



**Australian
Gas Networks**

Attachment 5.5

**KPMG AGN Customer Engagement Program
Phase 4 Final Report**

Response to AER Draft Decision

January 2023



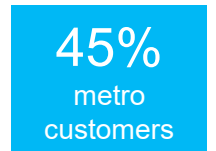
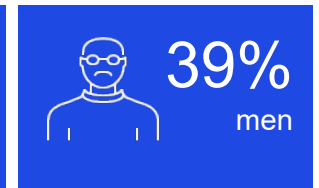
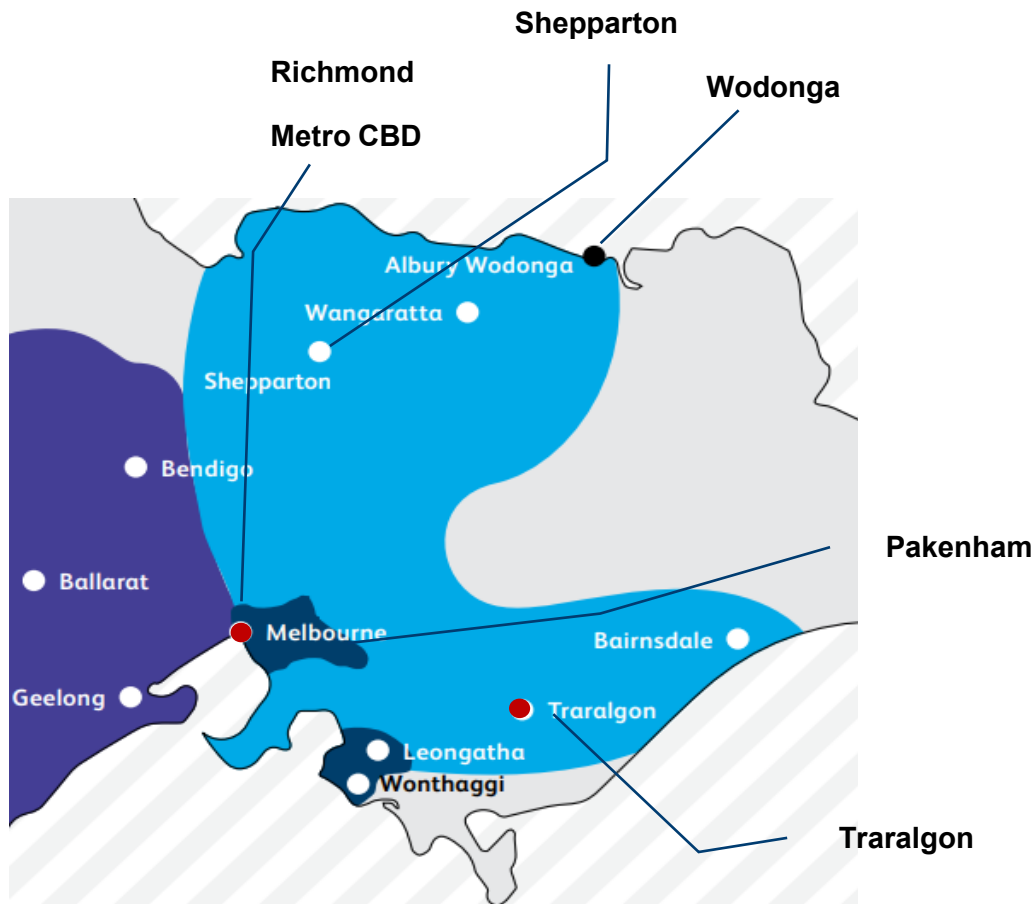
Australian Gas Networks Customer Engagement Program

