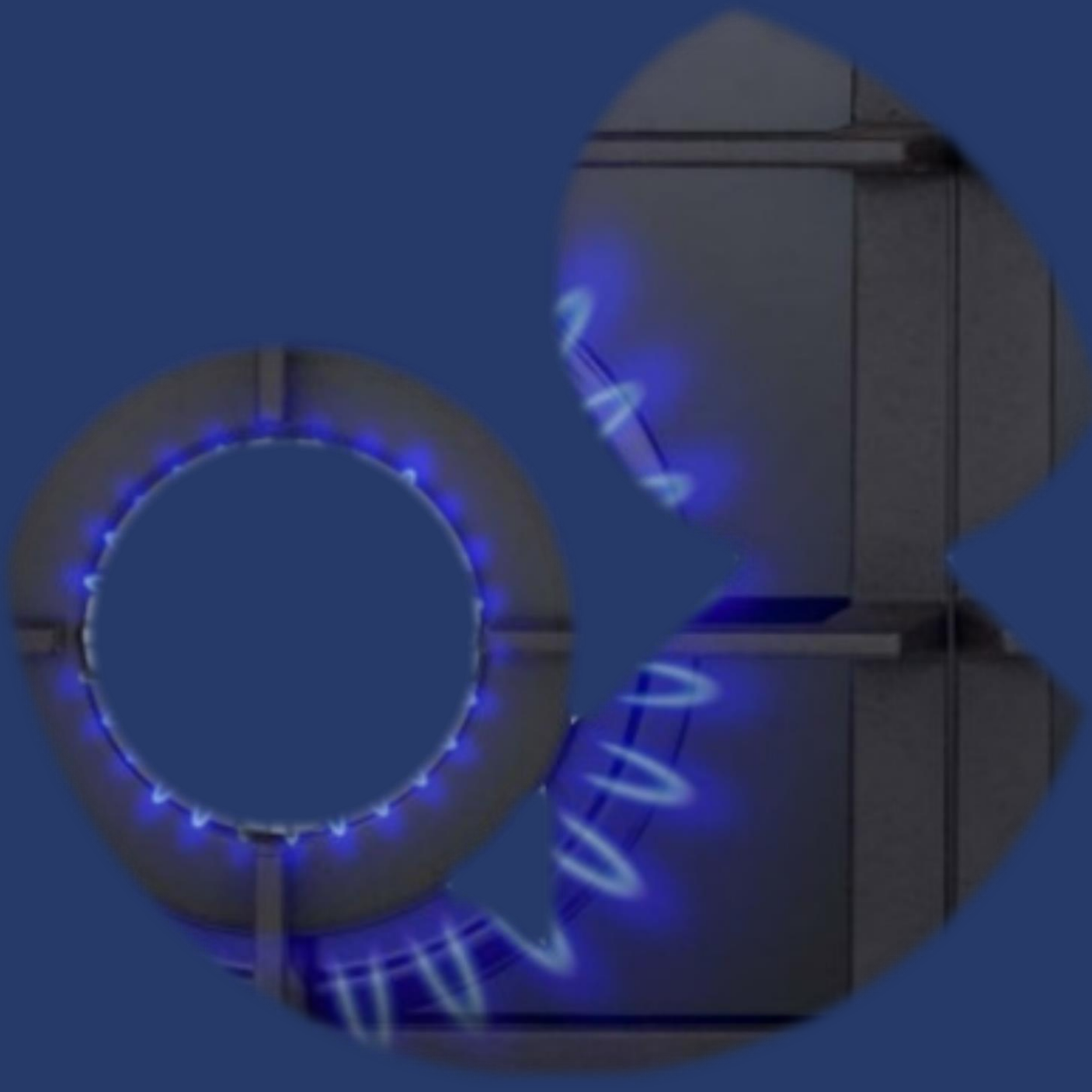
AusNet

Access Arrangement Information

Gas access arrangement review 2024-28

Revised AA Proposal – 24 January 2023



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1. Executive summary

On 29 June 2022, we submitted our Access Arrangement (AA) Proposal for the 1 July 2023 to 30 June 2028 AA period to the Australian Energy Regulator (AER).

However, on 2 July 2022, the Victorian Government published its Gas Substitution Roadmap (the Roadmap).[1] Therefore, on 2 September 2022, following consultation with stakeholders and the AER, we submitted an Addendum to our AA Proposal.[2]

The AER published its Draft Decision on our AA Proposal and AA Addendum on 9 December 2022.[3]

This document sets out our response to the AER's Draft Decision.

1.1. Majority of the Draft Decision accepted

We have accepted the majority of the Draft Decision, including with respect to capital expenditure (capex) operating expenditure (opex) and the incentive arrangements. We have also accepted the demand decision as a placeholder, noting demand will likely need to be revised down in response to the Australian Energy Market Operator's (AEMO) 2023 Gas Statement of Opportunities (GSOO) demand forecasts. The 2023 GSOO is expected to be published in March 2023. As requested by the AER, we have also undertaken further engagement on specific aspects of proposal, including our Terms and Conditions.

We also welcome the AER recognising our approach to accelerated depreciation is reasonable and that the Future of Gas modelling was a useful tool to consider relative long-term impacts of accelerated depreciation on price and demand. However, we have not accepted the AER's Draft Decision to target a real price path of 0% per annum to determine the amount of accelerated depreciation we are allowed ($83 million).[4]

While acknowledging the cost-of-living pressure that has grown throughout 2022, we do not consider the AER's placeholder approach to setting our accelerated depreciation allowance reaches the right balance between short- and long-term price paths or fully recognises the increasing stranding risk on our investment. Following further customer engagement (see section 1.3.1), we have proposed an alternative amount of accelerated depreciation that better protects all our customers, including those that are experiencing vulnerability, over the long-run. We consider our proposal is more consistent with our customers' preferences and the National Gas Objective (NGO)[5] as it does not penalise us for being efficient, having accurate forecasts or for being the cheapest gas businesses in Australia.

1.1.1. Approach to setting the level of accelerated depreciation

We have not accepted the Draft Decision's placeholder decision that constrains prices to inflation and which only allows $83 million in accelerated depreciation. This amount of accelerated depreciation is significantly below the $200 million we proposed in our AA Addendum, which was submitted to the AER following a key policy announcement and significant stakeholder engagement that indicated increasing asset stranding risk.

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[1] The Roadmap sets out a long-term decarbonisation plan for the gas sector in Victoria and is available at: https://www.energy.vic.gov.au/renewable-energy/victorias-gas-substitution-roadmap (accessed 18/10/2022).
[2] We considered issuing the AA Addendum was more constructive and transparent than waiting to respond to a Draft Decision made on outdated information. The AA Addendum is available at: https://www.aer.gov.au/system/files/ASG%20-%20Gas%20Access%20Arrangement%20review%202024-28%20-%20Addendum%20to%20proposal%20-%202%20September%202022%20-%20PUBLIC.pdf (accessed 18/10/2022).
[3] The AER's Draft Decision is available here: https://www.aer.gov.au/networks-pipelines/determinations-access-arrangements/ausnet-services-access-arrangement-2023%E2%80%9328/draft-decision (accessed 16/12/2022).
[4] The AER's Draft Decision included $93 million in accelerated depreciation, but this has an offsetting reduction of $10 million in return on capital (because of the reduction in the capital base). As such, the net impact of the Draft Decision was $83 million in accelerated depreciation.
[5] National Gas (South Australia) Act 2008, Part 3, Division 1, clause 23.

Having undertaken additional quantitative customer research and engagement on the potential impact of different levels of accelerated depreciation on customers' bills (that builds on the targeted engagement undertaken to inform our AA Addendum), and having carefully considered the Draft Decision, we have maintained our approach to setting accelerated depreciation and have re-proposed $200 million of it.[6]

Based on current demand forecasts, and having reassessed the balance between short and long-term prices in light of more current customer feedback and further policy developments that have increased our stranding risk, we consider $200 million of accelerated depreciation remains appropriate as:

- It keeps bills (average annual revenue per customer) flatter for our customers over the longer-term, which we know from our research is the most relevant measure of affordability rather than unit price (noting that gas distribution charges represent only around 25% of a customer's final bill).
- It better meets customer preferences for flat long-term bills, including those experiencing vulnerability, and is more consistent with the NGO and, therefore, the long-term interest of customers.
- It ensures stranding risk outcomes consistent with peers by recognising the steps we have taken to be a low cost, efficient business that can forecast accurately. Our approach also reduces impact of luck and timing of decisions taken in the previous Gas Access Arrangement Review (where knowledge and conditions were quite different) when determining the appropriate level of accelerated depreciation for the forthcoming period.

We do, however, accept that a decrease to our demand forecast is likely to be required, which will place additional upwards pressure on prices before the AER makes its Final Decision. Therefore, following the release of AEMO's 2023 GSOO we look forward to further engagement with the AER on this issue as refinements to our Revised AA Proposal may be required (see also section 1.1. 3).

1.1.2. Higher accelerated depreciation remains the right economic answer to addressing uncertainty and stranding risk

Despite recognising that accelerated depreciation is the correct approach to addressing uncertainty and stranding risk associated with the energy transition while ensuring smoother bills over the longer term, the AER has placed an arbitrary zero real price rise restriction as a placeholder on how much accelerated depreciation is approved. This proposal explains why this restriction is not justified.

1.1.3. Updates

We have updated the AA Proposal and AA Addendum in our Revised AA Proposal, to address specific issues raised by the AER and/or stakeholders. For example, following additional engagement with retailers we have amended our Terms and Conditions by (as requested by the AER) reconsidering our approach to gas service abolishments, noting this has necessitated us proposing a new cost pass through event for use where small customer abolishment charges cannot be recovered. We have also clarified our approach to credit support and retail insolvency.

While we have considered the latest draft, high-level demand forecasts from AEMO, given the preliminary nature of that information (and lack of available underlying data). we have refrained from making any revisions to our demand forecast as part of this Revised AA Proposal. However, the Final Decision will need to be updated for the 2023 GSOO as the necessary information will be available by then.

The updates we have included in this document, our Revised AA Proposal, has necessitated that we revisit our revenue requirement and our tariffs.

[6] The $200 million represents the net effect of the increase in depreciation and the decrease in the return on capital from the lower resulting Regulatory Asset Base (RAB), that is the financial impact on customers. This presentation has been used consistently throughout the process.

