



Still No Shocks AA Proposal

Submission to: Australian Energy Regulator

From: Uniting Communities

Regarding:

**Australian Gas Networks, AER Draft
determination and AGN Revised Final Plan for
Victoria and Albury Access Arrangement 2018-22**

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Note: Uniting Communities is South Australia's first accredited Carbon Neutral organisation/business.

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Section 1. Background

Uniting Communities is a member of both South Australian and Victoria / Albury reference groups for AGN and we regard ourselves as having a close and constructive relationship with them.

Original Access Arrangement Proposal

In response to the original Access Arrangement proposal for Victoria and Albury, we gave the following summary in our submission:

“Uniting Communities commends AGN on pioneering a “no shock” approach to this Regulatory proposal. From our (non-technical) considerations we are strongly supportive of the approach that AGN has demonstrated, encouraged by their significant efforts to build and enhance stakeholder trust and we look forward to continuing to build a close and constructive working relationship with them, with the shared objective of the best possible outcomes for gas consumers.”

Consumer Engagement.

In response to the initial Access Arrangement proposal, we said:

“We make four observations about our experience of this engagement approach

- 1. “Promise to the public”*
- 2. Reasonable lead time*
- 3. Release of Draft Plan*
- 4. Delivery of approach.*

Promise to the Public

In the submission responding to the initial Access Arrangement proposal, Uniting Communities provided commentary on the consumer engagement undertaken by AGN, making the following comments:

“We have been critical of other network businesses who have claimed to apply the IAP2 spectrum in their engagement with stakeholders, including consumers, but who have failed, in our opinion, to consider the ‘promise to the public’ aspects of that IAP2 model. While not directly aligning their approach with IAP2, AGN have provided clear commitments, their term is “deliverables” to the public. We think this approach to identifying key promises to the public is a strength of the AGN Access Arrangement proposal and we would regard it as ‘best practice’ current Australian energy network Regulatory process.

Reasonable lead time

While probably not front of mind in considering aspects of good consumer engagement, start time for network business is crucial in both enabling time for trust to be built with stakeholders and consumers and enabling a enough time for deliberation, debate and

discussion to occur in a meaningful way. By starting their stakeholder engagement process for Victoria and Albury earlier than they did to South Australia, AGN has indicated that they are applying 'continuous improvement' processes to themselves and being respectful of stakeholders who need to see that their efforts will be recognised. Adequate lead time is essential to achieve this.

Release of draft plan

By releasing a draft plan well before lodgement with the AER that encapsulated the main intended elements for their Access Arrangement proposal, AGN have lived up to the promise they gave to stakeholders that there would be "no surprises" in the AA proposal that they lodged.

For Uniting Communities, the early release of a draft plan is exactly the sort of process that we have envisaged in our "DNA approach" to network regulation. We suggest that this approach has many benefits, but it will take a little time to realise the full extent of these for all parties, particularly end consumers.

We've also worked closely with ElectraNet who have undertaken a similar process in releasing a Preliminary Revenue Proposal prior to lodging their Regulatory proposal.

The AER is strongly encouraged to recognise the benefits of this approach and the leadership role that AGN (and couple of other network businesses) are playing in having the courage to trial early disclosure / 'no shock' approaches.

Delivery of Approach

A major risk for any business in specifying an approach that they will take, particularly where it provides benefit to customers, is that will fail to deliver on the approach they 'flagged.' We do not consider that AGN falls into this category, rather from our perspective they have followed through on the approach that they specified at the start of their consumer engagement and we believe that the AGN proposal, as lodged, reflects the approach promised and the approach delivered."

We stand by these comments and in section 3 of this submission make additional comments about consumer engagement aspects of AGN's Victoria and Albury Access Arrangement process.

Section 2. Revised Access Arrangement Proposal

The summary table, Table 1 below, is taken from AGN’s revised Access Arrangement proposal and summarises their response to the AER is draft decision.

