



**Australian
Gas Networks**

Appendix 1.0

Directors' certification of key assumptions relating to Opex and Capex Forecasts

Responses to the 2023/24 to 2027/28 Access Arrangement

July 2022

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

1. Background

On 8 March 2022 the Australian Energy Regulator (AER) provided the '2023 -2028 Access Arrangement Regulatory Information Notice' (RIN) to Australian Gas Networks Limited (AGN) for its Victorian and Albury gas distribution networks under the National Gas Law (NGL). Section 5 "DIRECTOR CERTIFICATION" of Schedule 1 of the RIN requires AGN to provide a directors' certification of the reasonableness of the key assumptions relating to the methodology used for developing AGN's Victoria and Albury operating expenditure and capital expenditure forecasts.

The purpose of this document is to meet the requirements of Section 5 of Schedule 1 of the RIN by identifying the key assumptions that underlie AGN's operating expenditure and capital expenditure forecasts. The certification of the reasonableness of the key assumptions is contained within Appendix A to this document.

2. Key Assumptions

We have identified the following key assumptions 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
<p>Base Year</p> <p>We have proposed using 2021 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.</p>	✓	
<p>Real cost escalation</p> <p>We have adopted the AER's preferred approach, which is to average the forecasts of BIS Oxford and Deloitte Access Economics forecasts of real input cost escalators to estimate labour costs over the next AA period.</p> <p>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 in the AER's benchmarking report for electricity businesses (59.7%). We have applied no real cost escalation to materials costs.</p> <p>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</p>	✓	✓

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

Key Assumptions	Opex	Capex
<p>determined on a project by project basis, consistent with the approach approved in our most recent AGN South Australia AA and adopted by electricity distribution businesses. We have applied no real cost escalation to materials costs.</p>		
<p>Output Growth</p> <p>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 49.4% and 50.6% respectively which mirror the AER's Final Decisions for Jemena Gas Networks in New South Wales (which was released May 2020) and AGN South Australia (which was released in April 2021).</p> <p>Growth in customer numbers is taken from our 2023/24 to 2027/28 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.</p> <p>Growth in mains length reflects the impact of the proposed capex program, mainly driven by the forecast of new connections.</p>	✓	
<p>Opex Productivity</p> <p>The productivity factor included in our opex forecast is 0.40% per annum and is based on the value approved recently in AGN South Australia and work completed by ACIL Allen.</p>	✓	
<p>Inflation forecast</p> <p>We have based our inflation forecast for 2023/24 – 2027/28 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 will substitute at the time of the Final Decision with most recent information.</p>	✓	✓

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

Key Assumptions	Opex	Capex
<p>Capex Cost</p> <p>Our capex forecast utilises historical costs and unit rates (for mains replacement, meter replacement and new connections) and bottom-up estimates for other projects.</p> <p>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.</p>		✓
<p>Capitalised Overhead</p> <p>Our capitalised overhead includes the following costs for:</p> <ul style="list-style-type: none"> • Planning and system design; • Technical assurance; and • Network engineering. <p>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 four calendar years.</p>		✓

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

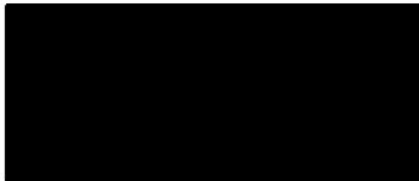
Appendix A: Director's Certification Statement

Certification under Section 5 of Schedule 1 of Regulatory Information Notice

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

Signed in accordance with the resolution of directors. Certified by:



(Director's signature)

30 JUNE 2022

Dated

DESMOND PETHERICK

(Director's name)