Stakeholder Engagement

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Purpose of tonight's focus group

- The prices charged by Multinet Gas for its distribution network services are regulated by the Australian Energy Regulator (AER) over a five year period
- Multinet Gas is currently preparing its price submission for the next regulatory period 2018 to 2022, which must be submitted to the AER by 31 December 2016
- Our submission must achieve the National Gas Objective (NGO):
  - ➢ The National Gas Objective is to promote efficient investment in, and efficient operation and use of, natural gas services for the long-term interests of consumers of natural gas with respect to price, quality, safety, reliability and security of supply of natural gas
- We are engaging with you tonight about issues that will help us develop our price submission
- The focus groups are one input into our research and consultation program that also includes customer advocates, business, government and regulators

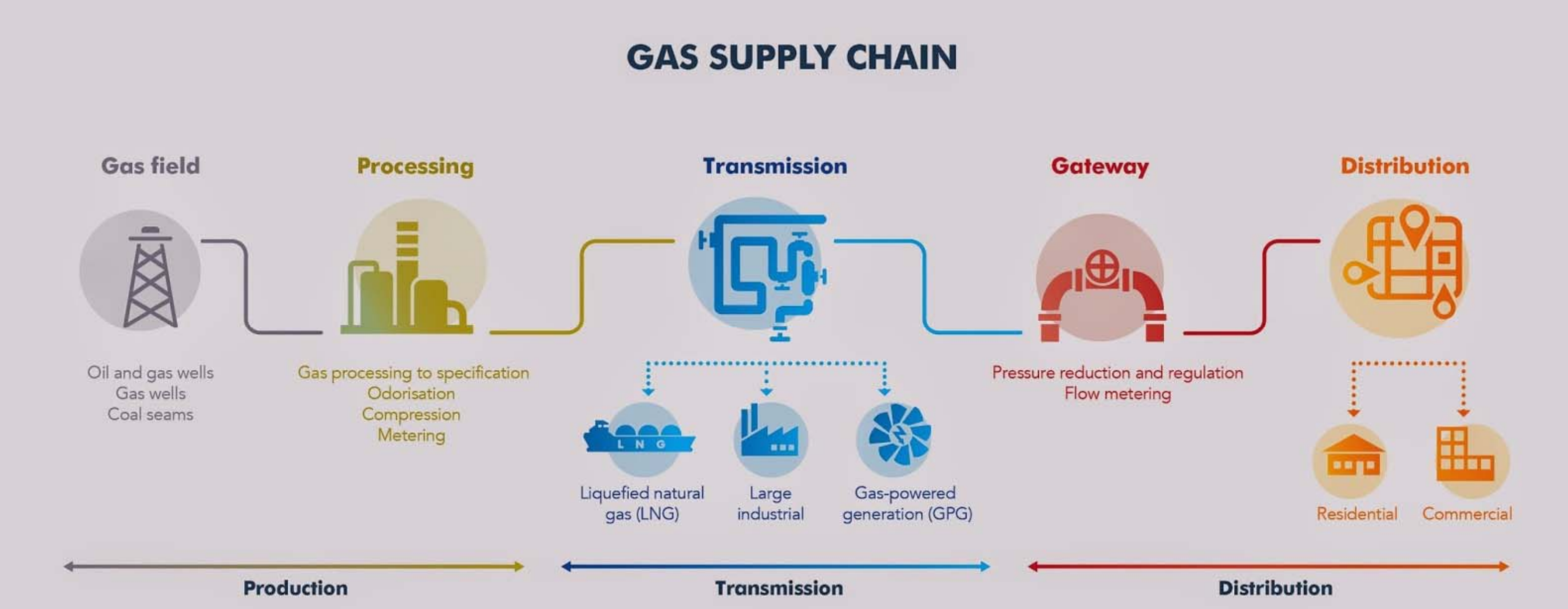
What we wish to discuss with you tonight

1. Who are we?
2. Your gas supply
3. Our network objectives
4. Replacement of our main pipelines (mains replacement)
5. Guaranteed service level (GSL) payments
6. Incentives for us to reduce our costs
7. Communications from us
8. Technology innovation - digital meters

Who are we?

Q: Do you know Multinet Gas and what we do?

Who are we - the gas supply chain



Source: Australian Energy Market Operator

Retailers offer retail products for delivery of gas to your door by bundling the above services. The total retail price reflects the cost of each bundled service and retail costs

Our distribution network costs contribute about [31%] to a typical residential retail bill. The other components are wholesale gas [29%], transmission [8%] and retail [32%]

Who are we – our network area

Our network area covers 1,860 km^2 of the eastern and south-eastern suburbs of Melbourne, the Yarra Ranges and South Gippsland

Your gas supply

Q: What is most important to you about your gas supply?

Q: Do we meet your expectations, and if not, how could we improve?

Q: Have you had any interaction with us over the last 12 months, and if so, what was it and how satisfied were you with our service?