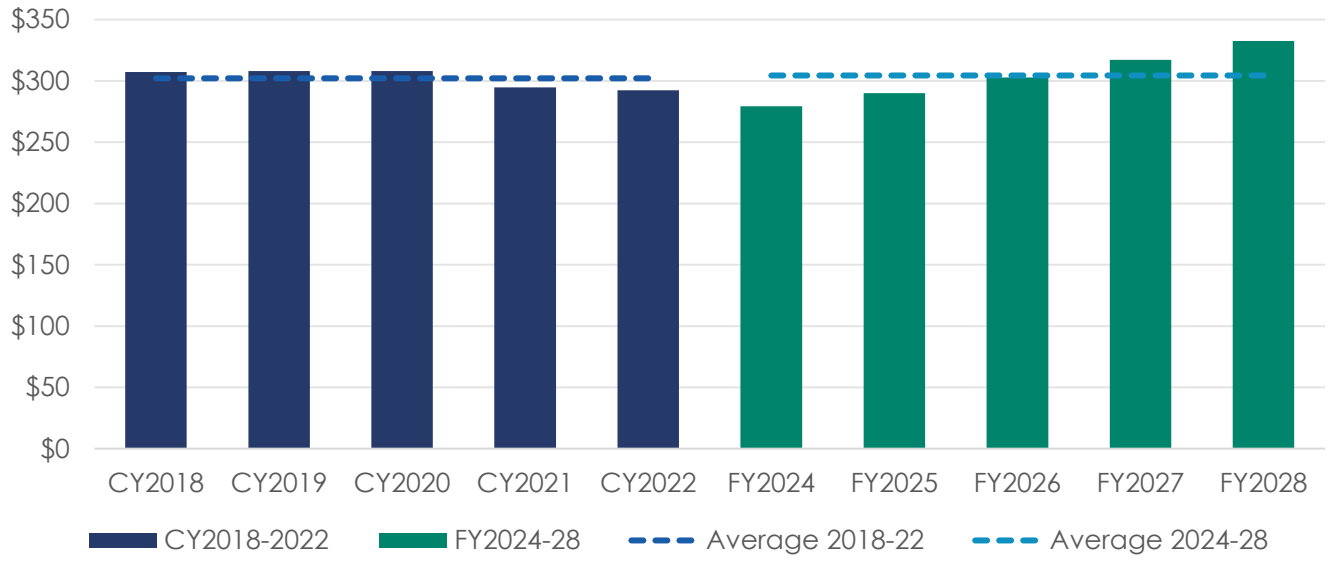
1.2. Maintaining the lowest price and average bill

Our Revised AA Proposal will see our position as the cheapest gas distribution business in Australia continue. As of 2021, we were 31% per gigajoule (GJ) cheaper than the next best gas distributor with 10% lower bills.[7] While we are proposing a modest price increase, as average consumption is expected to fall, the average customer bill is expected to only increase by 0.8% above the average bill in the 2018-22 AA period.[8] This is a great outcome for our customers and is one we know from the recently completed research we have undertaken, will be welcome.

Not only does our Revised AA Proposal deliberately keep bills low in the short-term, where cost-of-living pressures may be the greatest, it also protects customers from bill shocks over the longer-term and in future AA reviews. This outcome is consistent with customers' focus on the total bill (rather than unit prices) and as well as their preference for bill stability over the long-term – see section 1.3.1 for more information.

How average customer bills are expected to rise (and how prices are going to change) under our Revised AA Proposal are outlined in Figure 1.1 and Table 1.1 below. Importantly, this information shows that the average customer bill will slightly fall in the year commencing 1 July 2023, where cost-of-living pressures are expected to be high, with the larger, albeit still modest increases, delayed until later in the AA period.

Figure 1.1: Average smoothed revenue per customer ($ June 2023)



Source: AusNet

Table 1.1: Price change (% real)

	2023-24	2024-25	2025-26	2026-27	2027-28
AER Draft Decision	0%	0%	0%	0%	0%
Revised AA Proposal	0.43%	5.27%	5.27%	5.27%	5.27%
Change from Draft Decision to Revised AA Proposal (%)	0.43%	5.27%	5.27%	5.27%	5.27%

Source: AusNet Services PTRM (2024-28).

[7] AER, Gas network performance report 2022.

[8] Our proposed price reductions are subject to any changes the AER may make in its Final Decision, including any inflation updates.

1.3. Our Revised AA Proposal

1.3.1. We have listened to our customers and stakeholders

Building on the targeted engagement we brought forward due to the release of the Roadmap – which included discussions with developers of new estates, custom and volume builders, and various surveys and discussions with other stakeholders in the supply chain[9] – we have undertaken significant additional engagement.

Our additional engagement activities include:

- **A comprehensive and statistically significant survey of over 800 gas customers**. This took place in December 2022, in the midst of the current cost-of-living crisis and has provided us useful and contemporary insights into:
  - Customers' preferences for pricing over time.
  - What issues customers consider when looking at an energy bill.
- **Two meetings of the Victorian Gas Networks Stakeholder Roundtable (VGNSR) and the Retailer Reference Group (RRG):**
  - One on 10 November 2022. In that workshop we explored updates in customer sentiment, new developments (related to the Victorian election, monetary statements and safeguards), responded to stakeholder submissions on our proposals, and engaging on further engagement.
  - One on 15 December 2022 to discuss the Draft Decision, our intended response to areas where we disagreed, and revisiting some key ongoing discussions. Specific topics discussed included our customer research, gas service abolishments, demand forecasting, accelerated depreciation, rate of return and our Terms and Conditions.
- **Re-convening the Priority Service Program Advisory Panel**, with a view to re-visit the Priority Service Program and discussing some outstanding implementation issues.

This engagement has been further supported by our ongoing engagement activities, including our Customer Satisfaction (C-Sat) and Energy Sentiments research programs, our regular forums, engaging with regulators and policy-makers, and business-as-usual interactions with key stakeholders.

The comprehensive nature of the engagement we have undertaken has been fundamental to our Revised AA Proposal, and in particular our proposal for accelerated depreciation.

Further information on our customer and stakeholder engagement and our customer research is outlined in Chapter 3.

1.3.2. Our revenue forecast

In this, our Revised AA Proposal, we are forecasting revenue of $1,346 million. This is 12% ($140 million) higher than the Draft Decision.

While we have accepted the majority of the Draft Decision, there are aspects of it where we consider an alternative approach will deliver better outcomes for our customers (see section 1.1 above).

In the table below, we outline our revenue requirement under our Revised AA Proposal and how it compares to the Draft Decision.

[9] We also considered the outcomes of the research that was being carried out in parallel by AGIG.

Table 1.2: Unsmoothed Revenue Requirement ($m, nominal, unsmoothed)

	Draft Decision	Revised AA Proposal	Change
Return on Capital	587.5	558.6	-28.9
Return of Capital	217.7	364.3	146.6
Operating Expenditure[10]	370.9	370.4	-0.4
Revenue Adjustments	(2.7)	1.8	4.5
Net Tax Allowance	32.9	50.7	17.8
Unsmoothed Revenue Requirement	**1,206.3**	**1,345.9**	**139.6**

Source: AusNet Services PTRM (2024-28). Excluding Ancillary Reference Services

1.4. Conclusion

Our Revised AA Proposal better protects the long-term interests of our customers by meeting the immediate needs of the network, including providing efficient gas services in a prudent, safe and reliable manner, while also keeping the distribution component of the bill low.

In an uncertain environment, where there are significant cost-of-living pressures, we have carefully balanced the concerns raised by stakeholders, including those we engaged with following the release of the Roadmap, against the stranding risk we face. This risk continues to increase with, for example, recent Federal Government announcements of further support for low-income households to electrify.

Having considered the Draft Decision and the views expressed by our customers and stakeholders, we have accepted the majority of the Draft Decision. However, we have identified several amendments necessary to better protect our customers over the longer-term.

A key component of our Revised AA Proposal involves us recovering our investment in the network at a faster rate. As recognised by the AER and several other stakeholders, this is the appropriate economic tool by which to address the risks we are facing. While we welcome the Draft Decision recognising this, we do not consider the AER's approach to setting our accelerated depreciation allowance reaches the right balance between short- and long-term price paths or fully recognises the increasing stranding risk on our investment. We have, therefore, maintained our alternative of $200 million.

Our Revised AA Proposal is supported by contemporary and robust customer research and engagement that we have undertaken and results in an outcome that better balances the needs of our customers over both the short and long-term and is more consistent with the NGO. Nonetheless, as we have done continually through the process, we remain committed to revisiting the balance between price rises and standing risk when new information becomes available. For example, new AEMO demand forecasts are expected to be released in early 2023, and any reduction demand will further increase unit prices (although not necessarily average bills).

We look forward to discussing our Revised AA Proposal with the AER.

[10] Excluding Ancillary Reference Services.

2. Introduction

This submission, including all supporting documents, collectively the 'Revised Access Arrangement Information', sets out our regulatory proposal for the 2024-28 AA period. That is, the AA period commencing 1 July 2023 and ending 30 June 2028.

Our Revised AA Proposal looks to help customers and other key stakeholders to understand:

- The background to our AA Proposal for the AA period commencing on 1 July 2023.
- The basis and derivation of the various elements of our AA Proposal.

All information provided in this submission is in real 2023 prices unless stated otherwise.

2.1. Context of this review

Our Revised AA Proposal has been prepared in a period 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. Nonetheless, the requirement to decarbonise is certain as the Victorian Government has legislated a long-term target for Victoria of net-zero greenhouse gas emissions by 2050 (with an election commitment to bring that forward to 2045) with interim targets for 28–33% cuts by 2025 and 45–50% cuts by 2030. While there is ongoing uncertainty regarding what part the gas sector will play in a decarbonised Australian economy, the need to prepare our network for major change is certain.

Given this uncertainty, when we first prepared our AA Proposal we:

- Drew heavily on the advice of an independent Expert Panel.[11]
- Engaged in a robust and transparent conversation with our customers on these difficult issues and, in an Australian first, we did this jointly with the other two Victorian gas networks – Australian Gas Networks (AGN) and Multinet Gas Networks (MGN).[12]
- Left the door open to different possibilities and have engaged with our customers extensively.

