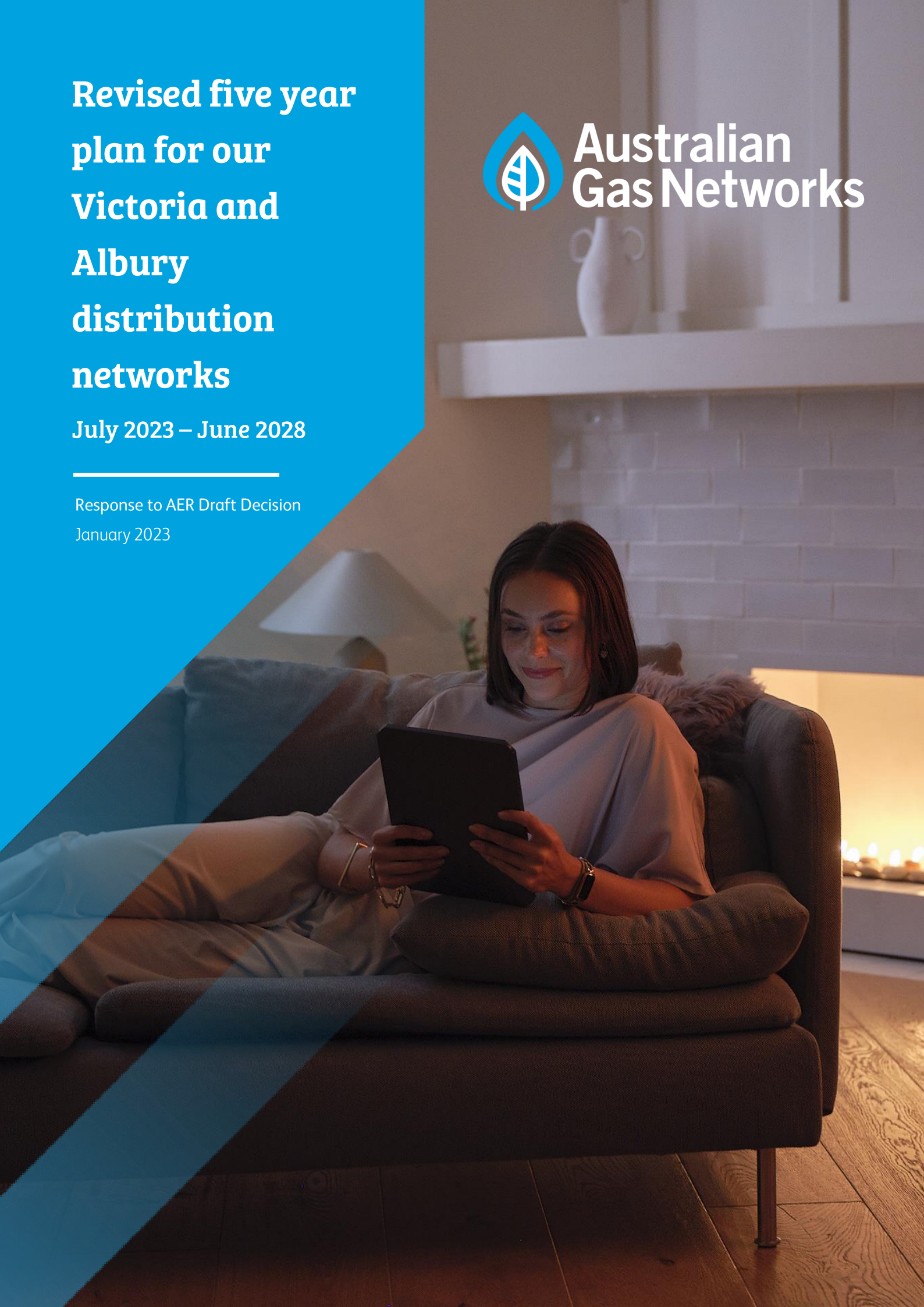


Revised five year plan for our Victoria and Albury distribution networks

July 2023 – June 2028

Response to AER Draft Decision
January 2023



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CEO Foreword

We are pleased to present our revised Final Plan for Australian Gas Networks (AGN) Victoria and Albury for the 2023/24 to 2027/28 period.



Our revised Final Plan sets out our response to the AER's Draft Decision for AGN Victoria and Albury. We have accepted most of the AER's Draft Decision and have undertaken further engagement on a few outstanding issues, particularly accelerated depreciation and connection abolishment.

AGN is part of the Australian Gas Infrastructure Group (AGIG), one of Australia's largest energy infrastructure businesses. Through AGN Victoria and Albury, we serve over 740,000 customers in Victoria and New South Wales, including in the Melbourne CBD, northern, eastern and

outer southern areas of metropolitan Melbourne, the Mornington Peninsula, and northern, eastern and south-eastern areas of Victoria and Albury. AGN plays a vital role in delivering safe, reliable, affordable and low emissions energy for our residential, commercial and industrial customers.

In serving our customers, it is our vision to be the leading gas infrastructure business in Australia. We aim to do this by achieving top quartile performance in delivering for customers, being a good employer and being sustainably cost efficient. We are also leading the industry in its transition to a renewable gas future.

Our revised Final Plan reflects the feedback from the AER in its Draft Decision, from customers and from stakeholders in public submissions to our Final Plan. The revised Final Plan also incorporates feedback received through our ongoing joint engagement across the three gas distribution businesses in Victoria and Albury (AusNet Services, Multinet Gas Networks (also part of AGIG)

and AGN). We are proud to say that this joint engagement approach won the 2022 Energy Consumers Australia and Energy Networks Australia consumer engagement award.

