rates.

Implications of the Roadmap and inflation

Beyond the feedback presented in the KPMG reports we note that neither AGN nor MGN have directly tested their proposals with customers since March 2022. Hence all direct consumer evidence, predates the publication of the Roadmap and recent interest rate and cost of living increases.

²⁶ AGN, Attachment 5.3, *KPMG Final Report – AGN Customer Engagement Program, Final Plan 2023-34 – 2027/28*, July 2022, p.15

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Conclusion

We therefore have considerable reservations about the value and transparency of the insights provided in the KPMG reports as supporting evidence for the AGIG proposals.

4.1.3 AusNet’s consumer engagement report

AusNet engaged Communication Link to independently facilitate and report on its customer workshops, involving 110 customers over three rounds of workshops, with around 20% attrition between engagement phases.

Unlike the KPMG facilitated workshops, Communication Link facilitated more open discussion with consumers using the Mural online engagement platform but supplemented this with some online polling using a combination of Survey Monkey and Mentimeter. The Communication Link report, in comparison to AGN and MGN customer workshops suggests:

- Use of open-ended questions in Phase 1, for example “What should AusNet keep in mind?”
- More open engagement with AusNet consumers evidenced by screen shots of Mural boards well-populated with virtual notes posted by customers
- Lists of questions and topics raised by customers appended to the report

However as with KPMG, Communication Link has aggregated the results from polls taken at each group to report overall statistics and (to two decimal places) again readers of the report should nevertheless note 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 AusNet customers.

Conclusion

We therefore suggest that although the Communication Link has merit as evidence of AusNet’s direct consumer engagement, the attrition between phases, the inappropriate use of statistics, and lack of customer engagement given the Roadmap and economic factors are notable concerns.

4.2 Values-based services: PSP and renewable gas communications and education programs

Following their draft proposals, the AGN and MGN final plans each include a \$5m opex step change for the PSP, and they support their proposals within their respective opex business cases,^{27,28} The AGN and MGN final proposals also include an opex allowance for a “renewable gas communication and education program” and “investment to improve customer communications through a range of digital channels”.

²⁷ AGN, *Attachment 8.2 Opex Business Case, Final Plan 2023/24 – 2027-28*, July 2022, p. 23

²⁸ MGN Gas Networks, *Attachment 8.2 Opex Business Case, Final Plan 2023/24 – 2027-28*, July 2022, p. 21

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AusNet has also included an opex step change of \$4.4 million for the PSP, but unlike AGN and MGN it is not seeking an opex allowance for communication and education or improvements to its digital communications.

In our March 2022 advice to AGIG’s (APA and MGN) and AusNet’s draft plans we expressed concerns of network claims that customers and stakeholders support their investment in values-based expenditures such as the proposed PSP, and AGIG’s proposed consumer-funded marketing and communications program. Our concerns related to a network assumption that because customers have indicated they would value a PSP (for example), they would be willing to fund such a program. Accordingly, we indicated:^{29,30}

“AGN and MGN/AusNet need to provide stronger evidence of claims that customers and stakeholder support their investment in values-based expenditures, such as the PSP”

Whilst we accept that the networks have “tested” the extent customers were willing to pay for the PSP, we cannot find any evidence in any of the networks’ engagement reports, and nor did we observe, an open discussion as to *who* should fund the PSP, whether the networks’ have a social responsibility to fund a program and whether it is reasonable for customers to pay through a step change for this service.

Similarly whilst AGN and MGN may have tested the extent customers were willing to pay for their proposed renewable gas communications and education we cannot find any evidence in the networks’ engagement reports, and nor did we observe, an open discussion as to *who* should fund this education, whether the networks’ have a social responsibility, whether the networks’ existing marketing allowances could be used for this purpose and whether it is reasonable for customers to pay through a step change for this service.

As far as we can establish from the Communications Link report, AusNet customers were only asked whether they supported \$1.30 per year per customer for the PSP and whether this amount was too low, about right or too much. AusNet is not seeking an opex step change for renewable gas communications and education. The KPMG reports make no specific mention of AGN/MGN customers’ willingness to pay for the PSP or the proposed renewable gas communications and education program.

Regardless of any earlier testing of customers’ willingness to pay for these services or any business case, none of the networks have engaged further with end customers to test their appetite to pay for these services since March 2022 and given the Roadmap has now been published.

We do not want to diminish importance of supporting customers when they are experiencing hardship, especially when the cost-of-living pressure is likely to lead to significant increases in the numbers of consumers experiencing financial hardship. However, aside from it being counterintuitive to ask customers to pay more for their gas to look after customers who are struggling to pay, we are concerned that customers’ willingness to pay for a PSP has not been tested

²⁹ CCP28, AGIG (AGN and MGN) Gas Access Arrangement 2024-28 Draft Plans, CCP28 Advice to the AER, March 2022, p. 25

³⁰ CCP28, AusNet Services Gas Access Arrangement 2024-28 Draft Plans, CCP28 Advice to the AER, March 2022, p. 15

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contextually in terms of who should be responsible, the implications of the Roadmap and current economic conditions.

Specifically in relation to AGN and MGN’s proposed renewable gas communications and education program, in our March 2022 advice to the AER we indicated we do not see this activity as a network role and question the consumer benefit of such communications and education, especially in the context of the uncertain future of gas and the Roadmap.

