

## Appendix A

# Directors Certification of key assumptions relating to Opex and Capex Forecasts

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Responses to the 2026-31 Reset RIN for AGN (SA) – February 2025

July 2025

**PUBLIC**

## Directors Certification of key assumptions relating to Opex and Capex Forecast

### 1. Background

The Australian Energy Regulator (AER) provided the '2026 -2031 Access Arrangement Regulatory Information Notice' (Notice) on Australian Gas Networks Limited on 17 February 2025 for its South Australian gas distribution network (AGN SA) under National Gas Law (NGL). As advised by the AER on 11 June 2025, the Notice did not include the requirement for AGN SA to provide directors certification of the reasonableness of the key assumptions relating to the methodology used for developing the AGN SA operating expenditure and capital expenditure forecasts.

To rectify this, the AER requested via an email dated 11 June 2025, the certification to be provided based on Schedule 5 of previous Notices. That is *"Provide, by the directors of the pipeline service provider, a certification of the reasonableness of the key assumption relating to the methodology used in developing the pipeline services provider's operating and capital expenditure forecasts"*

The certification of the reasonableness of the key assumptions by the directors of AGN SA is contained within Table 1 of this document.

### 2. Key Assumptions

We have identified the following key assumptions, which we consider are related to our opex and capex forecasts. See Table 1 below.

Table 1 – Key Assumptions relating to opex and capex forecasts

Key Assumptions	Opex	Capex
<b>Base Year</b> We have proposed using 2024/25 as the base year, being the penultimate year of the current AA period. Use of the penultimate year is consistent with past regulatory decisions, and is the year generally preferred by the AER upon which to base opex forecasts..	✓	
<b>Real cost escalation</b> We have used BIS Oxford forecast of real input cost escalators to estimate labour costs over the next AA period. For the purposes of our opex forecasts, we have applied the average of the estimates of labour cost escalation to the labour proportion of costs, determined to be 71% on average, consistent with the current AGN SA AA. We have applied no real cost escalation to materials costs.	✓	✓

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Key Assumptions	Opex	Capex
For the purposes of our capex forecasts, we have applied the average of the estimates of labour cost escalation to the labour proportion of costs determined on a project by project basis, consistent with the approach approved in our past AGN South Australia AA and adopted by electricity distribution businesses. We have applied no real cost escalation to materials costs.		
Key Assumptions	Opex	Capex
<b>Output Growth</b>	✓	
Output growth is estimated using a weighted average of customer numbers and mains length. The weightings for customer number growth and mains length are assumed to be 49% and 51% respectively which is consistent with previous AER's Final Decisions (including for SA).		
Growth in customer numbers is taken from our 2026/27 to 2030/31 demand forecast, which forecast was developed by Core Energy and Resources (Core Energy). Core Energy were used by AGN for the prior Victorian and Albury reviews and the most recent South Australian review. Core Energy adopt a methodology that is consistent with approach approved by the AER in these previous reviews.		
Growth in mains length reflects the impact of the proposed capex program, mainly driven by the forecast of new connections		
<b>Opex Productivity</b>	✓	
The productivity factor included in our opex forecast is 0.40% per annum and is based on the value initially proposed for AGN Victoria and Albury with advice from ACIL Allen (until the Victorian policy change occurred) and applied to AGN South Australia previously.		
<b>Inflation forecast</b>	✓	✓
We have based our inflation forecast for 2026/27 – 2030/31 on the AER's preferred method of estimating inflation, which is to use the geometric mean of the available inflation forecasts in the RBA's statement of monetary policy and a glide path to the RBA's inflation target for the remaining years. This is a placeholder estimate only, which estimate the AER		

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Key Assumptions	Opex	Capex
will substitute at the time of the Final Decision with most recent information.		
Key Assumptions	Opex	Capex
<b>Capex Cost</b>		✓
Our capex forecast utilises historical costs and unit rates (for mains replacement, meter replacement and new connections) and bottom-up estimates for other projects.		
The unit rates reflect a three year average of historical actual cost or most recent tendered unit rates for the materials and labour involved in the work.		
<b>Capitalised Overhead</b>		✓
Our capitalised overhead includes the following costs for:		
<ul style="list-style-type: none"> <li>• Planning and system design;</li> <li>• Technical assurance; and</li> <li>• Network engineering.</li> </ul>		
Future overheads are forecast based on the fixed and variable proportion of actual overheads and their proportion relative to total actual capex, for the last three full financial years.		

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## Appendix A: Director Certification Statement

Certification as requested by the AER emailed dated 11 June 2025, " SA Gas 2026-31 access arrangement - request for Directors Certification [SEC=OFFICIAL] [ACCC-ACCCANDAER.FID3771822]"

The undersigned director of AGN certifies that, to the best of my knowledge and belief:

- The key assumptions that underlie the operating expenditure forecast as set out in Section 2 of this document are reasonable;
- The key assumptions that underlie the capital expenditure forecast as set out in the Section 2 of this document are reasonable.

Certified by:



DESMOND CHARLES PETHERICK  
DIRECTOR

(Director's name)

30/6/2025  
Dated