We have also undertaken further engagement activities directly with our customers since the release of the Draft Decision, specifically focussed on the approach to accelerated depreciation and cost recovery for the abolishment of small customer connections.

This revised Final Plan aligns strongly with the AER's Draft Decision. We are very pleased that in its Draft Decision the AER acknowledged the commitment of our customers and stakeholders to our extensive engagement program. We again thank our customers and stakeholders for their significant contribution to our plans.

Our further consultation with our customers supports the Draft Decision approach of taking small steps in the 2023/24 to 2027/28 period to address future uncertainty and reduce price risk over the longer term.

While uncertainty will remain, the Draft Decision and our revised Final Plan reflect a balanced approach that is consistent with the Victorian Government's plan for the decarbonisation of the gas sector in meeting its 2030 emissions reduction target and ultimately achieving its legislated target of net zero emissions by 2045.

Our Board has endorsed a low carbon strategy that includes targets to deliver at least a 10% renewable gas blend across our distribution networks by 2030, and a stretch target to achieve the full decarbonisation of our distribution networks by 2040, or by 2050 at the latest. These targets align with government policy.

We welcome the AER's Draft Decision to approve a small number of important initiatives supported by our customers and stakeholders. These include:

- Investment to improve our customer communications through a range of digital channels;
- Investing in a Priority Service Program that will support those customers that need it most; and
- Installing remote read meters for around 4,000 hard to read meters.

Our revised Final Plan reflects much of the AER's Draft Decision, and we are pleased to propose a price decrease (after inflation) of 3% from 1 July 2023.

Our objective for the five years from July of delivering price stability and ensuring a smooth transition to net zero remains a priority. We consider our revised Final Plan to be consistent with the AER's Draft Decision and stakeholder feedback, and therefore capable of acceptance.

Our revised Final Plan will now be reviewed by the Australian Energy Regulator (AER), with a Final Decision expected in May. I encourage our customers and stakeholders to participate in the AER's consultation process on its Draft Decision and our revised Final Plan to ensure we provide the services that our customers value most.

Craig de Laine

Chief Executive Officer

Lower prices

↓ **3%**

(after inflation)

Our revised Final Plan accepts the majority of the AER's Draft Decision on our plans for the five year period 2023/24 to 2027/28

In preparing our revised Final Plan we re-engaged with our customers on:

- **Accelerated depreciation and long term pricing**
- **Connection abolishments**



Lower funding costs

Rate of return of 5.53 %
down from 5.75 % in the last period



Keeping options open

Supports long term interests of customers, price stability and cost competitiveness of the network to provide energy choice for customers



Safety focus

Maintain strong leak performance and continue to monitor performance and condition of mains



Future focus

We will monitor developments in the renewable gas future and respond accordingly



Customer focus

- New digital customer services
- Priority Service Program



Efficient incentives

Opex and Capex Efficiency Schemes

1 Background

On 1 July 2022, we submitted our Final Plan for our Victoria and Albury natural gas distribution networks for the five-year period 1 July 2023 to 30 June 2028. Otherwise known as an Access Arrangement Proposal, the Final Plan contains our proposed reference services and terms and conditions under which a customer can gain access to the AGN Victorian and Albury gas distribution network.

This includes:

- the services offered and provided to our customers;
- the price paid for those services; and
- the non-price terms under which access will be provided.

Our objective was (and remains) to submit a Final Plan which:

- ✓ Delivers for current and future customers.
- ✓ Is underpinned by effective stakeholder engagement.
- ✓ Is capable of being accepted by our customers and stakeholders.

To support this objective, the Final Plan was informed and shaped by feedback received through an extensive customer and stakeholder engagement program. This joint engagement approach recently won an industry award and we have continued with our joint engagement approach following the submission of our Final Plan.

On 2 September 2022, we submitted revisions to our Final Plan in response to the Victorian Government's Gas Substitution Roadmap (GSR) which was released one day after we submitted our Final Plan. The GSR outlines the Victorian Government's plan for the decarbonisation of the gas sector in meeting the state's 2030 emissions reduction target and ultimately the legislated target of net-zero emissions by 2050 (the Victorian Government has subsequently committed to achieving net-zero emissions by 2045). The GSR has implications for our customers and necessitated revisions to the Final Plan we submitted on 1 July.

On 9 December 2022, the AER released its Draft Decision on our Final Plan taking into account the revisions submitted in September. This revised Final Plan is our response to the Draft Decision.

In this overview we summarise our revised Final Plan and the ongoing engagement we have undertaken to work with customers and stakeholders on our response to the AER's Draft Decision.

2 Our response to the Draft Decision

Table 2.1 provides a summary of the AER's Draft Decision and our response. The table notes whether we accept, modify or reject the Draft Decision in the revised Final Plan. The table also provides a reference to the relevant attachment explaining the reasons behind our approach.

As the table shows, we have largely accepted the AER's Draft Decision and provided updates to inputs as requested by the AER. The key areas where we have not accepted the AER's Draft Decision are related to how we recover the costs for the small customer abolishment service and also credit support provisions.

A document map is available in Attachment 1.3B. The Document Map outlines the structure of the original Final Plan, our GSR Response and highlights in blue new attachments included in this revised Final Plan.