Phase 4 Findings and Insights

January 2023

Phase 4 Customer Workshops

51 AGN customers returned for Phase 4 consultation; representing a 58% continuation rate from Phase 3.



AGN customer count

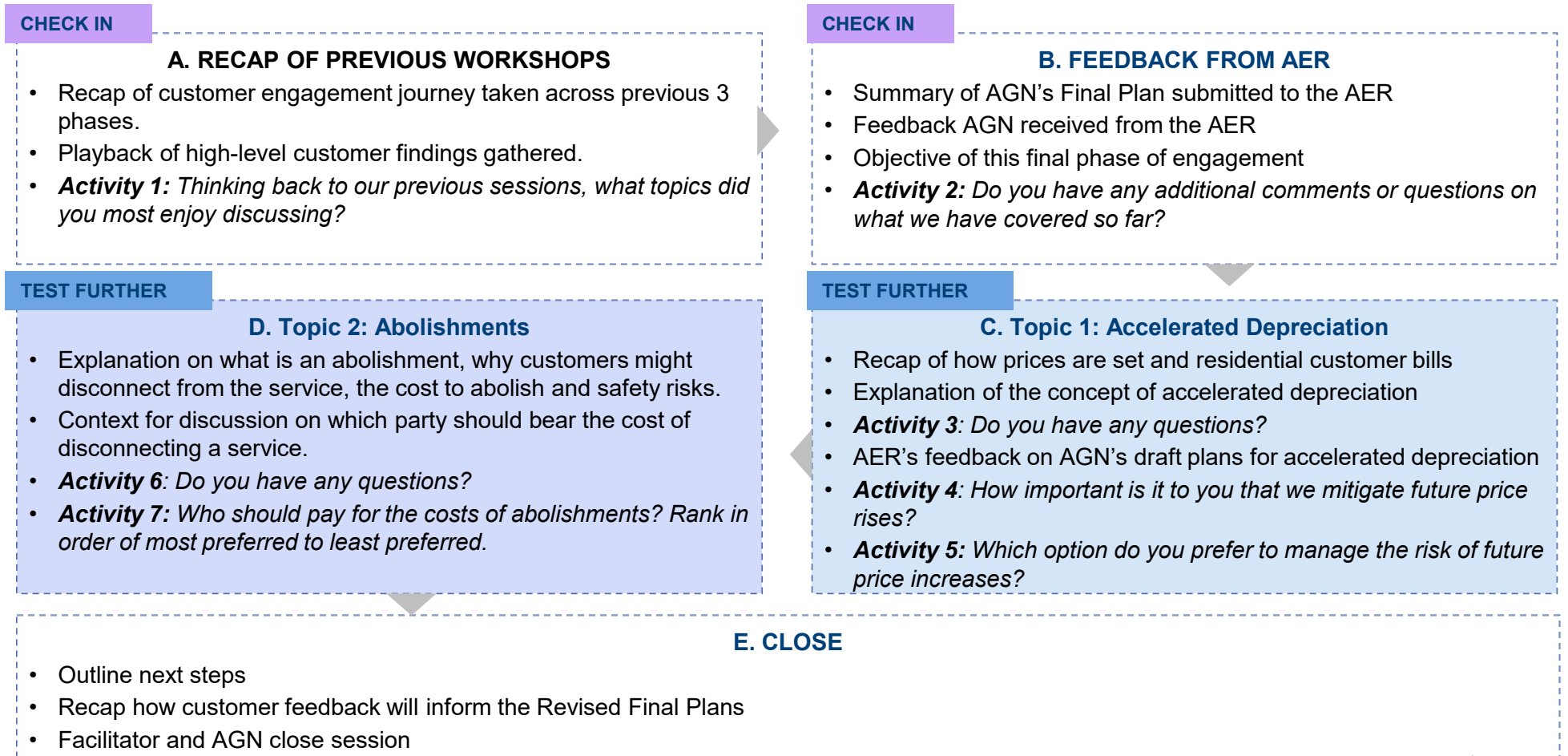
| Phase 1 | Phase 2 | Phase 3 | Phase 4 |
|---------|---------|---------|---------|
| 164 | 118 | 88 | 51 |

[1] Vulnerable customers are those that indicated they receive government payment/s, live with a disability and or identify as Aboriginal or Torres Strait Islander.

[2] For the purposes of the analysis, Shepparton, Pakenham, Traralgon and Wodonga customers are considered 'regional'.

Workshop Structure

Phase 4 was an opportunity for AGN to further refine its Revised Final Plan through the collection of targeted customer feedback on two topics that the Australian Energy Regulator flagged as requiring further customer input; accelerated depreciation and abolishments.



Topics Revisited

Overall, a majority of customers have a preference to mitigating future price rises. Half of AGN customers believe that the cost of abolishments should be paid by disconnecting household, whilst 56% view remaining customers as the least preferable approach.

TOPICS

1



Accelerated Depreciation

PHASE 4
ACTIVITIES

Intended to gather feedback on whether customers would support a small price increase to appropriately mitigate future price risks.

KEY
INSIGHTS

- **86%** of AGN customers view mitigating future price rises as either very important or important.
- **72%** of AGN customers are comfortable paying more today if it reduces the risk that prices increase in the future.

2



Abolishments

Intended to gather feedback on who should pay the costs of permanent disconnection: the disconnecting household, remaining customers, the Government or a hybrid.

- **50%** of AGN customers believe that a disconnecting household should pay the cost of abolishments.
- **56%** of AGN customers selected remaining customers on the gas network as the least preferred party that should pay abolishment costs.