The uncertainty we were facing manifested itself in February 2022, where, in the final months prior to submitting our AA Proposal to the AER, the Victorian Government held a Gas Substitution Roadmap Forum. In that Forum, the Victorian Government outlined the results of some modelling that suggested a significantly more aggressive transition to electrification than we (and, therefore, our stakeholders) had considered in developing our forecasts. Unfortunately, as there were no new gas policies that the Victorian Government could share with us (and other stakeholders) at the time of preparing our AA Proposal, we prepared our forecasts based on the evidence that was available.

However, in July 2022, days after we had submitted our AA Proposal to the AER, the Victorian Government released the Gas Substitution Roadmap (the Roadmap).[13] The Roadmap sets out the Victorian Government's long-term plans to decarbonise the gas supply industry in Victoria. It describes how a combination of energy efficiency, electrification, hydrogen and biogas will be used to cut carbon emissions while keeping bills down. In the near to medium term, the Roadmap promotes electrification of existing and new housing as the primary method of abatement in the sector. Longer-term investments are made in developing renewable gas options for the later

[11] More information is available at: https://www.aer.gov.au/system/files/ASG%20%E2%80%93%20GAAR%20%E2%80%93%20Appendix%201%20%E2%80%93%20KPMG%2C%20Future%20of%20gas%20report%20%E2%80%93%20October%202021%20%E2%80%93%20PUBLIC.pdf (accessed 09/01/2023).
[12] Our approach to engagement recently won the 2022 Energy Networks Industry Consumer Engagement Award. This award recognises an Australian energy network that demonstrates best practice consumer engagement. Further information on this is available at: https://www.energynetworks.com.au/news/media-releases/2022-media-releases/2022-consumer-engagement-award-winners-announced/ (accessed 10/10/2022).
[13] This is available at: https://www.energy.vic.gov.au/renewable-energy/victorias-gas-substitution-roadmap (accessed 14/12/2022).

decarbonisation of hard to abate sectors in industry also providing additional optionality for renewable domestic energy solutions.

Collectively, the policies outlined in the Roadmap materially affected the forecast demand for gas relative to the assumptions that underpinned our initial AA Proposal through increasing the incentives to swap gas appliances for electric appliances in existing homes and making it more unattractive to connect to gas or install a full suite of gas appliances in new homes.

Therefore, in consultation with the AER and stakeholders, we agreed that an amendment to our AA Proposal as early in the review process as possible was appropriate. By placing our revised forecasts, modelling and assumptions on record, we considered that stakeholder engagement would be undertaken on a solid factual basis.

Following effective, targeted engagement we proposed several material changes to our AA Proposal:

- Energy demand and customer forecasts were cut.
- Gross and net new connections capex was reduced, and associated customer contributions increased.
- Accelerated depreciation was increased to account for potential higher inflation forecasts and increased stranding risk.
- Tariffs increased as costs were shared amongst a smaller customer base and lower energy demand.

As per our AA Proposal, in our AA Addendum we carefully balanced the adjustments made to account for the increased stranding risk with the importance of maintaining affordability over both the short and longer-term.

Our AA Addendum resulted in a small real price increase for customers of around 5.5% on average over the AA period. Importantly, as per customer consumption was forecast to continue to fall, we outlined that the average customer bill in the next AA period would be 2% lower than the current period in real terms and that we would remain the lowest cost distribution network in Victoria.

The AER subsequently considered our AA Proposal and AA Addendum (together with stakeholder responses to our documents) and on 9 December 2022 released its Draft Decision.

More recently, the Victorian Government has been re-elected on a household electrification platform, as set out in the Roadmap, and higher renewable generation targets. The Federal Government has also announced that next year's federal budget will include funding for an electrification package targeted at low-income people and renters to help households transition from gas to electric appliances. Both these developments have added further certainty that electrification of household load will be the preferred pathway for decarbonisation in the short to medium term.

2.2. Structure of this document

The remainder of this document is structured as follows:

- Chapter 3 outlines our approach to customer and stakeholder engagement, including the engagement we undertook following submission of our AA Addendum to the AER.
- Chapter 4 outlines the different components of our Revised AA Proposal, most notably those aspects of the Draft Decision we have accepted and those that we have not.
- Chapter 5 provides key information on various aspects of our Revised AA Proposal that were not considered in Chapter 4. This information is provided for completeness and ease of reference.

3. Customer and stakeholder engagement

3.1. Key points

- Following the submission of our AA Proposal and the release of the Roadmap, we brought forward much of our expected engagement and undertook a targeted engagement program to capture the views from (amongst others) developers of new estates, new homes built by custom and volume builders, Australian Gas Industry Group's (AGIG) concurrent engagement, the Energy Sentiments Survey and other stakeholders in the supply chain.
- We have continued our engagement with the VGNSR and the RRG since the submission of our AA Proposal. Issues explored in these sessions included our customer research, gas service abolishments, demand forecasting, accelerated depreciation, rate of return, our Terms and Conditions, updates in customer sentiment, new industry developments (related to the Victorian election, monetary statements and safeguards), responding to stakeholder submissions on our AA Proposal, and preferences for further engagement.
- We have continued our engagement with the Priority Service Program Advisory Panel, revisiting the structure and inclusions of the program as well as how best to implement it.
- We have undertaken a robust (statistically significant) survey of over 800 energy users to better understand their preferences on bills, prices and what they consider when looking at their energy bill. This research has given us great contemporary insight into different customer cohorts. The messages we have taken from this research are clear:
    - Customers tend not to engage deeply with their gas bills and are heavily focussed on the overall bill total. In contrast, the supply charge and price per megajoule (MJ) receive very little attention. Therefore, when customers consider affordability issues, it is through consideration of the total bill, not the unit price.
    - Customers across all demographic breakdowns care about bill predictability and prefer bill predictability over short-term price relief in response to cost-of-living pressures if cost recovery is simply pushed to a later period.
    - Customers think that cost-of-living and financial pressures make it even more important for bills to be predictable over time, so that people can budget for it.
    - There is a clear preference for the customer choosing to disconnect from the gas network to pay for the supply abolishment. This trend changes when a customer is looking to disconnect, in which case they consider the government should pay (as they feel they are responding to Government policy). There is very little support for, and very considerable opposition to, the cost of disconnections being socialised across customers remaining on the network once a customer has disconnected.

3.2. Stakeholder feedback and how we have responded

3.2.1. Strong feedback on the need to consider the changing operating environment and customers' circumstances

Our AA Proposal and AA Addendum was heavily informed by and consistent with the extensive customer research and engagement we undertook on prices and bills. Nonetheless, throughout our engagement processes in 2022, it was apparent that stakeholder representatives in the VGNSR and RRG were becoming increasingly concerned

about the overall state of Australian energy markets given the geopolitical destabilisation caused by the war in Ukraine and rising energy prices flowing into the cost of living and costs of production.

In coming to its alternative judgement on prices, used as a placeholder for the Draft Decision, the AER noted these concerns and the fact customer preferences had not been tested in the latter half of 2022, when cost-of-living concerns had become more acute.

Responding to these concerns, we updated and validated the initial customer preference research we undertook in 2021 and early 2022, and this update has formed the basis of the customer engagement and research undertaken for our Revised AA Proposal.

3.2.2. Stakeholder submissions to the AER on our proposal

The AER received a total 14 submissions on our AA Proposal and AA Addendum (noting that some organisations submitted more than one). Several key themes emerged in the feedback. These themes and our responses to them are detailed below. This summary and how we have responded has also been shared with the VGNSR and RRG groups at meetings in November and December 2022.

Table 3.1: Stakeholder and customer feedback and how we have responded to it

Key aspect of our proposal	What we heard	How we've responded
Opex	Some stakeholders challenged productivity of zero.	While the AER accepted our total opex proposal, given the lower demand forecasts in the draft 2023 GSOO, productivity has likely fallen further since we submitted our AA Addendum. Consequently, the Draft Decision's use of an average productivity level of 0.2% per annum should be considered as the upper limit, with the actual levels likely to be lower. No changes to our proposed opex, including with respect to productivity, has been included in this Revised AA Proposal.
	While there was strong support for the proposed Priority Services Program in concept, many submissions did not support networks having funding for this program approved.	While awaiting the Draft Decision, we re-convened the Priority Service Program Advisory Panel to discuss submissions on our AA Proposal. The aim was to talk conceptually about how additional funding (regardless of where it comes from) is best-spent to support customers experiencing vulnerability. Given that our opex proposal was largely accepted in the Draft Decision, recognising that the major difference related to how Energy Safe Victoria (ESV) levies are to be recovered, and we are not challenging that decision, we are now focusing on the detailed design of this program, with a view to implementing it soon after the new AA period starts. We will continue engaging with the social services sector during this detailed design and implementation stage. No changes to the Priority Service Program are included in this Revised AA Proposal.

Capex	Stakeholders stressed mains replacement should only be undertaken for safety reasons, with some asking the AER to review mains replacement for safety drivers and ESV support.	Mains replacement is clearly tied to safety drivers, and AusNet provided detail on the safety risks driving this program to the AER. In the Draft Decision, the AER accepted our proposed mains replacement expenditure is justified on the grounds that it is necessary to maintain and improve the safety and integrity of services. No change to our mains replacement program is included in this Revised AA Proposal.
	Many stakeholders noted uncertainty of the Roadmap impacts demand and new connections. Some stakeholders queried whether the application of the Roadmap reductions should also see reduced expenditure in other areas, and some asked for wind-down plans.	Capex forecasts and demand forecasts were significantly revised in response to the Roadmap. We put a lot of weight on independent forecasts – particularly AEMO's GSOO – and, while we have not updated for the draft 2023 GSOO (given the lack of underlying data), we expect the AER will update for this in its Final Decision. It is important to note that even AEMO's more pessimistic forecasts still assume gas will still be needed for some time. That we continue to operate the network safely while our networks are in service is, therefore, essential and this necessitates that we continue to invest in network maintenance. We are nonetheless seeking to de-risk the network and help facilitate a smooth transition to electrification if and when this eventuates. We are doing this by seeking accelerated depreciation, which is also key to ensuring bill predictability over time. Should it be necessary – and we see no policy or customer behaviour-driven reasons to believe that it is – to facilitate any physical wind-down of our systems, we can be fairly flexible on the timing and speed of this, with the caveat that affordability may be impacted.
Accelerated depreciation	Stakeholders recognise the energy landscape is changing, and there is a need to respond. Some were variously: • Supportive of our accelerated depreciation proposals, particularly the extent and level of detail of our engagement. • Requiring more certainty as to the future of gas networks before supporting accelerated depreciation. • Proposing government rather than customers fund accelerated depreciation. • Suggesting networks bear some cost	Stakeholders had mixed views on accelerated depreciation. Our position looks to find an appropriate balance between the interests of our consumers in both the short and long term – and is essential if we are to meet customers' preference for bill predictability and price-smoothing over time. The Draft Decision has accepted accelerated depreciation as the right tool to address current risks, although we disagree that the AER has achieved the balance of short- and longer-term bill impacts right, and are arguing in this Revised AA Proposal that the Draft Decision does not deliver in