Table 2.1: Summary of our response to the AER's Draft Decision

Topic	AER Draft Decision	AGN Response	AGN Comment
Operating expenditure	Accept	Accept	We are pleased that the AER's Draft Decision accepted our GSR Response proposed opex of \$478 million (excluding ancillary reference services) and our opex forecast is unchanged in our revised Final Plan. We have provided some further clarification on our proposed cyber security step change which the AER did not include in its alternative opex forecast, as well as a summary of the further engagement we have done on our Priority Services Program. Further information is detailed in Attachment 8.7.
Capital expenditure	Accept	Accept	We are pleased that the AER's Draft Decision accepted our GSR Response proposed capex of \$434 million and our capex forecast is unchanged in our revised Final Plan. We have provided some further clarification on our proposed cyber security capex program. We have also updated our current period capex for draft actual 2022 capex, which is lower than the estimate used in our Final Plan and have explained reasons for the reduction. Further information is detailed in Attachment 9.16.
Future of gas	Accept	Accept	We have accepted the AER's Draft Decision on Future of Gas which includes \$175 million of accelerated depreciation. However we do not agree with the proposal to specifically target zero percent per annum real price increases in the Draft Decision and provide further comment on that approach. Further information is detailed in Attachment 6.6.
Capital base	Accept	Accept	We have accepted the AER's Draft Decision on Capital Base and updated for calendar year 2022 actuals and the forecast for the first half of 2023. Further information is detailed in Attachment 10.2.
Financing costs	Accept	Accept	We have accepted the AER's Draft Decision on rate of return and updated for December information. We note this is a placeholder as the AER will update the rate of return in its Final Decision to reflect the 2022 Rate of Return Instrument, which is due to be finalised in February 2023. Further information is detailed in Attachment 11.2.

Topic	AER Draft Decision	AGN Response	AGN Comment
Incentives	Accept	Modify	<p>We welcome the AER's Draft Decision to maintain both the opex efficiency carryover mechanism (ECM) and the contingent capital expenditure sharing scheme (Contingent CESS) in our revised Final Plan.</p> <p>We have included some updated inputs in the calculation of carryovers from the schemes in the current AA period, and repropose the exclusion of augmentation capex in the Contingent CESS, which is consistent with our GSR Response, but was not addressed in the AER's Draft Decision.</p> <p>Further information is detailed in Attachment 12.2.</p>
Demand	Accept	Accept	<p>We have accepted the AER's Draft Decision and updated for more recent information as requested.</p> <p>Further information is detailed in Attachment 13.6.</p>
Revenue and pricing	Modify	Modify	<p>We have updated the revenue and price path to reflect changes made in this revised Final Plan.</p> <p>We have also included an additional pass through event in respect of potential unrecovered abolishment costs, as well as modifications to the tariff variation mechanism on account of the Federal Government's changes to the Safeguard Mechanism.</p> <p>Further information is detailed in Attachment 14.4.</p>
Services	Modify	Reject	<p>We have provided further analysis and support for an Ancillary Reference Service for small customer residential abolishments in response to the AER's Draft Decision.</p> <p>Further information is detailed in Attachment 7.1.</p>
Network access	Modify	Modify	<p>We have explained our preference for maintaining credit support in Victoria. However, we acknowledge the stakeholder feedback and AER's Draft Decision. Should the AER maintain its Draft Decision position, we have provided alternative drafting in our Access Arrangement approach to managing the risk of retailer default which is consistent with that applied under the National Energy Customer Framework (NECF) for our networks in South Australia and Queensland.</p> <p>We have reviewed and consider there are no changes required to our General Terms and Conditions in response to the National Gas Amendment (DWGM Distribution connected facilities) Rule 2022.</p> <p>Further information is detailed in Attachment 15.4.</p>

Note: In this 'traffic light' table, green shading represents the acceptance, orange represents a modification/modifications and red shading represents a rejection.

3 Customer and stakeholder engagement

3.1 Our engagement program

We have undertaken extensive customer and stakeholder engagement to understand, and respond to, their needs. Together with AusNet and Multinet Gas in Victoria, we have been running this engagement jointly for almost two years.

Since lodging our Final Plans in July 2022 we have continued our engagement efforts, namely around two key milestones; responding to the Gas Substitution Roadmap, and the AER's Draft Decision. We have continued meeting with Victorian Gas Networks Stakeholder Roundtable (VGNSR), Retailer Reference Group (RRG) and Priority Services Advisory Panel (PSAP). We also undertook a further round of customer workshops to engage directly with our customers.

3.2 Engagement on our Final Plan and GSR Response

Understanding and addressing the policy and different perspectives on the future of gas has been a key part of our engagement program. In addition, many customers and stakeholders have views on a preferred future of gas and balancing these positions along with our own needs and priorities has been a significant challenge.

We knew that conversations on the future of gas would be of critical interest to customers and stakeholders. Overall, customers and stakeholders understand the challenge of balancing our needs to recover the capital we have invested in our gas networks, connect customers, and maintain safety and reliability of the network while also looking to adapt our business to a low carbon future.

When we submitted our Final Plan on 1 July 2022, we had customer support for our Final Plan. Customers told us they expect AGN to be exploring ways to decarbonise the gas network and educating them about it, they were also highly satisfied with current levels of safety and reliability and expect this to be maintained whilst keeping an eye on costs.

Many stakeholders, however, found it difficult to form a view on whether our plans were capable of acceptance given the policy uncertainty and the potential for change once policy direction became clearer. Stakeholders were keen to see the release of the Victorian GSR and our response to this direction, some describing the situation as being in a 'holding point, rather than a landing point' when it comes to acceptance of our Final Plans.

As outlined above, the Victorian Government published its GSR shortly after we provided our Final Plans to the AER. Following this, we developed and undertook a series of targeted engagement activities on the GSR and its impact to our Final Plans. Our amendments to the Final Plan to account for the GSR were submitted on 2 September.

The below sections outline the GSR specific engagement we have, feedback received on our Final Plan and GSR response, the engagement activities we have undertaken leading into this revised Final Plan and how those activities have guided the revised Final Plan's development and how we are responding in our Final Plan.