Table 1: Summary of our response to the AER’s Draft Decision

	AER Draft Decision	AGN Response	AGN Comment
Pipeline Services	Accept	Accept	No change to the reference services accepted by the AER. Further information is detailed in Attachment 6.1.
Operating Expenditure	Rejected marketing step change, accepted other elements	Accept	The expenditure outlined by the AER in the Draft Decision is consistent with our Final Plan, despite the AER implementing a different approach to calculating expenditure. We accept the AER’s Draft Decision (including the rejection of our marketing step change) and have updated for recent information (as requested by the AER) in this Revised Final Plan. Further information is detailed in Attachment 7.5.
Capital Expenditure	Accept	Accept	Updated for recent information as requested by the AER. Further information is detailed in Attachment 8.1.1.
Capital Base	Minor modification	Accept	Acceptance of the AER’s suggested refinement of the opening year capital base. We will continue to participate in the AER’s inflation review, with any change to be factored into our Final Decision. Further information is detailed in Attachment 9.6.
Financing Costs	Accept	Accept	Continue to adopt the AER’s guideline approach to setting the rate of return and gamma. Further information is detailed in Attachment 10.9.
Incentive Arrangements	Rejected NIS, accepted other elements	Accept	Accept the contingent CESS and remove NIS, consistent with the AER’s Draft Decision. Further information is detailed in Attachment 11.7.
Network Revenue	Minor modification	Accept	Amendments to the building block inputs making up network revenue have been made to update information where appropriate. Further information is detailed in Attachment 12.1.
Demand Forecast	Accept	Accept	Updated for recent information as requested by the AER. Further information is detailed in Attachment 13.6.
Network Pricing	Minor modification	Accept	Accept the amendments made by the AER to proposed price control formula. Accept the minor amendments to the Cost Pass Through Events. Further information is detailed in Attachment 14.3.
Network Access	Minor modification	Accept	Accepted the AER’s amendment to clause 17.7 of our Terms and Conditions and the stylistic changes to Extensions and expansions in our AA Document. Further information is detailed in Attachment 15.1.

Note: In this ‘traffic light’ table, green shading represents the acceptance, orange represents a modification and red shading represents a rejection.

We are not surprised by this table as we have seen it earlier as part of discussions with AGN about the draft decision.

It is also worth highlighting that AGN has decided to accept all aspects of the draft decision, even though they do not agree with all aspects of it. The preparedness to accept the

Regulators draft decision and to not foreshadow appealing aspects of it is laudable and in the spirit of “no surprises / no shocks” engagement and the spirit of “AER 2.0,” which was outlined by AER Chair, Paula Conboy in her presentation to the ENA conference on 26th July 2017. The AGN approach to the Draft Decision provides a useful basis upon which the mechanics of some type of ‘fast track’ process could be considered in the near future.

From our point of view, there were only two aspects of the original Access Arrangement that we questioned, matters that we had discussed with AGN prior to their Access Arrangement being lodged these two matters being:

1. proposed step change in operating expenditure for marketing
2. proposed innovation incentive scheme

We observe that the AER has agreed with our perspective on both of these issues in the draft decision.

Marketing Step Change (opex)

Regarding the proposed step change for marketing, we reiterate the position we stated previously which is to accept that marketing is a legitimate and ongoing cost of a business, we do not regard it as a step change expenditure, much more business as usual expenditure. Consequently we support the AER decision to not accept marketing as a ‘step change’ expenditure and respect AGN’s acceptance of this decision.

Innovation incentive

Uniting Communities continues to be supportive of the development of an innovation incentive we just thought that it was too early to be implemented by 2018. This said, we are well aware of significant steps that AGN has undertaken to build its innovation capacity since the Access Arrangement proposal was first lodged.

For example, the ABC reported on 8th August 2017 aspects of AGN’s innovation strategy regarding hydrogen”

“Hydrogen to be injected into Adelaide’s gas grid in ‘power-to-gas’ trial¹

By [Nick Harmsen](#)

Posted 8 Aug 2017, 6:21am Tue 8 Aug 2017, 6:21am

Surplus renewable energy could soon be converted to hydrogen and injected into Australia’s gas networks to help decarbonise the nation’s gas supply, if a trial in Adelaide proves successful.

Adelaide will next year host a trial of a new type of electrolyser, which uses electricity to split water molecules into hydrogen and oxygen.

Funded by a \$5 million grant from the Federal Government’s Australian Renewable Energy Agency (ARENA), the trial would inject hydrogen in small quantities into the gas distribution network owned by Australian Gas Networks (AGN).”

¹ <http://www.abc.net.au/news/2017-08-08/trial-to-inject-hydrogen-into-gas-lines/8782956>

On a similar theme, AGN hosted seminars during June 2017 involving Dan Sadler who has driven hydrogen focused gas reform with Northern Gas Networks in the UK, through the H21 Leeds City Gate project. Dan supported AGN in promoting a long term vision for gas as a fuel of choice in a low carbon world, with the summary: “Low Carbon Gas provides a scalable way to solve climate change, with secure supply from a diverse domestic fuel stock and at minimal cost Vs alternatives (plus a global market)”

Figure 2 summarises serious thinking about the role that gas can play as part of longer term solution to the ‘trilemma’ of emissions, cost and security of supply, out to 2100.