More than 4 in 5 AGN customers believe mitigating future price rises is important.

MAIN OBSERVATIONS:

[Link to Topic](#) **1**

[Link to Activity: 4](#)

86% (43) of AGN customers view mitigating future price rises as either very important or important. Contributing to the perceived importance is customer sentiment to:

- Reduce magnitude of future price increases through incremental increases: *“I would rather have small incremental increases as opposed to larger increases.”*
- Protect lower income earners: *“easier to absorb than sudden large increases...particularly [for] those in lower SES groups.”*

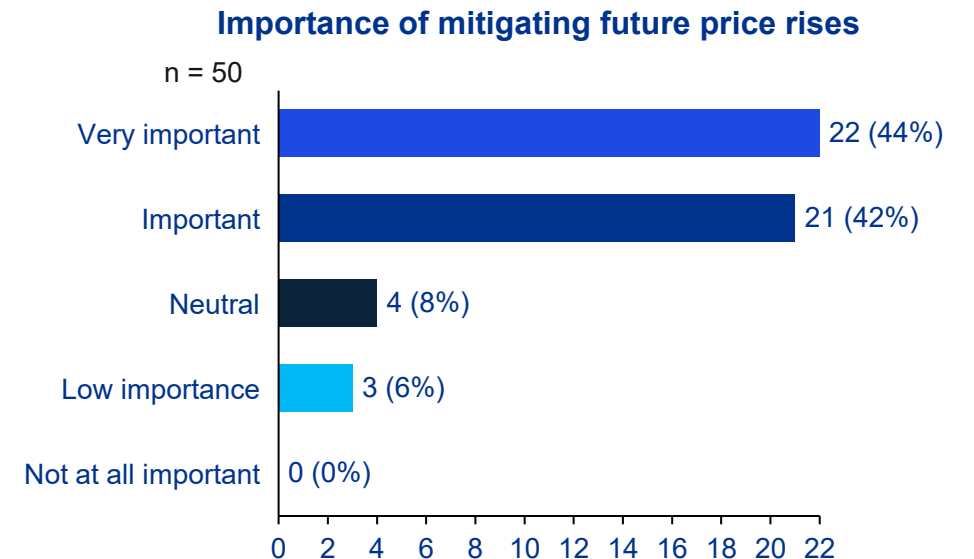
44% (22) of AGN customers describe it as very important to mitigate future price rises. Reasoning includes:

- Ability to budget for the longer term: *“I prefer no surprises down the track.”*
- Reduce bill shock: *“Everything that can be done to minimise bill shock is appreciated.”*
- Desire to remain with gas long term: *“Cooking with gas is way better than electric and I want to be able to afford it forever.”*

14% (7) of AGN customers are neutral or perceive mitigating future prices rises as low importance. There were no AGN customers who perceive it as not at all important.

Some customers expressed uncertainty that an increase today would indeed reduce future price risk, acknowledging that future price rises could not be guaranteed:

- *“Uncertain if we pay more now, that prices is reduced in future.”*
- *“I feel it is important to mitigate future price rises but it is not clear to what extent (i.e. how much) future rises may be minimised.”*



Note: Quantitative data based on Menti responses.



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A majority of AGN customers prefer to pay more today to reduce the risk of future price increases.

MAIN OBSERVATIONS:

[Link to Topic](#) 1

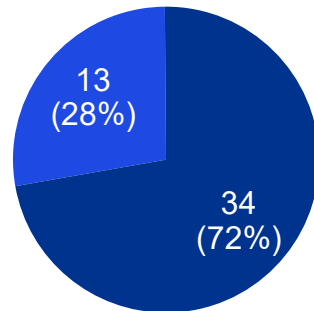
[Link to Activity: 5](#)

72% (34) of AGN customers support a price increase today if it reduces the risk of future price increases.

“...extra over the year is affordable to reduce risk of a large surprise later.”

Preference for flat prices vs a price increase today (to manage future risk from AD)

n = 47



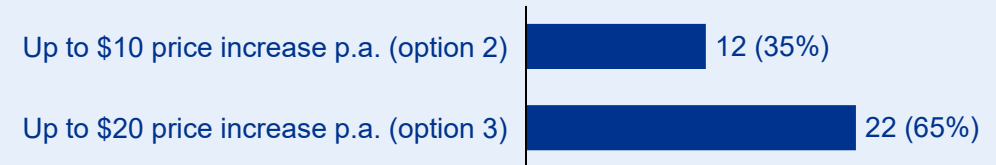
- Flat prices today (option 1)
- Price increases today (option 2 or 3)

Of the customers who prefer a price increase today, 65% (22) prefer to pay up to \$20 per annum.

