

1 July 2022

Clare Savage  
Chair  
Australian Energy Regulator  
GPO Box 520  
Melbourne VIC 3011

Dear Clare

Please find attached AusNet's gas Access Arrangement Review Proposal for the access arrangement period 1 July 2023 to 30 June 2027 in accordance with the National Gas Rules. All supporting information has been submitted to AER staff.

As you will be aware, this Proposal has been prepared during a time of great uncertainty, with the Australian energy market facing several geopolitical and domestic challenges affecting both the cost and speed of the transition to a decarbonised energy sector. While it is unclear what part the gas sector will play in a decarbonised Australian economy, the need to prepare our network for major change is certain.

Recognising that change is certain and that customers will need reliable and safe gas distribution services for decades to come, our Proposal has left the door open to different possibilities around how this change may occur. That is, we have taken a pragmatic approach that allows us to provide safe and affordable services while also positioning ourselves to be able to take advantage of any new information that clarifies the future pathway for decarbonisation.

We have engaged in a robust and transparent conversation with our customers on these issues and in an Australian first, we have done this jointly with the other two Victorian gas networks – Australian Gas Networks and Multinet Gas Networks. While all our customers may not agree on all aspects of our Proposal, we have looked to ensure, at minimum, an appreciation of why we have approached issues, such as accelerated depreciation, in the way we have.

Given the level of uncertainty we are facing, and our obligations to keep investing in the gas network, we consider that accelerated depreciation is the best way for us to maintain stable long-term prices. Lower future prices are also key to assisting the gas network to remain competitive if we transition to a lower emissions gas (i.e., hydrogen) network or, where the gas network needs to be wound down.

Our Proposal will also allow us to continue the critical work necessary to meet our safety obligations. This includes our ongoing mains replacement program, which has the added benefit of helping us prepare our network for renewable gases, and the completion of our replacement of low-pressure mains program. We note that the pipes we are now using in our network can safely carry hydrogen if required.

Within that context, our Proposal delivers immediate price relief while also facing head-on the longer-term challenges to price stability and investment certainty. Specifically, our Proposal will deliver an initial reduction in gas distribution charges of 8.2% on 1 July 2023 (inclusive of ESV levies which we are proposing be recovered through the annual pricing mechanism). This is a significant initial saving for our customers. Following this immediate price reduction, prices for the following years will increase by 2.35% per annum.

We do, however, anticipate that there may be some changes to our operating environment prior to the AER's final decision in early 2023. We are, therefore, planning to undertake further consultation with our customers and stakeholders prior to lodging our Revised Proposal in January 2023.

All information provided as part of our Proposal may be publicly disclosed unless identified as confidential in the Confidentiality Claims document.

I look forward to discussing our proposal with your Board soon.

Sincerely,

Tony Narvaez  
Chief Executive Officer  
**AusNet**