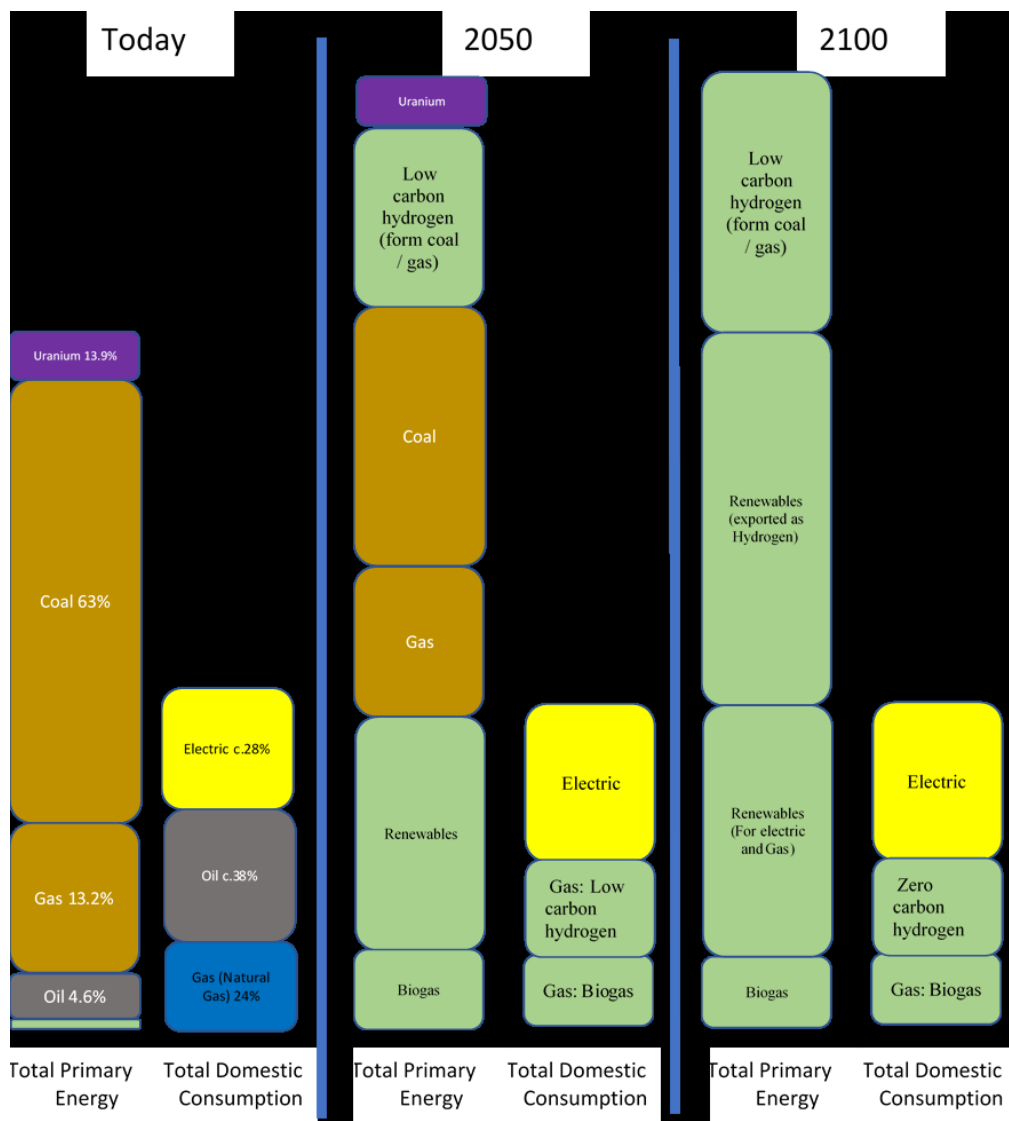


Figure 2. Source: Dan Sadler, Thoughts summary from H21 Leeds City Gate

AGN has challenged our thinking about the role of gas, particularly hydrogen in a carbon constrained world and we now recognise that ‘clean gas’ that is hydrogen based gas applications are desirable and possible, though not imminent. Significant research and

development is still needed, but it is exactly the sort of work that should be the focus of innovation for a gas business.