The remaining 35% (12) of customers that prefer a price increase opted for up to \$10 per annum.

Monetary preference of those who expressed appetite for a price increase today (to manage future risk from AD)

n = 34



Note: Quantitative data based on Menti responses. **Option 1:** I prefer flat prices today and am prepared to wear future price risk. **Option 2:** I am comfortable to pay a little bit more today (up to \$10 per annum) if it reduces the risk that prices increase in the future. **Option 3:** I am comfortable to pay a bit more today (up to \$20 per annum) if it reduces the risk that prices increase in the future.



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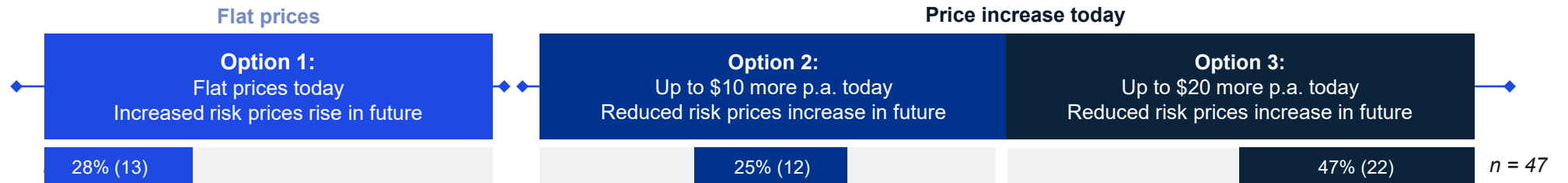


47% of AGN customers are comfortable paying up to \$20 more today to reduce the risk of future price increases.

MAIN OBSERVATIONS:

[Link to Topic](#) 1

[Link to Activity: 5](#)



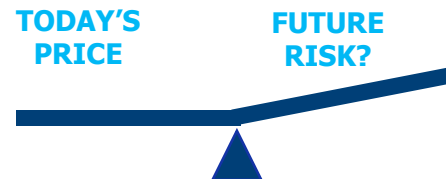
In the context of accelerated depreciation...

28% of AGN customers support flatter prices today at the risk of higher prices in future.

Customer sentiment for flat prices

“Considering the high costs of living generally at the moment, I think it best (in a way) to wait.”

“I’m prepared to pay a bit to reduce the risk as [I] think it’s in all our benefit.”



25% of AGN customers support a price increase of up to \$10 p.a.

Customer sentiment for increased prices today

- Reduces the risk of future price rises: “\$20 per annum now is a reasonable amount to pay to help reduce the potential for rises in the future.”
- Reduces the burden on more vulnerable customers: “I’d rather help share the load now, than leave financially vulnerable households in the future having to shoulder potentially much higher costs.”
- Preference for increased surety in light of current economic conditions: “I prefer the certainty, but am scared of all costs rises.”

Customer sentiment for paying up to \$20 p.a. more today

- Planning for the long term: “I can easily find an extra \$20 p.a. now, if that means not paying huge amounts extra once I’m retired.”
- Some form of future protection: “It’s like insurance...paying \$20 now could pay off in the future.”

Despite voting for option 3 (\$20) however, AGN and some customers collectively acknowledged that certainty about the future could not be provided:

- “I think \$20 per annum is ok but how do we know if we pay this that prices won’t go up?”
- “...I can afford it now but who knows what is around the corner?”