	of stranded assets.	customers' long-term interests and is inconsistent with the NGO.
Demand	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 GSOO (Draft released in December 2022, Final expected March 2023).	We note the views that demand could drop faster than forecast. We agree there is some uncertainty around how much and how quickly the Roadmap will impact demand, and have used the best information available to inform our forecasts. Our demand forecasts are the best that we can produce in the face of considerable uncertainty. We expect the AER will update our demand forecast in its Final Decision following the release of the 2023 GSOO.
Prices	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.	There is very strong evidence that customers want price stability over time. We support this finding and our plans to achieve this are explored through-out this Revised AA Proposal. We suggest 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) and propose to keep this arrangement.
Gas service abolishments	Agreement from some stakeholders that gas service abolishment fees are required. Some stakeholders suggested the need for alternative/cheaper options for customers. Some stakeholders are not supportive of gas service abolishment fees, seeing them as a barrier to moving away from gas.	There are ongoing discussions with the Victorian government, retailers and the Victorian safety regulator (ESV) on the appropriate option/s for gas service abolishments from a safety perspective. Likewise, conversations continue about how costs are recovered, noting the challenges for retailers in recovering fees under the current model. We are proposing a causer-pays model but will continue to work on a mechanism for charging for this that is suitable for all. Cost-reflective recovery is strongly supported by customers. We feel removing the requirement that the customer/retailer pay for this service would result in some perverse incentives that would need to be mitigated. In addition to proposing a causer-pays model, we are proposing a new cost pass through event to apply in situations where small customer abolishment charges cannot be recovered. We will also assess the learnings from other jurisdictions and consider whether any alternative approaches can be implemented to reduce the risk that retailers are left with unrecovered costs.

Terms and Conditions	Some retailers continue to push for reforming credit support arrangements.	Following further stakeholder engagement, we are proposing to update our credit support requirements to align with Part 21 of the National Gas Rules (NGR)[14] and ensure it is clear that no materiality threshold applies in respect of a Retailer Insolvency Event.

Source: AusNet

3.3. Post-Roadmap engagement

As outlined in our AA Addendum, following the release of the Roadmap, we sought to understand the Roadmap's impact on gas reticulation and gas connections, and validate our interpretation of what this meant for our proposal.[15] The key engagement undertaken to inform the AA Addendum is set out below.

3.3.1. Engagement with the property sector

We brought forward much of our planned engagement by undertaking targeted engagement of three key groups of decision-makers who influence the future growth of gas connections and demand on our network, namely:

- Developers of new estates (and their consultants) who account for 89% of new homes connecting to our network.
- Volume builders, which account for the majority of connections to our network and almost all new homes in estates.
- Custom builders, including in-fill, knock down/rebuilds and renovations, which account for 11% of connections.

Home buyers/owners are also key decision-makers on gas connections and appliance selection and disconnections. So we also obtained the views of end-use customers and home buyers via our Energy Sentiments Survey, the research commissioned by the Victorian Government to inform the Roadmap (which is cited in the Roadmap and is publicly available) and other stakeholders in the supply chain who shared insights into key trends and how customers are thinking and feeling. Furthermore, we held two combined VGNSR/RRG meetings to discuss (amongst other issues) the Roadmap, engagement, regulatory timetable and demand modelling.

Importantly, we shared all the intelligence we gathered with AGIG, who was undertaking its own evidence gathering, throughout the preparation of the AA Addendum.

In response to the outcomes of our engagement, our AA Addendum proposed several amendments to our AA Proposal, namely that:

- Energy demand and customer forecasts fall.
- Gross and net new connections capex is reduced, and associated customer contributions rise.
- Accelerated depreciation was increased to account for potential higher inflation forecasts and increased stranding risk.
- Tariffs were increased as costs are shared amongst a smaller customer base and lower energy demand.

For further information on this engagement and/or the amendments we proposed at this stage of the process, please refer to our (publicly available) AA Addendum.

[14] Part 21 of the NGR deals with retail support obligations between distributors and retailers. The NGR is available at: https://energy-rules.aemc.gov.au/ngr/439 (accessed 09/01/2023).
[15] The AA Addendum is available on the AER's website: https://www.aer.gov.au/system/files/ASG%20-%20Gas%20Access%20Arrangement%20review%202024-28%20-%20Addendum%20to%20proposal%20-%202%20September%202022%20-%20PUBLIC.pdf (accessed 11/10/2022).

3.3.2. VGNSR / RRG engagement

Between the release of the Roadmap and submitting our AA Addendum, we held two combined VGNSR/RRG meetings. The details of these meetings are below:

- **VGNSR/RRG Meeting #11 – Wednesday 10 August 2022**

  This meeting focussed on:

  - Updating stakeholders on the new regulatory timeframes (allowing for the preparation and submission of the AA Addendum reflecting the Roadmap initiatives).
  - Testing our interpretation of the Roadmap and its key policies.
  - Seeking feedback on our approach to engaging with key industry sectors and gathering evidence to support the AA Addendum.

- **Post-Lodgement Deep Dive #1 on Demand Modelling – Friday 26 August 2022**

  The purpose of this meeting was to "deep dive" into our demand modelling. This deep dive was discussed with the VGNSR and RRG prior to the submission of our AA Proposals in June, and was used to share and test:

  - Our evidence-gathering activities, and how we have used this evidence to inform assumptions in the demand models.
  - Our approach to updating our demand models following the release of the Roadmap.
  - Our approach to modelling new Future of Gas accelerated depreciation scenarios.
  - The positions we would be including in the AA Addendum to our proposal.

The slide packs and minutes from these sessions are available on the Gas Matters website.[16]

3.3.3. AER Public Forum

On 20 September 2022, we actively participated in the AER's public forum, which involved:

- Sharing the impact of the Roadmap on our proposals.
- Participating in a panel discussion with the AER's Consumer Challenge Panel that involved a live 'Questions and Answers' on our proposal.
- Answering questions from forum attendees.

Materials from the Public Forum are available on the AER's website.

3.4. Revised Proposal engagement

Following submission of our AA Addendum to the AER we have continued our customer engagement through:

- A comprehensive and statistically significant survey of over 800 gas customers (section 3.4.1).
- Two meetings of the VGNSR and the RRG (section 3.4.2).
- Re-convening the Priority Service Program Advisory Panel (section 3.4.3).

This engagement has been supported by our ongoing engagement activities, including our Customer Satisfaction (C-Sat) and Energy Sentiments research programs, our regular forums, engaging with regulators and policy-makers, and business-as-usual interactions with key stakeholders.

The comprehensive nature of the engagement we undertook has been fundamental to our Revised AA Proposal development, and in particular our proposal for accelerated depreciation. Indeed, our additional stakeholder and customer engagement has helped us clarify the importance of having bills that are relative smooth and stable over time and the importance that customers place on their final gas bill (compared to gas unit prices).

[16] Gas matters website can be accessed via: https://gasmatters.agig.com.au/victorian-engagement-plan (accessed 20/12/2022).

3.4.1. A comprehensive and statistically significant customer survey

In December 2022, we undertook a customer survey to:

- Stress-test key findings from earlier customer workshops, particularly on how costs are spread over time.
- Understand customer preference for how gas service abolishment charges are recovered.
- Understand how gas customers interact with their gas bills, and which component/s of the bill they are most interested in.

We determined that a customer survey was the most appropriate methodology for this study, given we knew exactly what we wanted to test with customers, with the more nuanced matters having already been addressed in customer workshops.

We also knew how important the statistical validity of this data was, and that it was important to understand any differences in responses across groups – particularly those households and individuals with markers that may represent additional complexities or vulnerabilities, and those who have less agency regarding energy consumption and choices.

Our customer survey took place in December 2022, in the midst of the current cost-of-living crisis and discussions around gas prices, and has provided us useful and contemporary insights into customers' preferences for pricing over time and what issues customers consider when looking at an energy bill.

813 gas customers completed our survey, including 523 AusNet gas customers and 290 customers of other networks.

Several steps were taken to ensure the robustness of the data collected, including:

- **Running statistical significance tests to ensure high confidence that the results are accurate.** These tests show results are accurate to within +/- 3 to 4% margin of error at the 95% confidence interval. The +/- 3 or 4 % depends whether the customers of other networks are included, but both are well above the best practice 5% threshold at 95% confidence level. To say the results are accurate to within +/- 3% at the 95% confidence level means that if we were to run the survey 100 times, 95 times out of 100 the data would be consistent to within +/- 3% of the results in our survey.
- Monitored fieldwork to ensure a **wide range of demographics represented.** Key demographics included in the survey and tested in the analysis are outlined in 3.5.1.

  The large sample size means these demographic breakdowns are also statistically meaningful.
- **Options and colours** in the survey were randomised wherever practical.
- Key **questions were asked in multiple ways using different phrasing** to ensure robustness.
- **Engaging a reputable third-party provider to recruit participants and manage response quality**, to ensure only valid and accurate responses were received and a diverse mix of respondents were captured in the sample.
- **A test survey on $nominal vs $real was run** with ~100 customers – half of whom were shown bill scenarios in $nominal and half of whom were shown bill scenarios in $real. All customers in the test were asked how easily they found the questions to answer. The responses from each group were near identical and tests showed no statistically significant differences in the $nominal responses versus the $real responses. The customers shown $real found the questions significantly easier to respond to, so $real bill scenarios were used for the full launch (and the $nominal responses rolled in to the overall 813).
- We know our customers use the terms **bills, cost and price interchangeably** when talking about energy bills, and we used them interchangeably throughout this survey, based on whichever flowed best from a language perspective. The selection of term has not produced any noticeable change in sentiment throughout.
- **Offering the survey copy and methodology for review and comment** to the AER and VGNSR and RRG members.