Uniting communities observes that AGN has followed through on its proposal for an innovation allowance by demonstrating that innovation will be part of its ongoing work. We remain convinced that an appropriately designed innovation allowance that gives a fair return from the innovation to consumer, is highly desirable. We would expect to work with other consumer organisations, gas industry stakeholders and the Regulator, as well as AGN to develop an appropriate innovation allowance, over the course of this Access Arrangement period.

Section 3, Consumer Engagement

In our submission in response to the original Access Arrangement proposal, Uniting Communities strongly supported the consumer engagement approaches undertaken by Australian Gas Networks, particularly with regard to the Victorian / Albury proposal development.

We wish to make three brief comments as an update to our original support of consumer engagement approaches. We continue to be very positive about AGN's approach, so these comments are relevant to AGN but also have broader perspective.

1. AER Support

Uniting Communities recognises that Australian energy markets are still in a period of significant transition, a transition that has already been underway for at least five years, by our reckoning, since the revised rule changes for network regulation of 2012. We also believe that energy markets both in Australia and globally will continue to be in transition for another five years or more, before some 'settling down' of markets, or at least a slower rate of change.

Since uncertainty in energy markets will continue for some time yet, it is crucial that Regulatory approaches are able to be more dynamic, and that consumer protections are rigorously maintained and monitored. In this context, we note that AER Chair, Paula Conboy, spoke to the ENA Conference in Brisbane on 27th July, 2017, her speech titled: "Working together to restore confidence in energy regulation²," and signaled the emergence of 'AER 2.0' and she called for a much more collaborative approach between network businesses, consumer interests and the Regulator. Ms Conboy said:

"We have had a highly adversarial culture around energy regulation in Australia. In fact I was quite shocked at the intensity of that culture when I arrived here three years ago and it's been a conscious effort of mine to move away from it. This adversarial approach needs to change if we are to achieve mutually acceptable outcomes to investors and consumers; outcomes that are in the long-term interests of consumers. I know that many of you agree that a more constructive working relationship with us is essential if we are to move on from an inefficient and ultimately unsustainable adversarial approach.

If the game isn't working—and there are parts of the game that aren't working—we need to change the game. And I think many of us are already moving in the right direction...

² <https://www.aer.gov.au/news/2017-ena-regulation-seminar-speech-working-together-to-restore-confidence-in-energy-regulation>

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.”

Uniting Communities supports the observations from the Regulator that AGN’s consumer and stakeholder engagement has been genuine, and we would add; at the forefront of best practice engagement in Australia.

2. Uniting Communities experiences post AA lodgement.

In their original AA proposal³, AGN said:

“5.4. Our Approach to Stakeholder Engagement

Our approach to stakeholder engagement comprises four phases (see Figure 5.2). The key features of each stage of our engagement program include:

- *Strategy Phase – this included the development of our specific stakeholder engagement strategy for Victoria and Albury;*
- *Research Phase – which included, with the assistance of an independent expert, conducting customer workshops, holding one-on-one meetings with stakeholders and collating/analysing the key outcomes from our research;*
- *Implementation Phase – which included internal review of the feedback received during the research phase, development of the Draft Plan, further engagement on our Draft Plan, further customer workshops leading into the development of this Final Plan; and*
- *Ongoing Engagement Phase – a commitment to engage with our stakeholders on an ongoing basis.”*

The first three phases have been considered both in the speech to the ENA by Paula Conboy, and in our submission responding to the original Access Arrangement proposal.

We now highlight the final aspect of this plan, the “Ongoing Engagement Phase” which has been ‘in play’ for the nine months since Access Arrangement lodgement.

Uniting Communities has continued to be actively engaged with AGN throughout 2017. We average a face-to-face interaction on about a monthly basis, through participation in the reference group, separate AGN hosted activities focusing on innovation and occasional bilateral discussions. We regard this as clear indication that the ongoing Engagement Phase is real and have every reason to believe that we will continue to interact with AGN on a range of consumer related topics dealing with both present issues as well as longer term questions of future direction and innovation.

We regard this ongoing and constructive engagement with AGN as further reinforcing our earlier support for their engagement, pre-lodgement. We have not experienced any lessening of engagement post lodgement.

3. Approaches to Consumer Engagement.

We are acutely aware that there is considerable debate in Australia at the moment about the nature of consumer engagement and how it is best undertaken. We are also aware that the AER has acknowledged the approach taken by AGN, with a very similar approach also been taken by TasNetworks and ElectraNet.