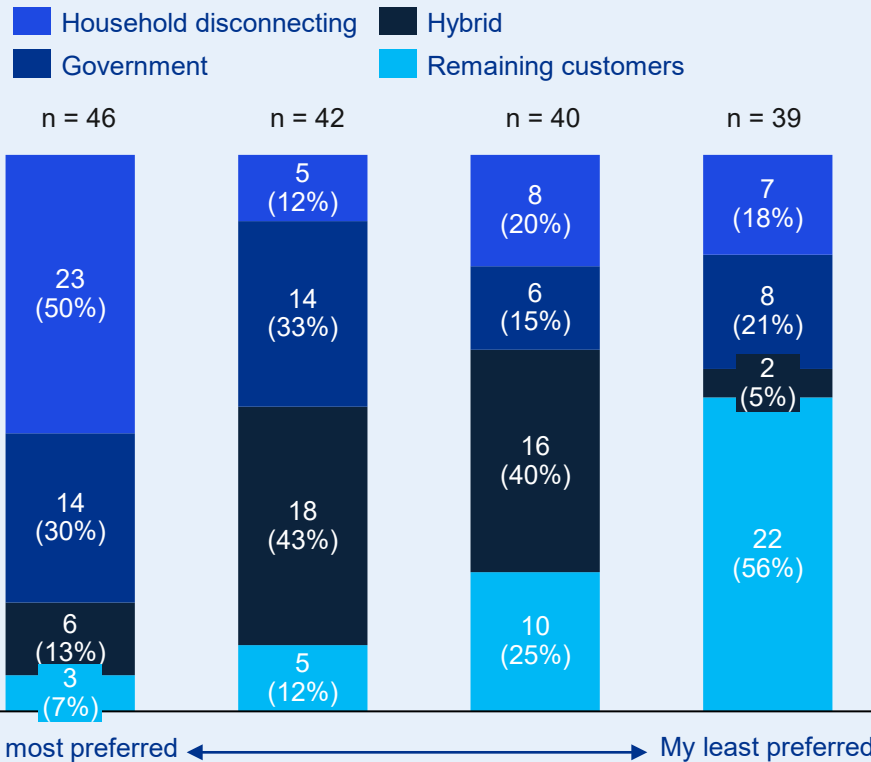
Half of AGN customers prefer that the disconnecting household pay the costs incurred through abolishment.

MAIN OBSERVATIONS:

[Link to Topic](#) **2**

[Link to Activity: 7](#)

Customer preference for party responsible for payment of abolishment costs



Most preferred option

Household disconnecting



50% (23) of AGN customers prefer the household disconnecting pay the \$950 abolishment cost.

“ [It is] fair that the household requesting abolishment bears the cost.”

Least preferred option

Remaining customers



56% (22) of AGN customers indicated that payment of abolishment costs by remaining customers was their lowest preference.

“ I don't want to pay for those who want to disconnect.”

Additional customer reflections arising from charges for abolishment include:

- Potential dependency on the reason for abolishment: *“The cost option should depend on the reason for disconnection.”*
- Safety concerns: *“ If you charge people [to disconnect] you will end up with live gas left alone in residences.”*

[1] Methodology: Participants were invited to rank the options from most preferred to least preferred. Note that some respondents did not rank all provided options.



Customers cited the overall cost of electrifying and customer choice as reasons why they felt the household should pay.

MAIN OBSERVATIONS:

[Link to Topic](#) **2**

[Link to Activity: 7](#)

Most preferred

Household disconnecting



Key customer drivers for this sentiment include:

- Fairness of a user pays model: *“If you choose to remove the gas from your home (your choice) then you pay for it.”*
- Abolishment constituting part of the ultimate cost to electrify: *“If [you] can afford to fully pay for the electrification of the home, the cost of the disconnection should be factored into it.”*
- Emphasis that disconnection is a choice: *“If the person disconnect[s] as their option, then they pay.”*

Government



30% (14) voted for government as their first choice to pay for disconnection. Some customers suggest incentives should be provided for electrifying: *“If government [are] forcing / encouraging disconnection, then they should provide incentives.”*

Least preferred

Remaining customers



In selecting remaining customers as the least preferred, sentiment ultimately questioned the appropriateness of subsidising other customers' costs:

“If you want it disconnected, you pay - simple!”

“ [I] don't see why I should pay for 1 person or 100 people.”

Hybrid

Customers were also presented with a “hybrid” option; a combination of some payment by the household requesting the disconnection and some payment by remaining gas customers.

13% (6) of customers voted for the hybrid option as their preferred option. Sentiment highlighted that the cost could be absorbed by multiple parties: *“The household should pay for majority and share some as it's expensive, and lastly share costs over everyone else.”*



Inherent Limitations

The services provided in connection with this engagement comprise an advisory engagement, which is not subject to assurance or other standards issued by the Australian Auditing and Assurance Standards Board and, consequently no opinions or conclusions intended to convey assurance have been expressed.

The findings in this report are based on a qualitative study and the reported results reflect a perception of Australian Gas Networks (AGN) but only to the extent of the sample surveyed, being AGN's approved representative sample of customers and stakeholders. Any projection to the wider customer base is subject to the level of bias in the method of sample selection.

No warranty of completeness, accuracy or reliability is given in relation to the statements and representations made by, and the information and documentation provided by, AGN customers and stakeholders consulted as part of the process. KPMG have indicated within this report the sources of the information provided. We have not sought to independently verify those sources unless otherwise noted within the report.

KPMG is under no obligation in any circumstance to update this report, in either oral or written form, for events occurring after the report has been issued in final form.

The findings in this report have been formed on the above basis.

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End of Report