The AER received 14 public submissions from stakeholders on our Final Plan and GSR Response, including:

- Brotherhood of St Laurence (BSL)
- Consumer Challenge Panel (CCP) 28

- Darebin Climate Action Now (DCAN)
- EnergyAustralia
- Energy Users Association of Australia (EUAA)
- Evoenergy
- Friends of the Earth Melbourne
- Origin Energy
- Red Lumo (including a separate submission on terms and conditions)
- Simply Energy
- Sumo, 1st Energy and Energy Locals
- TRAC Partners for Brotherhood of St Laurence
- Victorian Community Organisations

Table 3.1 below summarises what we heard and our response to feedback in stakeholder submissions.

Table 3.1: Summary of stakeholder feedback in submissions

Topic	What we heard	Our response
Operating expenditure	<ul style="list-style-type: none"> • Some stakeholders challenged productivity of zero • While there was strong support for the proposed Priority Services Program activities across stakeholders, many did not feel additional funding was warranted • There was low support from stakeholders for customers to fund renewable communications 	<p>We have accepted the AER's Draft Decision approach to update ACIL Allen's productivity forecasts for returns to scale and operating environment factors based on our GSR Response forecasts.</p> <p>We are pleased with the AER's Draft Decision to accept our proposed PSP step change. We reconvened the PSP Advisory Panel to retest the key features of the PSP and discuss further considerations for implementation. We also checked in with customers at our January workshops and found there were still high levels of customer support for the PSP.</p> <p>We appreciate stakeholder feedback on renewable communications. From our January workshops, we understand this is still an initiative that is very important to customers and therefore we will work within the overall expenditure levels provided in the Draft Decision to fund this work.</p>

Topic	What we heard	Our response
Capital expenditure	<ul style="list-style-type: none"> Many stakeholders noted uncertainty of GSR impacts for demand and new connections Some stakeholders queried whether the application of GSR reductions should also see reduced expenditure in other areas Some stakeholders who are supportive of electrification are asking for wind-down plans There was low support for customers to fund hydrogen readiness capex activities in the next AA period 	<p>We note the need, even in the face of uncertainty, to continue to operate the gas network safely.</p> <p>We significantly revised down the capex forecasts as a result of reduced demand and made reductions to other expenditure (e.g. meter and service replacements) in line with forecast existing customer disconnections due to the GSR.</p> <p>We accept there are different views across stakeholders on the future of gas. As a prudent asset manager, we will continue to manage the safety and integrity of our network. This includes monitoring developments in the renewable gas future and responding accordingly.</p>
Accelerated Depreciation	<ul style="list-style-type: none"> Stakeholders recognise the energy landscape is changing, and there is a need to respond Some stakeholders were supportive of our AD proposals, particularly the extent and level of detail of our engagement Some stakeholders require more certainty as to the future of gas networks before supporting AD Some stakeholders propose government rather than customers should fund AD Some stakeholders suggest networks bear some cost of stranded assets 	<p>We note the mixed view of stakeholders on accelerated depreciation and consider our position is an appropriate balance of the interests of our consumers in both the short and long term.</p> <p>We have accepted the AER's Draft Decision and agree that accelerated depreciation is the appropriate approach to address future risk. We have provided further comment on the proposal to specifically target zero percent per annum real price increases in the Draft Decision, including significant customer support to pay a little bit more today if it reduces the risk that prices will increase in the future.</p> <p>We highlight that we do not recover all of our capital under pessimistic scenarios.</p>
Demand	<ul style="list-style-type: none"> Many stakeholders highlight there is still a considerable amount of uncertainty on future demand – many stakeholders consider declines will happen faster than forecast, some consider declines will be slower Some stakeholders highlight the importance of incorporating the most up to date information, including the 2023 Gas Statement of Opportunities (Final expected in March) 	<p>We note the many views that demand could drop faster than forecast.</p> <p>We agree there is some uncertainty around how much and how quickly the GSR will impact demand and have used the best information available to inform our forecasts.</p> <p>We consider our demand forecasts are the best that we can produce in the face of considerable uncertainty and that our proposal is an appropriate balance based on these forecasts.</p> <p>We have reflected new information as it is available in our revised Final Plan.</p> <p>We highlight that the GSOO presents scenarios around gas demand, and therefore still requires a degree of judgement as to how those scenarios will play out in the next AA period.</p>

Topic	What we heard	Our response
Prices	<ul style="list-style-type: none"> A stakeholder suggested a consistent price path over the AA period Some stakeholders noted they do not support current declining block price structures which encourage greater use 	<p>We consider it is important to deliver smooth prices across multiple AA periods, therefore we try to match final year tariff and building block revenue.</p> <p>We would note the declining block tariff structure plays an important role in supporting affordability for customers when they need to use more gas (i.e. reducing winter bill stress)</p>
Abolishment fees	<ul style="list-style-type: none"> Agreement from some stakeholders that abolishment fees are required Some stakeholders suggested need for alternative/cheaper options for customers Some stakeholders are not supportive of abolishment fees, seeing them as a barrier to moving away from gas 	<p>We consider our proposed approach to recover the efficient costs of abolishing the connection from the causer remains appropriate. It is also the most preferred option of customers.</p> <p>Equity issues from socialising the costs of abolishment across haulage tariffs cannot be ignored as this imposes additional costs on customers who remain on the network, which is particularly a concern for vulnerable customers who cannot afford to leave the network themselves. It also increases asset stranding risk.</p> <p>Energy Safe Victoria's position is that abolishment of inactive services is the only appropriate option for safe long term disconnection from the network.</p>
Terms and conditions	<ul style="list-style-type: none"> Some retailers have remaining issues with credit support, stating the requirements in Victoria are more onerous than they are in other states 	<p>We have explained our preference for maintaining credit support in Victoria. However, should the AER maintain its Draft Decision position, we have outlined an alternative approach to managing the risk of retailer default which is consistent with that applied under the National Energy Customer Framework (NECF) for our networks in South Australia and Queensland.</p>

3.3 Stakeholder activities

We have continued our engagement with customers and stakeholders since the submission of our Final Plan. These activities are summarised below in Table 3.2.