We note from the AER’s Public Forum on 20 September 2022 that the Brotherhood of St Laurence (BSL) does not support customer funding of renewable gas education, and this aligns with our view. Likewise, we agree with the BSL that while it commends the VGDN on the PSP initiative, it should “not require additional funding”.³¹

4.3 Accelerated depreciation

The issue of accelerated depreciation of the gas distribution networks’ regulated asset bases is intricately related to the questions surrounding the future of gas and the uncertainties of short and longer-term future demand forecasts. It is one of the most complex challenges for the gas networks during the current resets, and was explored in some detail by the AER in their November 2021 paper *Regulating gas pipelines under uncertainty*.³² The businesses each carried out extensive modelling of accelerated depreciation impacts on demand and prices to inform their proposals, results of which they shared with VGNSR and RRG members.³³ For these resets, the businesses are using accelerated depreciation as a tool to manage future price paths rather than as a reflection of the expected lives of individual assets.

Consumer engagement

In the Phase 3 Customer Workshops, the businesses attempted to engage with consumers on the topic of accelerated depreciation, and to assess their acceptance for varying levels of accelerated depreciation, with related price increases for the 2023-28 period. In our 31 March 2022 advice to the AER, we observed:

*“We acknowledge AGN and MGN’s efforts in seeking to engage consumers in questions about accelerated depreciation. Such an exercise is fraught with difficulties. In short, we would suggest that if customers failed to challenge funding accelerated depreciation, then they failed to understand the questions put before them. There are no rational reasons why consumers acting in self-interest should support accelerated depreciation. We strongly caution the AER against placing any weight on AGN and MGN’s claim that consumers support accelerated depreciation”.*³⁴

³¹ Brotherhood of St Laurence, *Gas distributors Access Arrangement 2023-2028, Public forum: Initial proposals*, September 2022, slides 12 and 13.

³² AER, *Regulating gas pipelines under uncertainty: Information Paper*, November 2021.

³³ For example, see *Victorian Gas Networks Stakeholder Roundtable & Retailer Reference Group (Joint) Final Plan | Deep -Dive #1* Friday 26 August

³⁴ CCP28, *AusNet Services Gas Access Arrangement 2024–28 Draft Proposal, CCP28 Advice to the AER*, 31 March 2022

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Stakeholder engagement

Engagement with stakeholders on accelerated depreciation has largely been at the “inform” level on the IAP2 spectrum. We note from our observations of VGNSR/RRG roundtables, and as evidenced in the KPMG stakeholder engagement reports^{35,36} prepared in June 2022, stakeholders generally did not support the networks proposals for accelerated depreciation. Stakeholders held that accelerated depreciation is inconsistent with increased capex and proposed hydrogen readiness expenditure, and that inflating prices in the short term is not in consumers best interests in current market conditions. The BSL reinforced this view in the 20 September 2022 Public Forum.

Nevertheless, following release of the Gas Substitution Roadmap all three businesses advised that they were substantially increasing their proposals for accelerated depreciation.

Conclusion

Consumer and stakeholder engagement cannot be relied upon to support networks’ accelerated depreciation proposals.

³⁵ KPMG, *Draft Five Year Plans for the Victorian Network (July 2023 – June 2028) Stakeholder Engagement Report*, prepared for AGIG, 27 June 2022, p. 5

³⁶ KPMG, *Draft Five Year Plans for the Victorian Network (July 2023 – June 2028) Stakeholder Engagement Report*, prepared for AusNet Services, 27 June 2022, p. 5

Appendix: VGDN engagement activities

Since providing our 31 March 2022 advice the three VGDN businesses have undertaken the following stakeholder engagement activities:

Activity	Date	Time	CCP28 Observed	No. of stakeholders in attendance ³⁷
Roundtables (AGN, AusNet, MGN)				
Joint VGNSR No. 9 – Feedback on Draft Plans	Fri, 13 May 2022	10:00am – 12:00pm	Yes	5 reported in the minutes
Joint RRG No. 9 – Feedback on Draft Plans	Tue, 17 May 2022	3:00pm – 5:00pm	Yes	7 reported in the minutes
Joint VGNSR No. 10 – Regulatory Proposals and KPMG Review feedback	Mon, 20 Jun, 2022	3:00pm – 4:30 pm	Yes	6 reported in the minutes
Joint RRG No. 10 – Overview of Regulatory Proposals	Wed, 22 June 2022	3:00pm – 4:00pm	No	5 reported in minutes
Joint VGNSR/RRG No. 11 – Victorian Gas Substitution Roadmap and Implications for Regulatory Proposals	Wed, 10 Aug, 2022	11:00am – 12:00 pm	No	12 reported in the minutes (5 stakeholders, 7 retailers)
Deep dives (AGN, AusNet, MGN)				
Joint VGNSR/RRG – Final Plan Deep-Dive #1 Demand modelling	Fri ,26 Aug, 2022	2:00pm – 4:00 pm	Yes	7 reported in the minutes
Developers (AGN and MGN)				
UDIA Victoria Greenfields Development Committee – Business overview, low carbon future and draft proposals	Thu, 19 May 2022	Not known	No	Not known
Developers (AGN, AusNet, and MGN)				
UDIA Victoria Greenfields Development Committee – Victorian Gas Access Arrangement process, future of gas (in greenfield/broadacre developments)	Fri, 17 Jun 2022	Not known	No	Not known
Developers (AusNet)				
Greenfield Developer Industry Forum The Future of Gas	Wed, 20 Aug 2022	9:30 – 11:00 am	Yes	100 (estimated from observations)
KPMG Independent Review (AGN, AusNet, and MGN)				
Workshop – VGNSR/RRG	Thur, 14 Apr 2022	11:00 – 1:00 pm	Yes	14 (estimated from observations)

³⁷ Excludes CCP, AER/ACCC observers

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Workshop - VGNSR	Mon, 16 May 2022	2:00 – 3:00 pm	Yes	4 (reported by KPMG)
Workshop - RRG	Tue, 24 May 2022	10:30 – 11:30 am	No	6 (reported by KPMG)