

26th World Gas Conference

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CASE STUDY - INCREASING RESIDENTIAL GAS CONSUMPTION

Andrew Staniford
Australian Gas Networks



Agenda

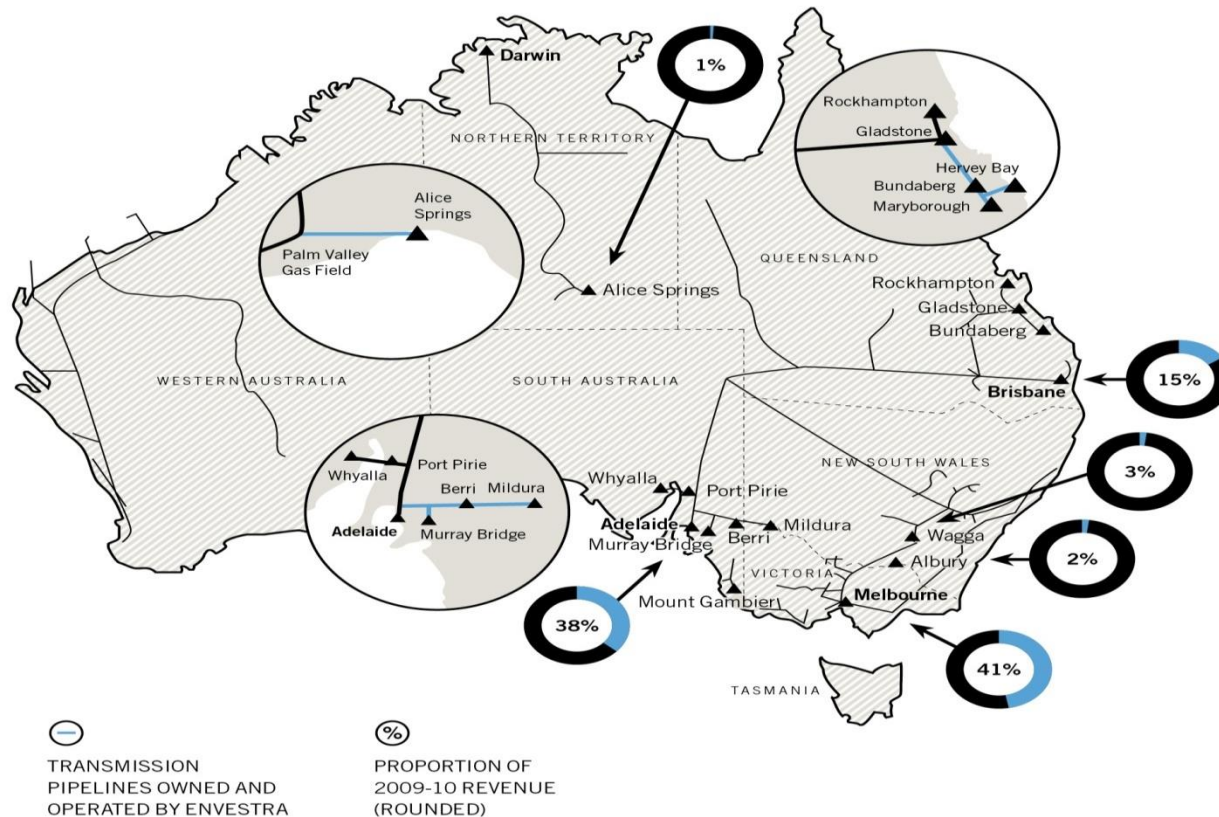
- Background on Australian Gas Networks
- What have we done to improve residential gas consumption - From 1998
- Good news
- Bad news
- Opportunities to improve performance

Who We Are

- Australian Gas Networks owns gas distribution and transmission pipelines that operate as regulated and unregulated monopolies.