The survey results have had a considerable impact on this Revised AA Proposal. The top-line findings and a summary of how the data has been used is outlined in section 3.5 below. A copy of the survey and our analysis of the data are included as Appendix 1 and Appendix 2, respectively.

3.4.2. VGNSR/RRG meetings

On 10 November 2022, we met with the VGNSR & RRG (**Meeting #12**). Key issues explored were:

- Updates in customer sentiment.

- New developments related to the Victorian election, monetary statements and safeguards.
- Responding to stakeholder submissions on our proposals.
- Engaging on further engagement.

We also met the VGNSR & RRG on 15 December 2022 (**Meeting #13**) to engage on:

- The Draft Decision.
- Our intended response to the Draft Decision, highlighting areas where we disagreed with it.
- Our customer research.
- Gas service abolishments.
- Demand forecasting.
- Accelerated depreciation.
- Rate of return.
- Terms and Conditions.

Minutes and the slide packs associated with both these meetings (and previous meetings) are available on the Gas Matters website.

3.4.3. Priority Service Program Advisory Panel

On 17 November 2022, AusNet and AGIG met with the Priority Service Program Advisory Panel to:

- Provide an update on what we included in our AA Proposal.
- Discuss the current state-of-play in the social service sector, and how the impacts of the cost-of-living crisis and other energy concerns are flowing through to Advisory Panel members' customers and constituents.
- Re-test the key features of the Priority Service Program, including the program principles and inclusions.
- Discuss key implementation considerations, including:
  - Access to the program and the concept of "registration".
  - Managing sensitive customer data.
  - Ensuring support reaches those who need it, who should be the judge of whether someone should qualify for the support, and whether there is a concern (and how big that concern might be) of that the extra support might be exploited by those who do not need it.
  - Feedback on the allocations of resourcing to various initiatives in our proposals, and how we keep these flexible over time.
  - Next steps, and the importance of keeping these conversations going as we move into the detailed design and implementation of providing additional supports for customers who need it.

Materials associated with this meeting (and previous meetings of the Advisory Panel) are available on the Gas Matters website.

3.4.4. How we have used the evidence we have collected

Following our comprehensive engagement, we have proposed several amendments to the Draft Decision.

In particular, as we did not consider the AER's placeholder approach to setting our accelerated depreciation allowance reached the right balance between short- and long-term price paths or fully recognised the increasing stranding risk on our investment, we have proposed an alternative amount of accelerated depreciation ($200 million). This amount of accelerated depreciation better protects all our customers, including those that are experiencing vulnerability, over the long-run and is more consistent with our customers' preferences and the NGO.

We have also maintained our approach as to how the costs associated with gas service abolishment should be recovered (with some minor changes). While we will continue to look for an alternative approach that works for all parties, our decision to maintain our approach reflects a strong preference for the household requesting the disconnection paying for that service.

Further information on our rationale for these and other amendments is outlined below and in Chapter 4.

3.5. Customers' views on key topics

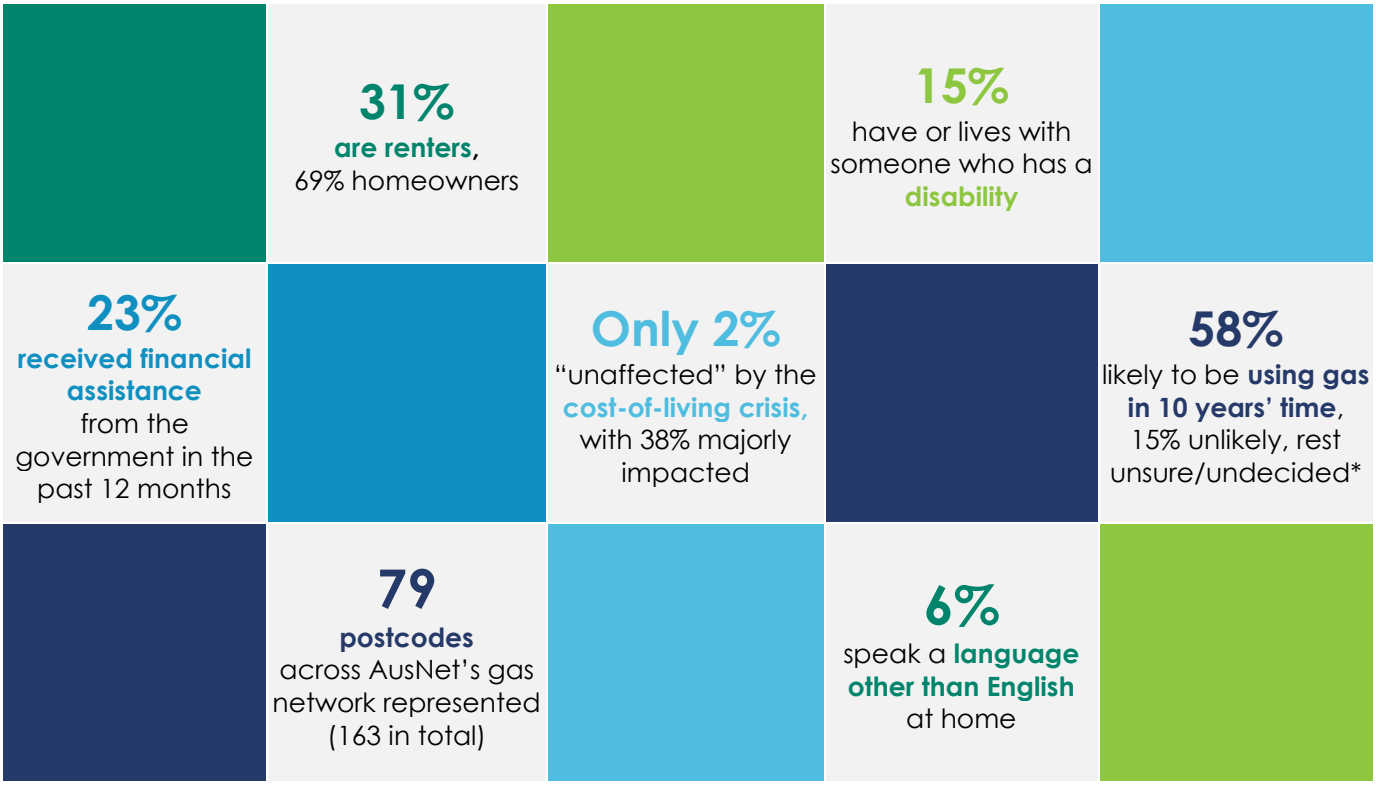
The key findings from our customer survey are detailed below. AusNet's customer survey – for which the methodology is outlined in 3.4.1 – collected statistically robust data on a range of topics. The key findings, which are referred to throughout the remainder of this Revised AA Proposal, are detailed below. While some of the questions discussed below have been abridged for brevity, a copy of the survey is available at Appendix 1.

Participants were asked a range of questions that looked to better understand their preferences with respect to prices and bills over both a 5 and 10- year period. We also asked several questions regarding the information that customers typically look at when they receive their bills, and on their preferences for charging for gas abolishments.

3.5.1. Demographic groups represented in the research

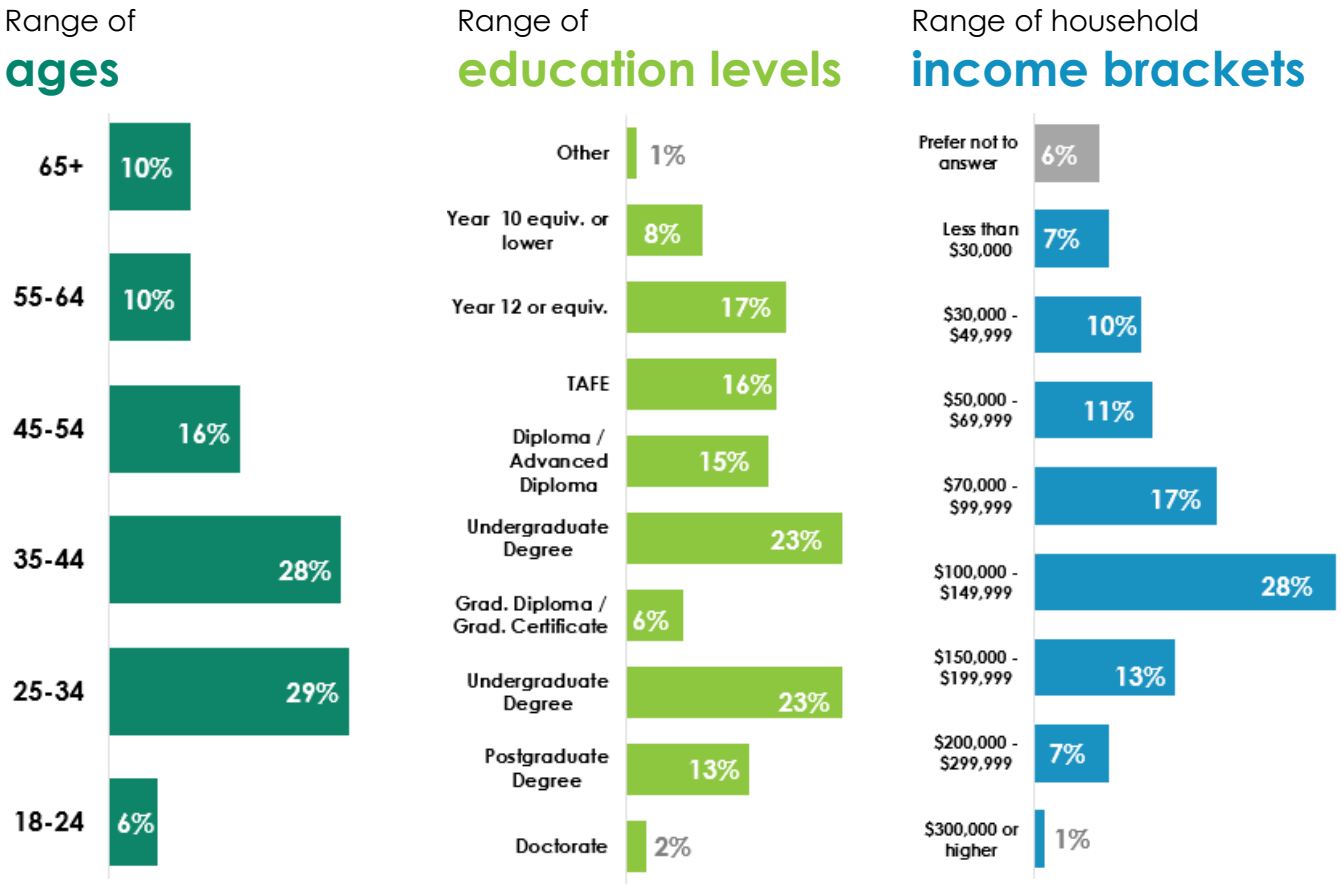
A broad spread across demographic groups were present in the respondent sample. Survey respondents have been broken down by the various demographic indicators measured below, which include a number of markers of potential vulnerability.