Table 3.2: Stakeholder engagement activities (November to December 2022)

Meeting	Key topics of engagement
VGNSR and RRG #11 10 August 2022	We outlined the GSR and engaged on the anticipated impact of the GSR on our proposals.

Meeting	Key topics of engagement
VGNSR and RRG #12 10 November 2022	<p>This meeting focused on understanding the external environment, including the most up to date customer sentiment research, discussion around the Victorian State Election Statements, and safeguards. The meeting also further explored topics raised in the stakeholder GSR submissions including:</p> <ul style="list-style-type: none"> • Future price paths • Priority Service Program • Mains replacement • Abolishments • Demand
Priority Services Advisory Panel Workshop 17 November 2022	<p>In this workshop we recapped and retested key elements of the proposed PSP program with Advisory Panel members. We also discussed the changing economic environment and its impact on customers experiencing vulnerability and how the PSP might need to be adapted.</p>
VGNSR and RRG #13 15 December 2022	<p>We provided an outline of the Draft Decision and our proposed customer engagement. Key topics explored included:</p> <ul style="list-style-type: none"> • Terms and Conditions • Rate of return • Abolishments

3.4 Customer activities

We held two online workshops on 16 January 2023 with 51 customers that had participated in our previous engagement activities.

As a result of previous engagement in our workshops, customers had an existing knowledge base about AGN and our planning process, and therefore were well placed to engage on the specific topics from the AER Draft Decision, being accelerated depreciation and abolishment charges.

The majority of AGN customers told us they would prefer to pay more today if it reduces the risk of future price rises:

- 86% of customers viewed mitigating future price rises as either important or very important.
- 72% of customers were comfortable paying more today (\$10 - \$20), if it reduces the risk that prices increase in the future. Around one third of customers chose a bill impact up to \$10 per annum, with the remaining supporting up to \$20.

Customers told us that future price stability was important to them because it:

- Reduces the risk of future prices e.g. "\$20 per annum now is a reasonable amount to pay to help reduce the potential rises in the future."
- Reduces the burden on more vulnerable customers e.g. "I'd rather help share the load now, than leave financially vulnerable households in the future having to shoulder potentially much higher costs."

- Allows for longer term planning e.g. "I can easily find \$20 per annum now, if it means not paying huge amounts extra once I am retired" and "It's like insurance... paying \$20 now could pay off in the future."

With regards to abolishment charges, most customers prefer that the disconnecting household pay the costs incurred through the abolishment. Many customers supported Government either paying in full or contributing to this cost. Distributing these charges across remaining gas customers was the least preferred model of cost recovery.

- 50% of customers prefer the household requesting the disconnection pay the \$950 abolishment cost.
- 56% of customers indicated that payment of abolishment costs by remaining gas customers is their lowest preference.
- 30% of customers selected Government as their first choice to pay for the disconnection.

In considering who should pay the abolishment costs, customers cited:

- A preference towards the fairness of a user pays model e.g. "It is fair that the householder requesting the abolishment bears that cost" and "I don't want to pay for those who disconnect", and "if you can afford to fully pay for the electrification of your home, the disconnection should be factored into it."
- The role of Government in incentivising or reducing the cost to customers e.g. "if Government are forcing. Encouraging disconnections, then they should provide the incentives".

Feedback from these customer workshops has been used to inform this revised Final Plan and is outlined in the respective chapters. The full customer engagement workshop findings are provided in Attachment 5.5 KPMG AGN Customer Engagement Program Phase 4 Final Report.

4 Our revised Final Plan

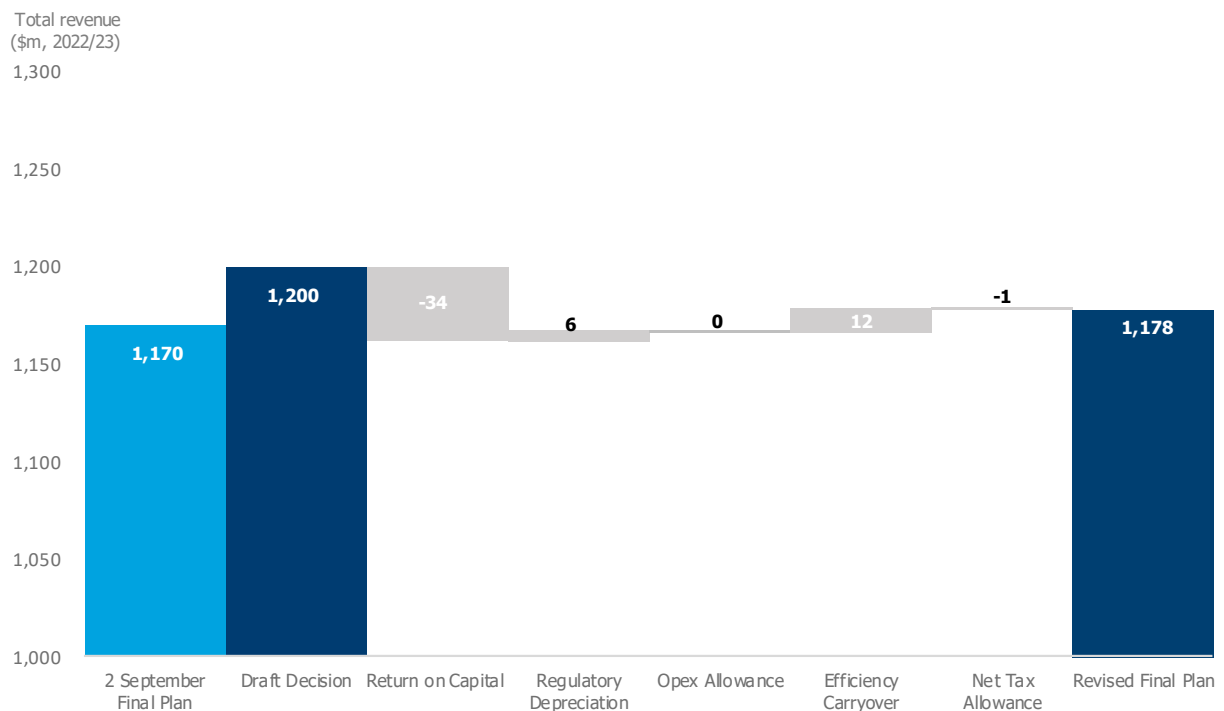
Our revised Final Plan (summarised below) takes into account and addresses issues raised in the AER’s Draft Decision and feedback received from public submissions on our Final Plan, GSR Response and further engagement activities. A brief summary of key areas is outlined below. The Attachments listed here and in the Document Map (Attachment 1.3B) provide our detailed reasoning. All modifications have been included in the proposed revisions to the Access Arrangement.

