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Mr Warwick Anderson
General Manager - Network Regulation
Australian Energy Regulator
GPO Box 3131
CANBERRA ACT 2601

Via email: consumerengagement@aer.gov.au

Draft Consumer Engagement Guideline for Network Service Providers

Dear Mr Anderson

The Australian Pipeline Industry Association (APIA) welcomes the opportunity to comment on the Australian Energy Regulator's (AER) draft Consumer Engagement Guideline for Network Service Providers.

As the peak body representing Australia's gas transmission pipelines, APIA has a number of points we would like to raise with the AER in regard to the draft Guideline.

The relationship between the gas transmission industry and consumers

The draft Guideline has primarily been developed to provide guidance to electricity transmission and distribution network service providers on satisfying new consumer engagement requirements in the National Electricity Rules. In addition, the AER has made it clear that it has an expectation gas service providers will apply the principles set out in the Guideline to engage consumers to inform the development of regulatory proposals and other regulatory proposals.

Outside of Victoria, the gas transmission industry operates under the commercial framework commonly known as 'contract carriage'. This means the commercial arrangements for access to gas transmission services are developed and agreed through bi-lateral negotiations and, generally long-term, fixed length contracts. As such, the gas transmission industry, unlike other energy network service providers, has direct commercial relationships with its customers. These commercial relationships determine not only the terms under which access to capacity is allowed, but also the timing and extent of capacity expansions. In this respect, transmission businesses undertake continuous customer engagement as part of its commercial arrangements.

APIA acknowledges there is an important distinction between customers and consumers. A gas transmission pipeline's customers are typically large gas users and gas retailers, sophisticated entities that are capable of maintaining an equal relationship with the pipeline. Energy consumers are typically envisaged as 'the public', 'households' and 'small businesses'. These are not the customers that the gas transmission industry has well developed relationships with.

It is important to note that nationally, residential and commercial gas usage accounts for 198.7PJ of a total 1515PJ gas consumption. This is the gas usage that could be deemed directly relevant to 'consumers', recognising that much commercial usage would be by relatively large businesses. The vast majority, 87%, is used by large industrial customers, the mining industry and electricity generators, customers with which the gas transmission industry develops and maintains direct relationships.

When considering improvements that can be made to consumer engagement, it is appropriate that gas transmission companies have regard to the level of throughput on an asset that is attributable to usage by consumers. It is also appropriate that gas transmission companies have regard to the impact that gas transmission charges have on the delivered price of gas experienced by consumers and the level of meaningful engagement that can be had with consumers.

On the matter of retail price impact, the AER's State of the Energy Market 2012 notes in Chapter 4:

'Gas transmission charges typically make up 3-8 per cent of a typical gas bill for a residential customer; the ratio is significantly higher for industrial users.'

In contrast, APIA estimates that gas transmission charges for industrial users are in the range of 10-20% of the final gas bill. This increased ratio is due to the fact that industrial customers typically do not make use of gas distribution networks, charges of which make up a large portion of residential gas bills.

To summarise:

- The gas transmission industry has direct relationships and negotiated outcomes with all of its customers. The Victorian market has its own customer and consumer engagement framework;
- Consumers (retail customers) comprise less than 15% of Australian gas usage and throughput on gas transmission pipelines; and
- Retail customers are the least price sensitive to gas transmission charges, with gas transmission charges typically making up 3-8% of a residential gas bill.

As such, APIA considers it appropriate to acknowledge that the gas transmission industry appears to be very adequately engaging with its major direct customers. This is demonstrated by service providers' ability to achieve bi-laterally negotiated outcomes with all direct customers. These direct customers are those that comprise the vast majority of gas throughput and those that are most sensitive to gas transmission charges. In engaging these direct customers and reaching agreement on service levels and prices it is likely that consumers interests are also being met.