Our network objectives (Stephanie to provide)

We have developed network objectives which we will use in developing our price submission

Q: Do you think our network objectives are reasonable? [reconsider when see the objectives]

- Safety …
- Customer satisfaction ….
- Efficiency ….
- Compliance ….
- Customer growth ….

Mains replacement

- Is a 30 year program (called Pipeworks) which commenced in 2003 and is targeted to finish in 2033
- We are decommissioning our aging low pressure network (the largest iron gas distribution system in Australia) and replacing it with modern high pressure pipes
- Safety (lower gas leakages) is the key driver, which the AER accepts, and Energy Safe Victoria approves our safety case
- In developing our forecasts we seek to optimise our mains replacement work to achieve the lowest sustainable costs over the long term. We prioritise safety, then in order consider the need to address local capacity constraints, minimise local supply interruptions and optimise maintenance costs

Mains replacement – cont.

- We expect our total Pipeworks costs to increase from about $125 million in this regulatory period to $160 million in the 2018-22 regulatory period, or about $30 to $35 million per annum
- Our forecast cost increase over 2018-2022 results from higher volume and unit rates:
  - As Pipeworks moves into the inner suburban areas of the network, population density increases markedly, leading to higher replacement costs per metre. For example, more densely populated areas require increased traffic management requirements and have challenges in gaining access to undertake works

Mains replacement – cont.

- Mains replacement has a significant positive impact on network performance by reducing the risks to public safety and property damage associated with gas leakage from the network, increases operating efficiencies and reduces our operating and maintenance costs

Q: Do you think our approach to the mains replacement program is reasonable?

Q: Without compromising our safety obligations, would you prefer less investment in Pipeworks but with the risk of lower reliability?

Guaranteed Service Level (GSL) payments

Q: Did you know that when we do not meet our agreed distribution service or reliability standards, that we are required to pay you a fee known as a GSL?

- Our current GSL payment is from $50 up to $240 per event
- Our total GSLs are about $30,000 to $50,000 per annum

- For our 2018-22 price submission, we are looking at making our GSLs more onerous on us by:
  - Introducing some new GSL measures
  - Reducing existing GSL thresholds (that is, less time and/or lower # of interruptions)
  - Increasing the GSL payment amount

Guaranteed Service Level (GSL) payments – cont.

- If we adopt any of these changes, we will be paying out modestly more to our customers, which most likely would be included in our total costs paid by you (provided we act efficiently)

Q: Should we make our GSLs more onerous to increase the incentive on us to meet our agreed distribution service or reliability standards?

Q: If yes, what GSL change do you prefer:

- ➢ Introducing some new GSL measures
- ➢ Reducing existing GSL thresholds (that is, less time or interruptions)
- ➢ Increasing the GSL payment amount

Incentives for us to reduce our costs

- A recent independent report by Economic Insights' indicates that the Vic DBs are efficient but the opportunity for further cost reductions has reduced
- We are looking at the incentives for us to further reduce our costs within a regulatory period, and the total long term costs to our customers
- Our analysis suggests that we should:
  - Move to revenue cap whereby our total actual revenue each year will be equal to the AER allowance which will provide more certainty to customers of our charges
  - Continue to be incentivised to control our operating costs under existing arrangements, but consider whether we are similarly incentivised to control our capital expenditure costs

Incentives for us to reduce our costs – cont.

- A move to incentivise our capital expenditure is not as straight forward as operating expenditure but the AER has well developed incentive arrangements that it applies in the electricity industry

Q: What do you think of us being incentivised to reduce our operating and capital expenditure below the AER allowances and penalised if our costs are above the AER allowances?

Q: Should we be incentivised to pursue dynamic efficiency (through technology change, innovation) which will support greater long term efficiencies?

Communications from us

Q: What sort of communication / information would you like to receive from us, when and how often?

Q: How would you prefer to receive information from us?

Q: If more or better digital communication was available, would you prefer it to a call centre service?

Technology innovation - digital meters

- Currently we use accumulation meters on our network to measure gas consumption at a premises
  - However, new technology is available in the form of digital meters
- We expect that digital meters will realise cost savings through meter and network operational savings resulting from:
  - A reduction in estimated reads
  - A move to flexible bill cycle dates for customers to manage cash flow timing
  - Full visibility of usage behaviour and drivers
  - Improved ability to detect potential outages (leaks)

Technology innovation – cont.

- Later this year and early next year we plan to pilot a roll out of about 150 digital meters
- Over 2018 to 2022 propose that the AER include the cost of about 10,000 digital meters in our capital expenditure allowance (about $5 million) to work with one or two key retailers on validating the benefits that accrue via the retailer to the customer
- These new meters will be used to replace old and faulty meters, and to connect new customers

Q: Do you see benefits in us moving to digital meters, and is this initial investment is worthwhile to deliver longer term benefits to customers?

Q: Do you have any concerns?

Thank you for your participation tonight