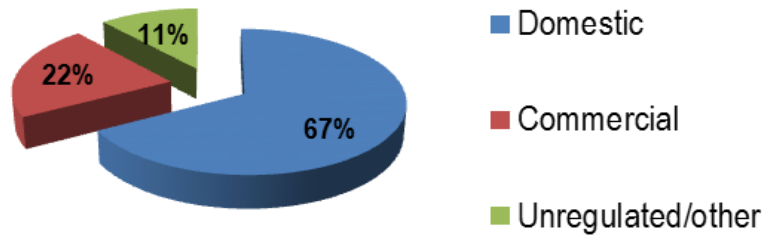
Where We Operate



Australian Gas Networks – Key Statistics

Location	Distribution Pipelines	Transmission Pipelines	Gas Delivered	Customer Numbers
Victoria	10,447 km	373 km	51.0 PJ	613,454
South Australia	7,950 km	224 km	32.1 PJ	423,462
Queensland	2,703 km	284 km	15.4 PJ	92,852
New South Wales	1,842 km	84 km	6.3 PJ	53,876
Northern Territory	39 km	159 km	3.4 PJ	1,135
TOTAL	22,981 km	1,124 km	108.2 PJ	1,184,779

Revenue by Customer Segment



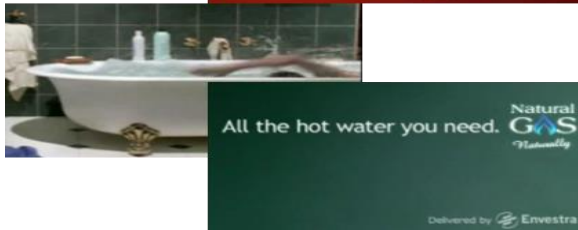
Australian Gas Network's Marketing Campaigns – past 15 years

1998 - 2003
appliance interest free terms

2004 - 2007
Incentive from \$100 in FY04 to \$500 in FY06. Retailers and plumbers focus.

2007 - 2010
No marketing activity

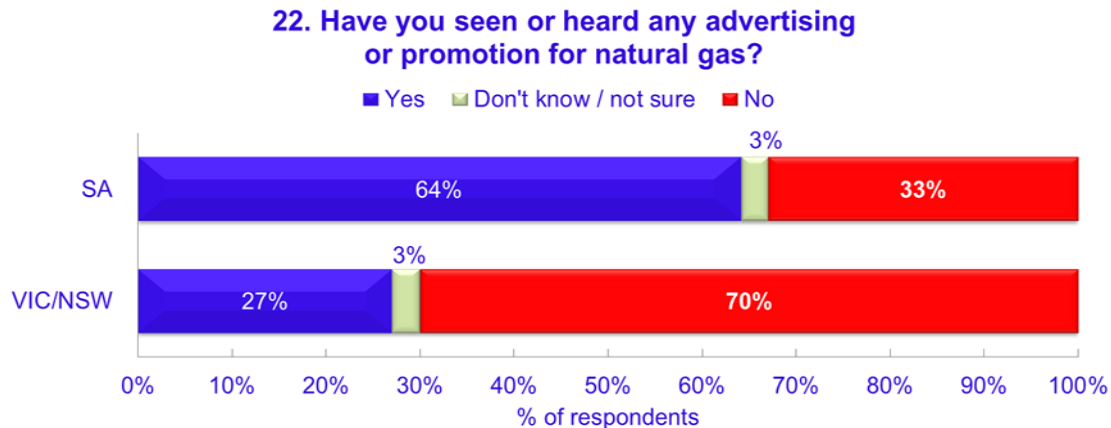
2010 - 2013
Appliance rebates. Up to \$1500 available. Retailers and plumbers focus



Good News

Consumers are aware of Natural Gas advertising:

- Market research confirms that the advertising program was successful.