Finally, in regard to engaging consumers, APIA would like to note that it appears unlikely the gas transmission industry can make credible commitments to them. Unlike electricity investments, gas transmission investments are not made in anticipation of demand, they are made in direct response to requests from the market- that is, the large gas users who have direct relationships with gas transmission service providers and are the most sensitive to gas transmission charges. As such, there

is not the same level of service vs price proposition that can be put to consumers to enable informed decisions about the trade-off between reliability and service levels and the charges they experience.

In the absence of meaningful trade-offs for consumers to consider and given the low impact of gas transmission charges on final bills, APIA considers there are few opportunities for increased consumer engagement by the gas transmission industry. However, in light of the renewed focus on the long-term interest of consumers in the recent reforms of the energy access regimes, APIA is open to considering new ways of engaging with consumers, as discussed below.

Initial thoughts on increased engagement between gas transmission service providers and consumers

As initial steps, APIA considers there are some measures that could be undertaken by regulated gas transmission companies to better develop a fit-for-purpose consumer engagement strategy for gas transmission pipelines. Such measures could provide a clearer understanding, for all parties, of how consumer engagement can be most useful and meaningful.

These could include:

- Looking at models of best practice, with a view to considering models outside government and regulated markets. It may be useful for the AER to co-ordinate and centralise this activity, rather than have each network service provider conduct its own examination.
- Exploring opportunities to use existing information and data that is not already included in regulatory proposals. Many activities undertaken by gas transmission service providers, particularly in investment, require meaningful end-user consultation; for example, the environmental and heritage approvals process for new projects involves significant levels of community engagement. This information is typically in the public domain but has not been used in the economic regulation process. Gas transmission companies can look at aspects of this information, and to bringing it into the economic regulation process as appropriate, to assist the regulator in making determinations that reflect the public interest.
- Speaking with consumer advocates, to see what can be learnt and what aspects of consumer engagement might be overlooked by gas transmission service providers. These conversations would not be focussed on directly asking what consumers want in relation to gas transmissions services in the first instance. The focus would be to discuss the issues raised above under the first heading and assess whether advocates agree with APIA's assessment of the appropriate focus for consumer engagement by gas transmission service providers and that the needs of consumers are being met through direct engagement with large gas users. If this is the case, it means that both gas transmission service providers and consumer advocates can allocate resources to areas of higher priority. If it is not the case, continued discussion with consumer advocates can focus on the types of engagement they consider useful and meaningful.
- Provide better links to end users on gas transmission service providers' web-sites, and other public relations portals. Each organisation already provides information about their activities but do not, generally, provide information about regulatory processes, how these work, and how consumers might get involved. Thus, it is possibly useful to add suitable information for consumers (along with feedback links), that spell out the rationale for regulation, how it interacts with the activities of gas transmission service providers, and what it means in "bottom-line" terms for consumers by, for example, highlighting that most changes to regulated gas transmission tariffs will have minimal impact on residential bills.

Potential benefits of increased engagement with consumers

The draft Guideline concludes:

'Clearly, we expect consumers will be the principal beneficiary of greater consumer engagement. However, service providers will also benefit. These benefits may come in the form of improved consumer satisfaction, higher consumer willingness to pay for services, and greater ease in obtaining regulatory approval of expenditure proposals.'

APIA considers that there needs to be a well understood process by which regulators will consider and account for increased consumer engagement in regulatory proposals. It is important for both network service providers and consumers to have confidence that agreements reached through increased engagement activities will be recognised by the regulator. If service providers make an agreement with consumers and the regulator overturns it as not being in consumers' interests, it is unlikely consumers will engage in future processes.

Additionally, APIA considers it important that regulators recognise that consumer representatives themselves have differing priorities. APIA is particularly concerned by the increasing participation of consumer groups representing disadvantaged consumers in the regulatory reform process. There is no doubt that the needs of disadvantaged consumers are an important matter of public policy. However, the role of the energy access regimes is not to account for the specific needs of any set of consumers and is particularly not to attempt to address policy issues more appropriately dealt with elsewhere.

If you would like to discuss any of the issues raised in this submission further, please contact me on (02) 6273 0577 or at sdavies@apia.asn.au.

Yours sincerely



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