4.1 Summary

Our revised Final Plan delivers allowed revenue of \$1,178 million in \$2022/23, which is around \$22 million (or 1.8%) below the AER’s Draft Decision and \$8 million (or 0.6%) above our GSR Response submitted in September 2022. Our revised Final Plan revenue is also \$58m (or 4.7%) below benchmark revenue for the 2018 – 2022 period.

A comparison of our Final Plan, GSR Response, the AER’s Draft Decision and our revised Final Plan is presented in Figure 1 below.

Figure 1: Comparison of the Final Plan and the revised Final Plan (\$million, 2022/23)



This results in lower prices from 1 July 2023 of around 3% (after inflation), followed by increases of 1% per year plus CPI thereafter.

4.2 Future of gas

Our revised Final Plan includes \$175 million of accelerated depreciation (approximately 9% of AGN’s RAB) consistent with both our GSR Response and the AER’s Draft Decision. We also provide comment on the limiting factor of zero real price increases imposed by the Draft Decision.

We do not consider that deriving accelerated depreciation by reference to a 0% real price path is in the long-term interests of customers and present evidence supporting alternative approaches which we consider better contribute to the achievement of the National Gas Objective.

More detail on our response on Future of Gas is included in Attachment 6.7.

4.3 Services

Our revised Final Plan provides further analysis and support for an Ancillary Reference Service for permanent abolishments and addresses the issues of who pays and who is responsible for the recovery of these charges raised in the AER's Draft Decision.

The AER's proposal to "socialise" the costs of customer abolishments (permanent disconnections) through haulage tariffs would have increased tariffs by 6% for customers who choose to remain on the network. In our engagement on this issue, small customers ranked this option last behind the customer seeking the abolishment service paying the charge, government subsidy or some shared cost arrangement. We are also concerned about the efficiency of this approach and its consistency with the intent of the NGL and NGR, and AER decisions to date, which prioritise direct cost allocation where costs can be attributed to a specific service and customer.

We have adopted an approach which would seek to recover the cost of abolishments as an ancillary reference service from the customers who are permanently disconnecting from the gas network in the first instance. Where a retail customer cannot be identified for the abolishment or the cost is unrecoverable from the customer, we would consider socialisation of the costs (through a cost pass through) in order to provide us with the opportunity to recover our efficient costs in meeting Energy Safe Victoria's safety expectations. More detail on our response on Services is included in Attachment 7.1.

4.4 Operating Expenditure (Opex)

Our revised Final Plan opex, excluding ancillary reference services (ARS), is \$478 million. This is unchanged from the AER's Draft Decision and our GSR Response.

As part of its review of our opex, the AER produced its own alternative forecast. Although the AER's forecast did not include some of the items we proposed, the forecast was not materially different in quantum to our own, and therefore the Draft Decision was to accept our proposed opex forecast.

We welcome the AER's acceptance of our forecast opex for the next AA period and have applied the same forecast in this revised Final Plan. We do however add further clarifications on our proposed cyber security step change and discuss further engagement on our priority services program (PSP).

More detail on our response on Operating Expenditure is included in Attachment 8.7.

4.5 Capital Expenditure (Capex)

Our revised Final Plan includes capex is \$434 million. This is unchanged from the AER's Draft Decision and our GSR Response.

As part of its review of our capex, the AER produced its own alternative forecast. Although the AER's forecast did not include some of the items we proposed, the forecast was not materially different in quantum to our own, and therefore the Draft Decision was to accept our proposed capex forecast.

In particular, the AER's alternative capex forecast in its Draft Decision:

- Accepted our proposed \$30 million on mains replacement which is substantially below mains replacement expenditure in the current period due to the completion of the low pressure mains;

- Accepted \$166 million in growth capex to connect new customers to the network which is lower than in the current period factoring in the impact to new connection numbers following the GSR;
- Accepted capex of \$40 million for the replacement of meters, in line with the age of the meter fleet;
- Accepted \$60 million for augmentation projects to ensure safe and reliable supply of gas is maintained for Melbourne's growth corridors in our network; but
- Did not include \$5 million for the proposed cyber security program, reducing the total IT capex to \$70 million; and
- Did not include our forecast hydrogen readiness capex of \$10 million, reducing the total capex for other assets to \$27 million.