Figure 3.1: Demographic groups



** The results of this survey show some inconsistent results to those collected in the Spring wave of AusNet's Energy Sentiments survey, but are still consistent with a gradual increase in the proportion of customers intending to leave the gas network over time. Further commentary on this point is included in Appendix 2.*

Figure 3.2: Demographic groups – ages, education and income brackets



3.5.2. Bill interactions

We asked several questions about customers' interactions with their gas bills. The key findings are that:

- Most customers take a "light touch" approach when engaging with their gas bills, tending to spend a considerable amount of time engaging with the total cost of their bill, and a much smaller amount of time on a range of other aspects. While some groups with markers of vulnerability variously spend more time engaging with the bill and/or engaging more deeply with the detail, there was no evidence to suggest that customers who are more impacted by the cost-of-living crisis are more interested in the detailed breakdown of the bill and our pricing.
- Gas "prices" – the supply charge per day and usage charge per MJ – are among the least-looked at components of gas bills, and have the least time spent on them.

Of all the collective time our 813 respondents spent looking at a gas bill when they receive it, 54% of that total time was spent engaging with the total bill. Two in three customers (65%) spend more than half of their engagement time looking at the total cost of the bill.

Two in three customers do not look at the supply charges (65% do not look) or usage charges (67% do not look) at all, and of those who did, the time spent engaging with this level of detail is very small with an average 4% and 3% respectively of total time across the 813 respondents.

Data breakdowns and statistical significance testing revealed:

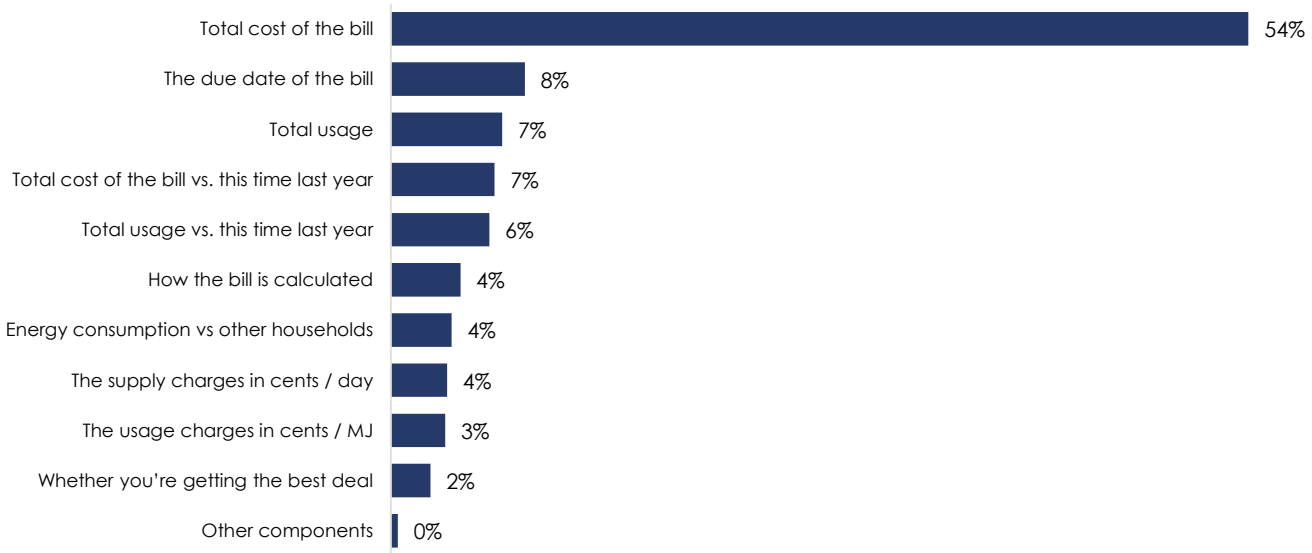
- There is a statistically significant variation between time spent engaging with the bill and age (time spent engaging increases with age), and those who spend more time engaging with the bill are more likely to speak a language other than English at home, have someone in the household with a disability and/or have someone in the household who has recently received government financial assistance. There was no significant variation in time spent reading the bill within other demographic breakdowns

- Those who received financial assistance spent a higher proportion of their time looking beyond the bill total (51% compared to the 46% average), but those who were most affected by the rising costs of living spent less looking beyond the bill total than their less-affected counterparts. There were some minor variations by age and education level but no significant variation among all other demographic groups.

This data, combined with substantial qualitative evidence to support this interpretation, strongly suggests that the overall cost of energy bills matters much more to customers than prices, and that when considering "the cost of gas", that they are referring to the cost of their bill rather than the price. That is, when customers consider affordability, they think in terms of the total bill not the unit price.

Figure 3.3: Proportion of time customers spend looking at different bill elements

Graph shows an average of the answers to the question "When looking at your gas bill, which components do you pay most attention to? If your total time spent looking at your bill is 100%, please allocate this time to different activities."



3.5.3. Pricing preferences

We asked several questions on customers' sentiment toward cost spreading over time. The key takeaway from customers' responses to this set of questions is that:

- Customers care about bill predictability and smoothness over time, and those who are impacted by the cost-of-living crisis even more so.
- Customers' preference long-term price stability over short-term price relief if short-term price relief means pushing costs to a later time.
- These trends hold across all demographic groups, including the key indicators of vulnerability tested. Further evidence indicates that bill predictability over time becomes more important when customers are struggling to afford their bills, as forecasting bills accurately is important for managing household budgets.

We explore these issues in more detail below.

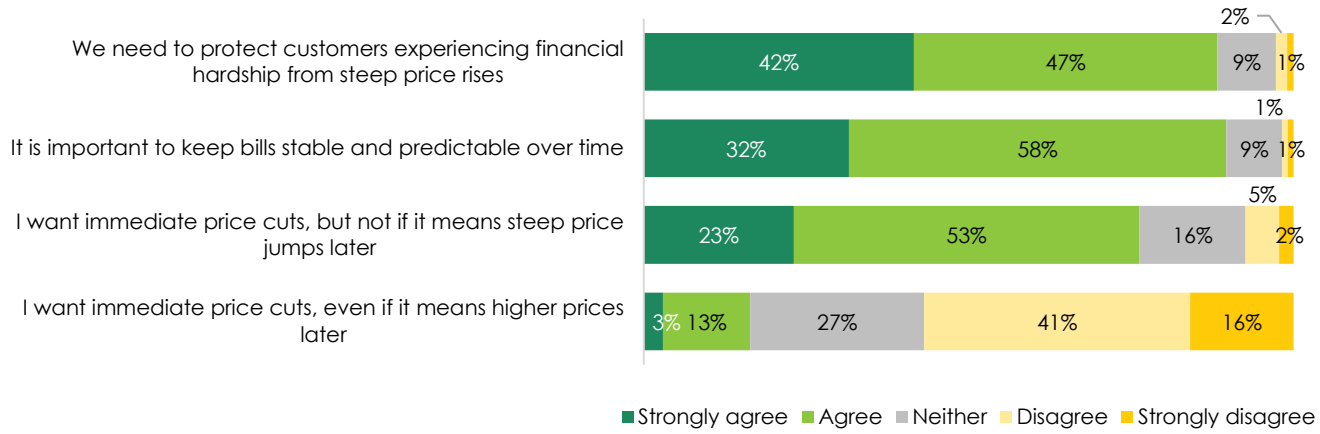
3.5.3.1. High-level sentiment on pricing considerations

We asked a set of overarching statements to understand customers' high-level perspectives on pricing. This served as a check on whether customers views on pricing were consistent across both gut-instinct reactions (as tested in this question) and when thinking more deeply about different pricing options (discussed in 3.5.3.2 and 3.5.3.3). Importantly, statements were randomised for each respondent.

There was very strong agreement on the need to protect customers experiencing financial hardship from steep price rises, that it is important to keep bills stable and predictable over time, and that customers do not want immediate price cuts if it means steep price rises later (and strong disagreement with the inverse of that question). The results of this question are show in Figure 3.4 below.

Figure 3.4: Overall sentiments

Graph shows responses to the question *"To what extent do you agree with the following statements?"*



Interestingly, there is a strong correlation between the importance customers place on keeping bills stable and predictable over time, and their self-rating assessment of the impact of cost-of-living on their household. Households that had felt major impact of the cost-of living crisis were significantly more likely to agree with the statements:

- "We need to protect customers experiencing financial hardship from steep price rises" – 92% agree and 2% disagree).
- "It is important to keep bills stable and predictable over time" – 92% agree and 2% disagree.
- "I want immediate price cuts, but not if it means steep price jumps later" – 80% agree, 6% disagree.

Those who reported feeling no impact from the cost-of-living crisis gave scores considerably lower, with agreement across these three statements between 39% and 18% their majorly-affect counterparts.

This question set – designed to test gut reaction to pricing considerations – shows strong evidence that long-term price and bill stability is important across the customer base, but particularly for those impacted by the cost-of-living crisis.

3.5.3.2. 10-year bill scenarios

We asked customers to rank four bill scenarios from most- to least-preferred over each of:

- a 10-year time scale, and
- a 5-year time scale.

The purpose of the 10-year scenarios question was to understand customers' preferences for spreading bill charges in the medium- to long-term. This question set compared bill paths associated with four different "pairs" of accelerated depreciation, spread over the upcoming AA period (simplified to 2023 to 2027) and the following one (2028 to 2033). The colours allocated were randomly selected, and options were randomised for each respondent. Customers were asked to rank the four options from most preferred (1) to least preferred (4).