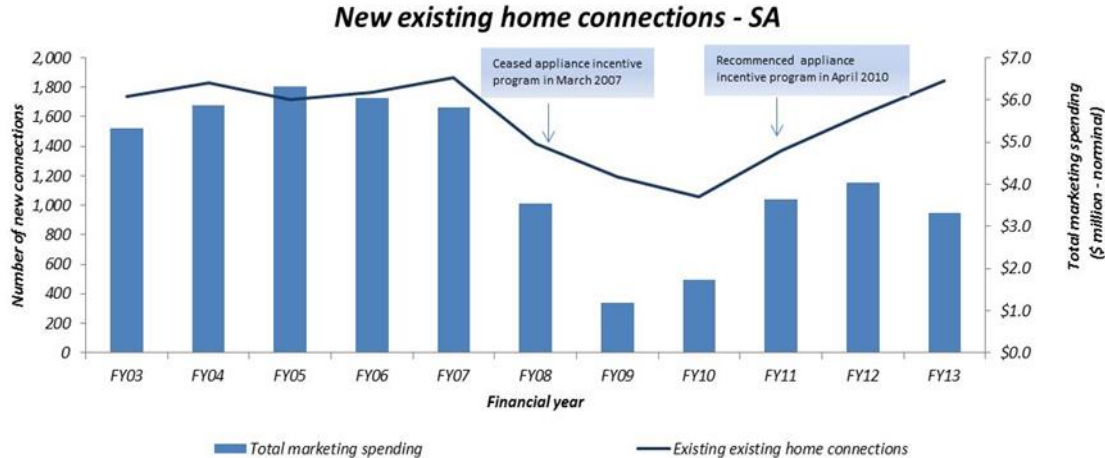


- The research found that television was the main channel by which people became aware of Natural Gas (85% of the respondents).

Good News

The marketing campaign increased new existing home connections:

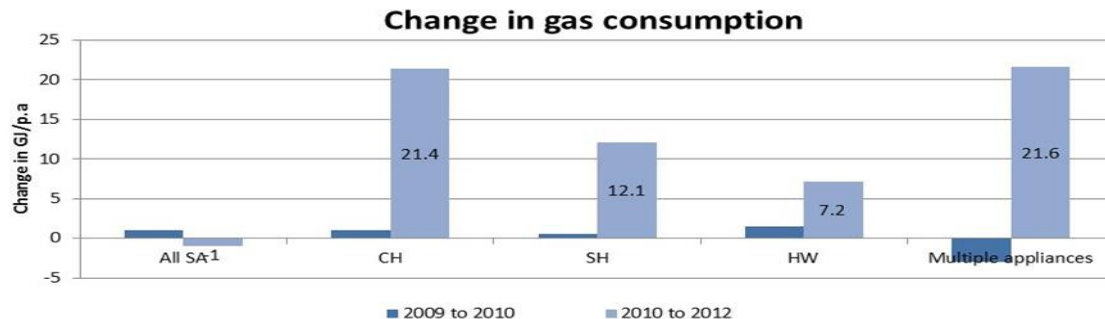
- Our marketing expenditure was positively correlated to the number of new existing home connections.



Good News

Customers that installed new gas appliances increased gas consumption and generated positive returns:

- The consumption for customer that have received a rebate is significantly higher than customers that did not receive any rebate.
- The analysis of expected cash flows over 15 years demonstrates that the incentive payment will generated a positive return on investment.