We welcome the AER's acceptance of our forecast capex for the next AA period, and have applied the same forecast in this revised Final Plan. As with operating expenditure however, we have provided further clarification on the importance of our cyber security capex program.

We have updated our forecast of capex for the current AA period to \$630 million, reflecting lower actual spend for 2022, and lower inflation when inflating to 2022/23 dollars for comparison to proposed spend in the next AA period. We also discuss our forecast capex for the six month extension period January to June 2023 (H1 2023).

More detail on our response on Capital Expenditure is included in Attachment 9.16.

4.6 Capital Base

We have adjusted the capital base in our revised Final Plan to reflect revisions throughout this document in response to the AER's Draft Decision. We have also updated for more recent estimates of 2022 and H1 2023 capex. This results in the value of our capital base growing from around \$2.0 billion to \$2.2 billion over the next AA period.

More detail on our response on Capital Base is included in Attachment 10.2.

4.7 Financing Costs

Our revised Final Plan accepts the AER's Draft Decision on rate of return and has updated for December information. We recognise these are a placeholder as the AER will be publishing its 2022 Rate of Return Instrument in February, which will be applied in its Final Decisions for the Victorian gas distribution networks.

4.8 Incentives

Our proposal is to maintain both the opex efficiency carryover mechanism (ECM) and the contingent capital expenditure sharing scheme (Contingent CESS) in our revised Final Plan. We have included some updated inputs in the calculation of carryovers from the schemes in the current AA period, and repropose the exclusion of augmentation capex in the Contingent CESS, which is consistent with our GSR Response, but was not addressed in the AER's Draft Decision.

The AER's Draft Decision on our incentives proposal:

- accepted the continuation of the ECM, but modified its application in the current AA period to remove ECM exclusions that are no longer applicable and exclude Ancillary Reference Services (ARS) from the opex used to calculate carryovers;
- accepted the continuation of the contingent CESS, with a modification in the next AA period to exclude connections capex from the calculation of efficiency gains, but did not address our proposal

that the scheme in the next AA period also exclude augmentation capex from the calculation of efficiency gains; and

- updated the calculation of efficiency gains under each of the schemes in the current AA period to include more recent inflation forecasts.

The focus of our response to the Draft Decision therefore relates to those few areas where the AER has modified or not accepted our proposal.

The key revisions in our revised Final Plan are:

- we have not accepted the exclusion of ARS from total opex when determining the ECM arising from the current AA period. This is on the basis that ARS were forecast using a single year revealed cost approach in the current AA period, and therefore it is not clear they should be excluded from the calculation of carryovers for that period. We agree that for the next AA period ARS should be a specified exclusion from the ECM as it is forecast separately and not part of the base-step-trend opex forecast for the next AA period.
- We have updated the calculation of carryovers from the contingent CESS in the current AA period for draft actual capex in 2022.
- We have re-proposed that augmentation capex be excluded from the calculation of efficiency gains under the contingent CESS in the next AA period.

More detail on our response on Incentives is included in Attachment 12.2.

4.9 Demand

Our revised Final Plan accepts the AER's Draft Decision, which accepted the approach to forecasting demand over the next AA period, and reflect the latest available information.

As a result, the updated demand forecast when compared to the with the GSR response provides for:

- Residential – lower demand of 2,657TJ (or -2.0%) on account of the update of actuals for 2021/22 and the update of the HIA dwelling forecast for November 2022 information;
- Commercial – higher demand of 1,594TJ (4.1%) on account of marginally higher actual connections in 2021/22 and higher average consumption per connection; and
- Industrial – the industrial forecast has not changed from the 2 September Final Plan.

More detail on our response on Demand is included in Attachment 13.6.

Table 4.1: Revised Final Plan Demand Forecast

	2023/24	2025/26	2026/27	2027/28	2027/28
Residential Demand					
Connections	705,113	705,810	701,140	689,749	673,325
Consumption per connection	40.2	38.7	37.1	35.4	33.9
Demand (TJ)	28,341	27,292	26,014	24,432	22,796
Commercial Demand					
Connections	22,859	22,475	22,605	22,736	22,868
Consumption per connection (GJ)	356.0	355.5	355.0	353.6	352.2
Demand (TJ)	8,138	7,990	8,025	8,038	8,053
Industrial Demand					
Connections	285	289	292	296	300
MHQ (TJ)	5,008.6	4,957.9	4,896.2	4,888.5	4,849.2
ACQ (TJ)	17,301	16,963	16,632	16,307	15,989

4.10 Revenue and Prices

Our revised Final Plan will deliver lower prices from 1 July 2023 of 3% (after inflation) followed by 1% per year increases plus CPI. This compares to our GSR Response which provided a price cut on 1 July 2023 of 6% (after inflation) followed by price increases of 2% plus CPI for the remaining 4 years.

Including the estimate of inflation over the next AA period, our revised Final Plan equates to an annual bill increase of \$11 per year for the average residential customer, \$40 for the average commercial customer and \$726 for the average industrial customer.

Total revenue in our revised Final Plan is \$1,178 million (\$2022/23) which is higher than our GSR Response, and broadly consistent with the AER's Draft Decision. Our revised Final Plan revenue and price path is summarised in Table 4.2 below.

The changes to revenue and price in our revised Final Plan compared to the AER's Draft Decision are:

- lower rate of return;
- lower forecast of gas demand; and
- updated capex in 2022 and the first half of 2023 including the impact on the Capital Efficiency Sharing Scheme.

Table 4.2: Revised Final Plan revenue and price path (\$2022/23, millions)

	2023/24	2024/25	2025/26	2026/27	2027/28
Building Block Revenue	219.0	225.0	230.3	240.1	243.7
Price Revenue	242.2	238.3	233.0	225.4	216.7
Real Price Path	-5.99%	+1.00%	+1.00%	+1.00%	+1.00%

More detail on our response on Revenue and Prices is included in Attachment 14.4.