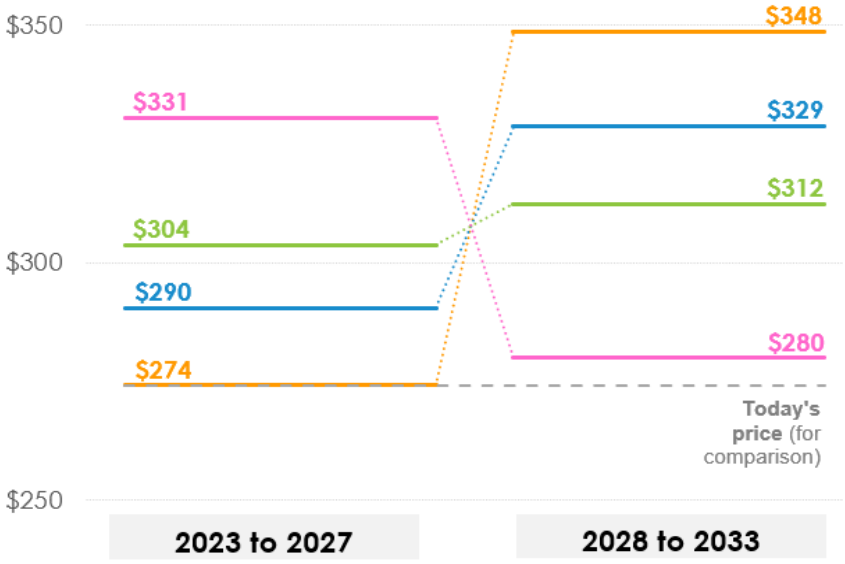
The modelling for these bill scenarios made the following assumptions:

- All scenarios have a total of $400 million of accelerated depreciation over the 10 years. They differ in how much accelerated depreciation is in each 5-year period. This gives a consistent way to look at the price impact and each scenario leaves AusNet and customers in the same position at the end of the 10-year period. We consider $400 million is a credible forecast of total accelerated depreciation over this period as that stranding risk will remain (and likely increase) in subsequent AA periods. As such, the need to reduce the asset base in future AA periods will likely increase (particularly if sufficient action is not taken in this AA period).
- Capex, opex and demand for the 2023-28 AA period are consistent with our proposal and flat thereafter.

The scenarios tested, with the accelerated depreciation pairings in each of the next two AA periods, are shown in Figure 3.5 below.

Figure 3.5: 10-year bill scenarios tested with customers

Graph shows the 4 scenarios modelled and presented to customers in the 10-year bill scenario question, with explanations of the bill scenarios modelled at right.

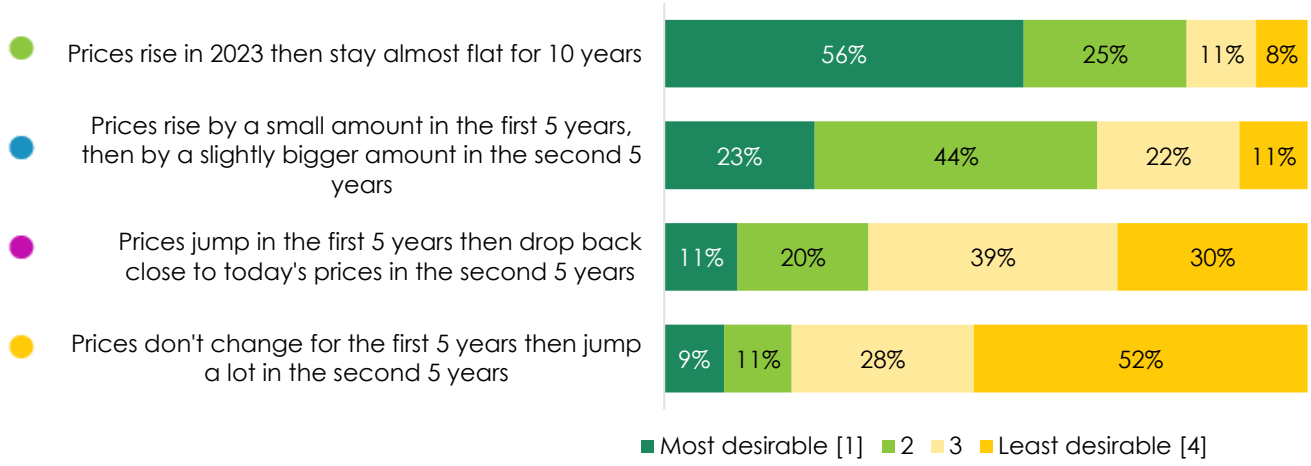


1. **$83 million + $317 million** – the Draft Decision, modelled for price freezes in the next AA period. Under this scenario, bills do not change for the first 5 years, then jump a lot in the second 5 years.
2. **$150 million + $250 million** – modelled against a more gradual increase in bills. Under this scenario, bills rise by a small amount in the first 5 years, then by a slightly bigger amount in the second 5 years.
3. **$200 million + $200 million** – AusNet's amended AA Proposal. Under this scenario, bills rise in 2023 then stay almost flat for 10 years.
4. **$300 million + $100 million** – modelled on the inverse of the Draft Decision. Under this scenario bills jump in the first 5 years then drop back to today's bills for the second 5 years.

The responses to this question (shown below in Figure 3.6) very clearly demonstrate that customers care about long-term price stability and predictability, and preference this over short-term price relief.

Figure 3.6: Customers' preferences to the 10-year bill scenarios

Graph shows responses to the question *"Please order the following pricing scenarios from most desirable (1) to least desirable (4)."*



The accelerated depreciation profile modelled on the Draft Decision was the least-preferred by a considerable margin, with more than half of all customers ranking this scenario as their least-preferred option. As well as ranking behind the two most stable options, it also ranked behind the inverse scenario tested – higher prices now but falling prices in the next AA period.

A one-off step-change increase followed by 10 years of consistent prices was the most-preferred option (and was the option proposed by us), followed by a more gradual increase in bill impacts over the 10 years.

There was a statistically significant difference in responses based on language/s spoken at home. Those who only speak English at home had a stronger preference for the green pathway as their most-preferred (59% ranked number 1) compared to those who use other languages at home (42% ranked number 1), though green remained the most-preferred pathway for both groups.

3.5.3.3. 5-year bill scenarios

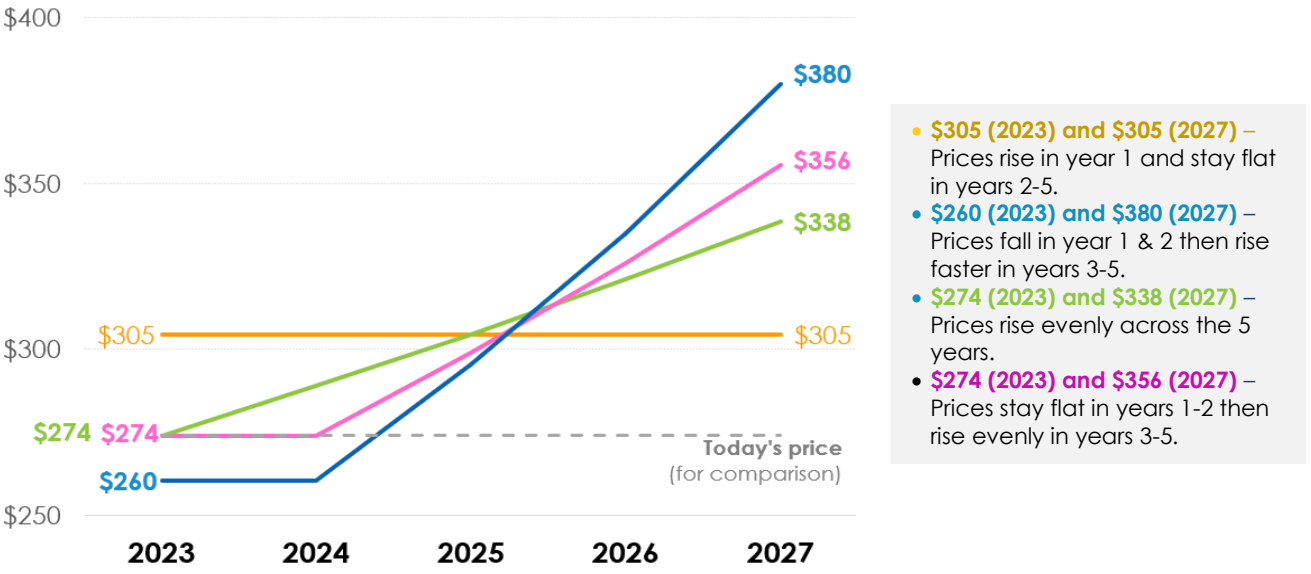
The purpose of the 5-year time-scale question was to understand customers' preferences for spreading costs over bills in the short-term (i.e., the next 5-year AA period). This 5-year question set showed four potential bill pathways, with the amounts changing with a one-year time-scale. The colours allocated were randomly selected, and options were randomised for each respondent. Customers were asked to rank the four options from most preferred (1) to least preferred (4).

All four scenarios have been modelled on a $200 million accelerated depreciation proposal in the 2023-28 AA period (i.e., our AA Addendum proposal case).