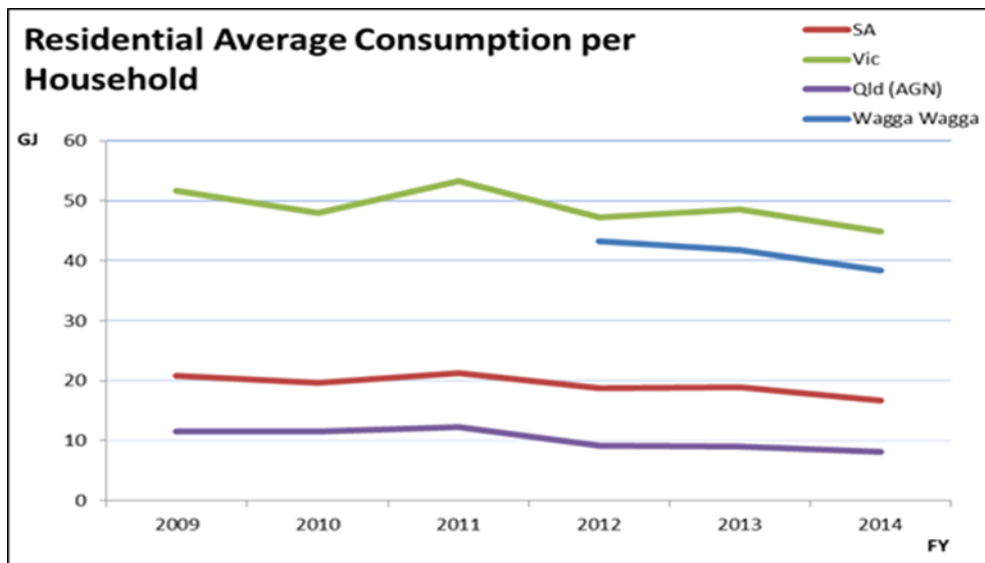


Victoria	Change in gas consumption between 2010 and 2012		
	Central Heater	Space Heater	Hot Water
Total number of households analysed	390	133	607
Average change in GJ/p.a	29.0	8.5	12.0
IRR	15%	16%	8%

Bad News

Individual household gas consumption is declining

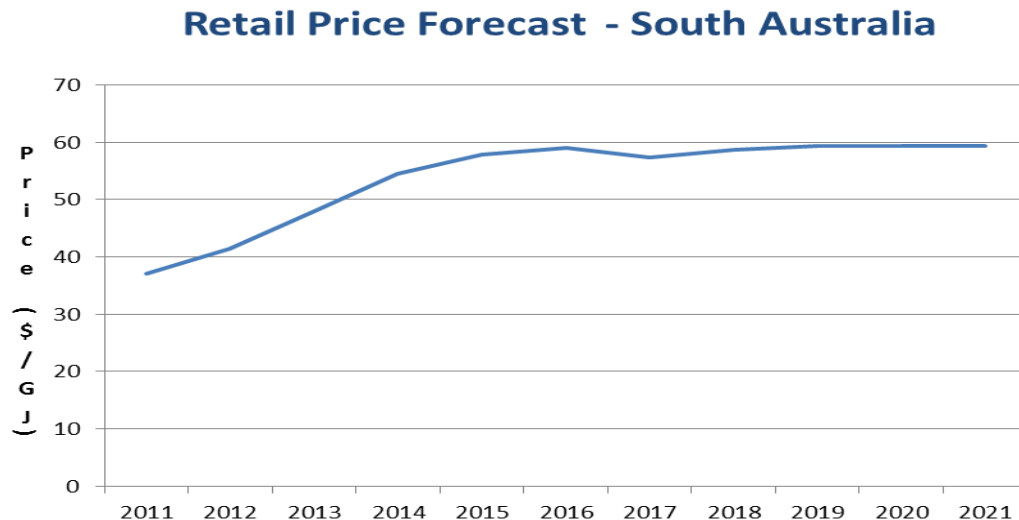
- Average annual consumption is declining. This can be due to the following reasons:
 - Energy efficiency measures
 - Lower penetration of gas appliances (reverse cycle air conditioner is a real threat to gas space heater and gas central heater)
 - Smaller houses
 - Reduction in water consumption



Bad News

Price competitiveness of gas is declining

- Network prices increased from 2011 to 2016
- Wholesale gas prices increasing from 2015 to 2019 reflecting development of LNG export market for Australian gas
- Wholesale price increases likely to be offset by regulatory reset of network prices in 2016