³ <https://www.aer.gov.au/system/files/AGN%20-%20Final%20Plan%20-%20Access%20Arrangement%20Information%20for%20our%20Victorian%20and%20Albury%20natural%20gas%20distribution%20networks%202018-2022%20-%2020161222%20-%20Public.pdf>

An important part of the overall stakeholder engagement strategy is the release of a draft / preliminary revenue proposal that has been developed after extensive stakeholder engagement. This draft proposal is then the subject of engagement, and potentially detailed negotiation with stakeholder interests. The objective being that the Access Arrangement / revenue proposal that is lodged with the Regulator does not provide any surprises (no shocks) to any stakeholders or the Regulator.

We regard this approach as best practice in current Australian Regulatory arrangements, however we wish to highlight that this is but one of a number of effective approaches to consumer engagement and should not be regarded as the best model, or worse, the only model for effective consumer engagement. This 'front ended' approach worked well for AGN and was entirely appropriate to their approach, but other approaches will be more effective for other network businesses at other times.

The principle that we think has ongoing application benefit is in shifting the focus of consideration of a regulatory proposal from after lodgement to before lodgement.

Summary

Uniting Communities supports the Australian Gas Networks revised Access Arrangement proposal, recognising that AGN has accepted all elements of the AER's draft decision.

The AGN approach to the Draft Decision provides a useful basis upon which the mechanics of some type of 'fast track' process could be considered in the near future.

We highlight our experience that AGN has continued to engage actively with us as a consumer organisation since the Access Arrangement was lodged, validating their claims of commitment to ongoing engagement with consumer interests and stakeholders.

With regard to considerations throughout this AA process regarding the proposal to develop an innovation allowance, we are increasingly supportive of this concept and note AGN's demonstrated commitment to exploring options for innovation. Consideration of an innovation allowance is an ideal topic that should be the focus of engagement and development under "AER 2.0."

Appendix: Definitions

As a contribution to language of consumer engagement approaches, we are using the following language and definitions in our current thinking.

In this paper, we have used the following terms, and set out our understanding of those terms.

Consumer Engagement: the term ‘consumer engagement’ is widely used and has many interpretations.

The Canadian Tamarack Centre for Community Engagement⁴ is recognised as a leader in developing and documenting community engagement practice. They define community engagement as:

“people working collaboratively, through inspired action and learning, to create and realize bold visions for their common future.”

Using this definition, we define consumer engagement in energy markets to be “end consumers and network businesses working collaboratively, through inspired action and learning, to create and realize bold visions for their common future.”

While stakeholder engagement means “all relevant parties and network businesses working collaboratively, through inspired action and learning, to create and realize bold visions for their common future.” Note that we understand retailers to be a significant stakeholder.

For consumer engagement approaches, we use the following terms with these meanings. Note that not all of these terms are used in the submission.

1. Deliberation: a process spanning at least a couple of weeks where a group of people from a range of consumer perspectives are brought together at least twice and taken through a facilitated process, not by the network business, to consider an important topic of some complexity. Citizen juries are one form of such deliberative processes.
2. Negotiated agreement: documentation about the negotiation undertaken to reach areas of agreement, between the network business and relevant stakeholders
3. Agreement: some form of documentation of areas of agreement between accepted consumer interests and network business that is presented to the Regulator with lodgement of a Regulatory proposal.
4. Deliberative forum: a gathering of at least 50 people from a range of consumer perspectives were guided through a process of open questions and discussion for at least four hours.
5. Deep dive. Detailed consideration of a more complex or contentious issue that is part of a Regulatory proposal.
6. No surprises proposal: Regulatory proposal lodged under the rules where no stakeholder, including the Regulator, finds any aspect that they were not expecting. Note that ‘no surprises’ does not mean agreement, it means that where there are points of disagreement between any parties, these have been identified and fully explored.
7. Fast track: consideration of a Regulatory proposal by the Regulator, that takes less time than a standard process. The decision making being fast tracked due to extensive engagement with stakeholders, including consumers, prior to lodgement. We note that fast tracking is

⁴ See Tamarack Centre for Community Engagement at <http://tamarackcommunity.ca/>

currently not possible under the electricity rules in Australia, but is an option for Ofgem, in the UK.

8. Front End: this seems to be emerging for a process whereby a network business releases details of their intended Regulatory proposal at least four months before lodgement, in order to engage with stakeholder interests and the Regulator, to lead to a 'no surprises' proposal on lodgement.
9. High calibre consumer engagement are processes where a diversity of consumer views are actively sought, heard by network businesses decision makers and applied across key NSP processes including policy and strategy development as well as for Regulatory proposals / access arrangements. Network businesses transparently document what was tried, what was heard and responses made.