4.11 Network Access

Our revised Final Plan modifies the AER's Draft Decision on Network Access in two key areas:

- We maintain our view that the current credit support arrangements in Victoria are appropriate and that if a change is to be made, it should be implemented by way of a Rule change. However, we have also provided the amendments to our Access Arrangement to give effect to an alternative option which is implemented through the AA document (largely based on the National Energy Customer Framework adopted in other states).
- We consider there are no drafting changes to our AA or General Terms and Conditions required for the National Gas Amendment (DWGM Distribution connected facilities) Rule 2022 which was made on 8 September 2022.

More detail on our response on Revenue and Prices is included in Attachment 15.4.

5 Next steps

After receiving our revised Final Plan, the AER will make it available for public consultation alongside its Draft Decision with submissions expected to close towards the end of February 2023. Customers and other stakeholders are encouraged to participate in this process. The AER is expected to make a Final Decision on our plans before the end of May 2023, after which the new prices will come into effect on 1 July 2023.

Throughout this process we continue to engage with our customers and stakeholders and welcome any feedback, which can be provided:

- online at gasmatters.agig.com.au
- by mail
- in person

Contact information is provided on the back cover of this document.

6 Structure of our revised Final Plan

The structure of our revised Final Plan is outlined in Attachment 1.3B. It has been structured to include the following:

- all of the documents provided to the AER in the July 2022 Final Plan, which is referred to as our Final Plan (for the purposes of brevity and clarity, these documents are not attached to this submission of our revised Final Plan as they have already been provided to the AER);
- all of the documents provided to the AER in the September 2022 revisions to our Final Plan, which is referred to as our GSR Response (for the purposes of brevity and clarity, these documents are not attached to this submission of our revised Final Plan as they have already been provided to the AER); and
- further documents which provide additional information, or modify the Final Plan, all of which are attachments to our Final Plan.

More specifically, the structure of our revised Final Plan consists of:

- this Overview, which includes a CEO Foreword, an overview of key areas, and a list of new attachments;
- the Document Map (Attachment 1.3B) reflects our Final Plan with the addition of new attachments developed as part of the revisions to our Final Plan (these new documents are highlighted in green); and
- attachments to our revised Final Plan:
 - more detail on the key aspects to our revised Final Plan are set out in new attachments to the Final Plan and prefaced with the words 'Revised Final Plan' in the title;
 - all information contained in these attachments supersedes information previously provided in our Final Plan and Revisions to Final Plan – GSR Response to the extent that there is any conflict.

Information presented in our revised Final Plan is in dollars of 2022/23 unless otherwise stated.

7 Glossary

Glossary			
AA	Access Arrangement	GJ	Gigajoule/s
ACQ	Annual Contract Quantities	GSP	Gross State Product
AER	Australian Energy Regulator	GSR	Gas Substitution Roadmap
AESCSF	Australian Energy Sector Cyber Security Framework	HIA	Housing Industry Association
AGIG	Australian Gas Infrastructure Group	HSE	Health Safety Environment
AGN	Australian Gas Networks	HyP	Hydrogen Park
AHC	Australian Hydrogen Centre	I&C	Industrial and Commercial (customers)
AMP	Asset Management Plan	KPI	Key Performance Indicator
AMS	Asset Management Strategy	LPG	Liquid Petroleum Gas
ARENA	Australian Renewable Energy Agency	MDQ	Maximum Daily Quantity
ARS	Ancillary Reference Service	MGN	Multinet Gas Networks
capex	Capital Expenditure	NECF	National Energy Consumer Framework
CBD	Central Business District	Next AA period	2023/24 to 2027/28
Current AA period	2018 to 2022	NGL	National Gas Law
DWGM	Domestic Wholesale Gas Market	NGR	National Gas Rules
DP	Delivery Point	opex	Operating Expenditure
EBSS	Efficiency Benefit Sharing Scheme	RBA	Reserve Bank of Australia
EDD	Effective Degree Day	RRG	Retailer Reference Group
ESCV	Essential Services Commission of Victoria	TAB	Tax Asset Base
ESV	Energy Safe Victoria	TJ	Terajoule/s
FFO	Funds from operations	VGNSR	Victorian Gas Networks Stakeholder Roundtable
GDB	Gas Distribution Business		

8 List of attachments

1.3B Revised Final Plan Document Map
1.4B Revised Final Plan Confidentiality Claims
1.5B PTRM
1.6B Roll Forward Model
1.7B Depreciation model
5.5 KPMG AGN Customer Engagement Program Phase 4 Final Report
6.7 Response on Future of Gas
6.8 Incenta Assessing the Appropriate Degree of Depreciation Advancement
7.1 Response on Services
8.7 Response on Operating Expenditure (Opex)
9.16 Response on Capital Expenditure (Capex)
10.2 Response on Capital Base
11.3 Response on Financing Costs
12.2 Response on Incentives
12.3 Updated ECM Model
12.4 Updated CESS Model
13.1B Updated Gas Demand Forecast Report
13.2B Updated Demand Forecast Model
13.6 Response on Demand
14.4 Response on Revenue and Pricing
15.4 Response on Network Access
Updated Access Arrangement without credit support amendments (CLEAN)
Updated Access Arrangement without credit support amendments (MARK UP)
Updated Access Arrangement with credit support amendments (CLEAN)
Updated Access Arrangement with credit support amendments (MARK UP)
Updated Access Arrangement – Annexure F GTCs (CLEAN)
Updated Access Arrangement – Annexure F GTCs (MARK UP)





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