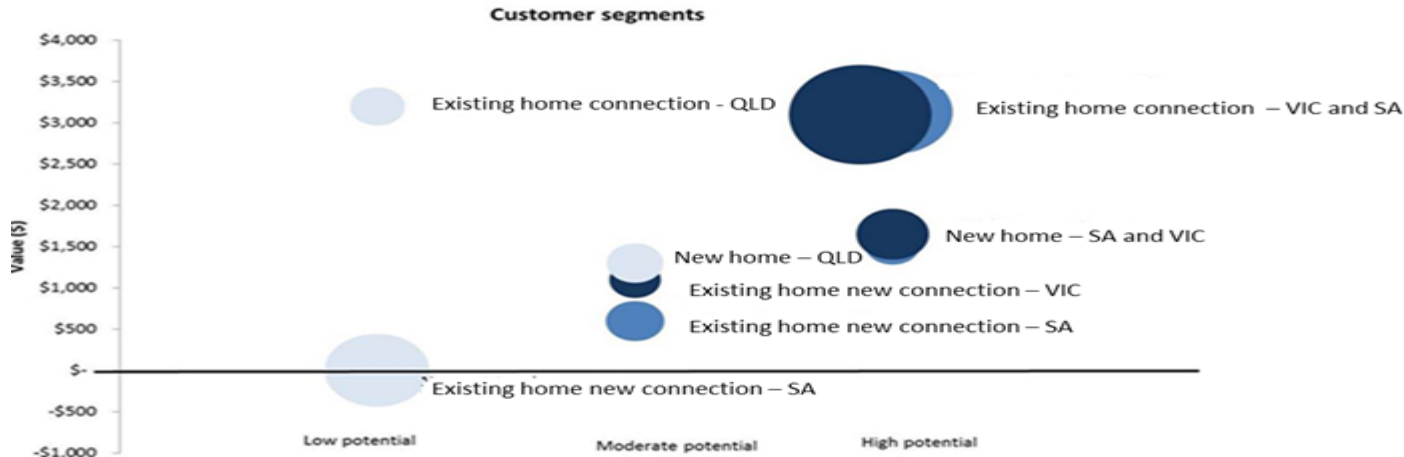


Opportunities to improve performance

Need to Segment the Market

Segmentation assists with allocating marketing resources properly:

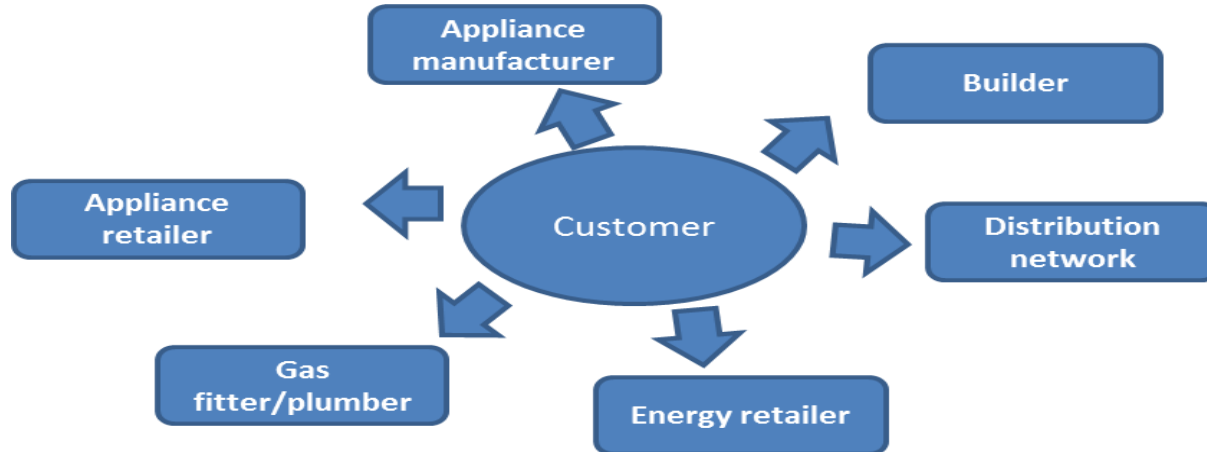
- Not all customer segments have the same value and marketing resources need to be allocated accordingly.



What is the Role Of Networks In Marketing?

Should gas distribution networks take a more proactive role in the gas appliance market?

- Gas distribution networks are the only party interested in promoting **only** gas appliances but it does not have a proactive role in promoting it. This lack of control makes difficult for networks to:
 1. Obtain information about the penetration of gas appliances
 2. Influence customer decision to buy appliances
 3. Drive investment in gas appliance research and development
 4. Make the connection to gas and gas appliance easier and efficient



Conclusion

- Natural gas is a fuel of choice in Australia
- Marketing is necessary to secure market share and maximise connections and consumption
- AGN's marketing programs have focused on
 - Media to raise awareness
 - Stakeholder management to develop "gas" advocates working on behalf of gas networks
 - Incentive programs (rebates) to encourage customers to switch to natural gas
- Need to develop these campaigns further to improve attractiveness of natural gas for customers and simplify connection
 - Target market segments to maximise value
 - Better influence consumer decisions around gas appliances
 - Measurable KPIs