The four scenarios tested are below, with the figure shown to customers with the corresponding scenarios at right:

Figure 3.7: 5-year bill scenarios

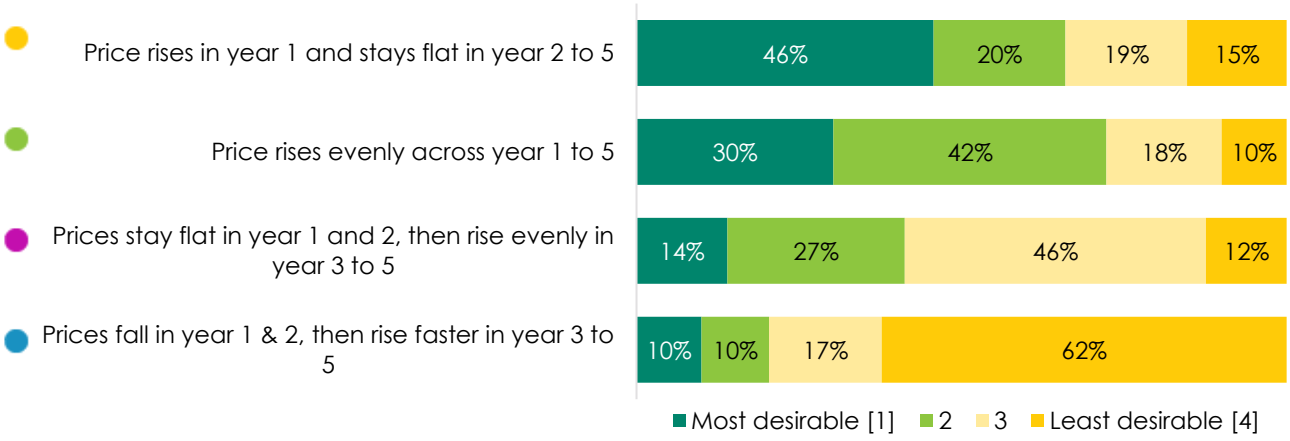
Graph shows the 4 scenarios modelled and presented to customers in the 5-year bill scenario question, with explanations of the bill scenarios modelled at right.



The responses to this question (shown in Figure 3.8 below) demonstrate that customers care about price stability and predictability over time, and preference this over short-term price relief.

Figure 3.8: Customers' preferences to the 5-year bill scenarios

Graph shows responses to the question *"Please order the following pricing scenarios from most desirable (1) to least desirable (4)."*



Almost half (46%) of customers chose the one-off step change followed by a 4-year period of stability as their preferred scenario, matching the results of the 10-year scenario preferencing exercise. Again, following the trend seen in the 10-year scenarios, the next most popular option was gradually increasing bill impacts over time at an even pace.

The least-preferred option by a significant margin was price cuts in the first two years, followed by sharper price rises. The second-least preferred was flat prices in years 1 and 2 followed by rises in years 3 to 5.

There was a statistically significant difference in responses from those who foresee themselves remaining on the gas network vs those who do not. While the step-change in year 1 and flat bills thereafter remained the preferred option for both groups, it was ranked as most desirable by a higher proportion of customers likely to stay on the network (47% ranked this scenario most desirable) than those who thought it unlikely they would still be on the network in 10 years' time (32% ranked this scenario most desirable).

There were some variations in preference by dwelling type in preference rankings at the 2-4 level, and no significant difference in the responses by all other demographic breakdowns.

3.5.4. Gas service abolishments

They survey tested customers' views on how the cost of gas service abolishment ($850 each) should be recovered. Customers were presented with three options and, like the pricing scenarios, asked to rank them from most desirable (1) to least desirable (3).

The three options were:

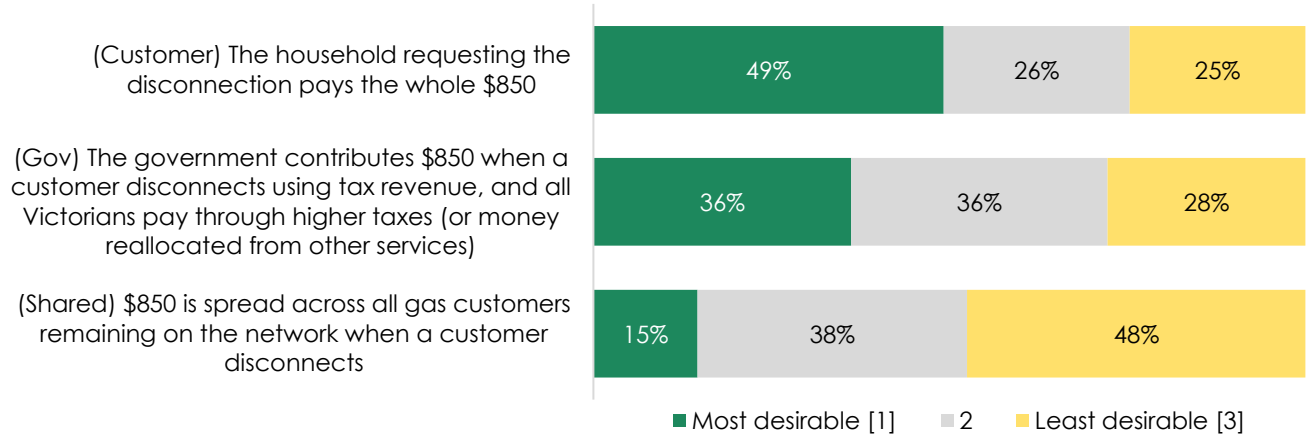
- The customer requesting the disconnection pays for it
- The government subsiding the disconnection, and
- The disconnection cost is socialised across remaining gas customers.

There was a strong preference for the household requesting the disconnection paying the whole cost, which is the most-desirable option for half (49%) of respondents. The government contributing is second-most popular with just over a third (36%) of respondents viewing this option as most-desirable. The least desirable option was socialisation of the disconnection charges across the customers remaining on the network, with half (48%) ranking it as least-desirable and only 15% ranking it most-desirable.

Some strong themes emerged in the verbatim comments that followed this question. Many customers think that if a household makes the choice to disconnect, that they should be the one to pay for it. Of those who thought the government should pay, customers tended to suggest that a) if households are disconnecting because the government is encouraging them to do so, that the government should be paying for this, or b) that the cost is considerable so the government should help.

Figure 3.9: Customers' preferences on how gas service abolishments are paid for

Graph shows responses to the question *"Please order the following pricing scenarios from most desirable (1) to least desirable (4)."*



There were some statistically significant variations in the desirability ranking between demographic groups.

The most notable variation in trends appeared in the breakdown by intention to be using gas in 10 years' time. Respondents who do not foresee themselves using gas in 10 years' time were, unsurprisingly, less enthusiastic about the disconnecting customer paying the whole $850, with just under a third (31%) ranking this as their most-preferred scenario, and just over half (52%) preferencing a government-pays model.

Those who speak only English at home were more likely to rank the customer disconnecting pays model (52%) as the most desirable option, but those who speak a language other than English tended to prefer the government socialisation model with 45% ranking this as the most desirable scenario.

3.5.5. How we are using this customer research

Following the evidence we obtained from this additional customer research, we have proposed several refinements to the Draft Decision in this, our Revised AA Proposal. In particular, we have:

- Proposed $200 million of accelerated depreciation as this better meets customer preferences for flat long-term bills, provides better protection for vulnerable customers and is more consistent with the NGO.
- Retained our approach to gas service abolishment charges and are proposing that it be retained as an ancillary reference service. This means we have not proposed that these costs be socialised (except in cases of non-recovery).
- Clarified that no materiality threshold applies in respect of a Retailer Insolvency Event by stating this explicitly.
- Given the cost-of-living pressures currently being experienced, carefully considered the optimal price path of our Revised AA Proposal.

We consider our Revised AA Proposal better reflects the views and preferences of all our customers and is more consistent with the NGO.

Further information on our rationale for the changes we have proposed is outlined in Chapter 4.

3.6. Supporting documents

The following document is provided in support of this chapter:

- ASG – GAAR 2024-28 – Appendix 1 – Pricing Survey Questions – 24 January 2023 – PUBLIC
- ASG – GAAR 2024-28 – Appendix 2 – Pricing Survey Results – 24 January 2023 – PUBLIC

Slide packs and minutes for meetings of the VGNSR, RRG and Priority Service Program Advisory Panel are also available on the Gas Matters website.

4. Our Revised Proposal

4.1. Key points

- We are proposing revenue of $1,346 million, which is 12% ($140 million) higher than that outlined in the Draft Decision.
- We have accepted the Draft Decision for capex, opex and the incentive schemes.
- We have accepted the Draft Decision on the demand forecast and have accepted the AER's position that this forecast should be revised upon the release of AEMO's 2023 GSOO. However, with the 2023 GSOO expected in March 2023, we consider the AER's Final Decision is the appropriate place for this information to be captured, noting we intend to provide a submission to the AER on this issue following the GSOO's release.
- While we welcome the Draft Decision accepting our approach to accelerated depreciation and the Future of Gas modelling, we do not consider the AER's placeholder approach to setting our accelerated depreciation reaches the right balance between short- and long-term price paths or fully recognises the increasing stranding risk on our investment.
- We have not accepted the targeting of a real price path of 0% per annum to determine the amount of accelerated depreciation allowed. Following significant post Draft Decision engagement, we are proposing $200 million in accelerated depreciation. This amount of accelerated depreciation better meets customer preferences for flat long-term bills, provides better protection for vulnerable customers and is more consistent with the NGO.
- We have accepted the AER's suggestion for additional engagement on specific aspects of our Terms and Conditions. Following the successful completion of that engagement, we have made several amendments to our gas service abolishment arrangements and have clarified our approach to credit support and retail insolvency. We consider these amendments will be welcomed by stakeholders and the AER should be able to accept them in its Final Decision.
- We have proposed a new cost pass through event for unrecovered gas service abolishment charges.
- We are proposing that the yet-to-be-finalised Federal Government safeguard mechanism is managed through amendments to the tariff control formula. This is a simple and pragmatic approach to an issue where uncertainty remains as to how the mechanism will operate (as a position paper has only just (January 2023) been released for consultation).

4.2. The Draft Decision

On 9 December 2022, the AER published its Draft Decision.

In the Draft Decision, much of our AA Proposal, including our capex, demand and incentive schemes were accepted. While the AER proposed an alternative forecast for opex, this largely reflected the treatment of ESV levies. Rather than recovering these through the annual tariff variation mechanism, the Draft Decision concluded it was more appropriate for these costs to be recouped via base opex.

While the AER accepted our approach to accelerated depreciation was reasonable (and that our Future of Gas modelling was a useful tool to consider relative long-term impacts of accelerated depreciation on price and demand under a range of scenarios), the Draft Decision targeted a real price path of 0% per annum to determine the amount of accelerated depreciation allowed ($83 million).

In setting $83 million in accelerated depreciation, the Draft Decision noted that a balance needed to be struck between what consumers pay now to mitigate future price increases, and the risk of greater increases in the future if mitigation is delayed. Importantly, the Draft Decision outlined this was a holding position and this issue would need to be revisited as part of the Final Decision (after further customer engagement was undertaken).

The Draft Decision also suggested that further engagement was needed on (amongst other issues) credit support arrangements and gas service abolishment charges before finalising an appropriate way forward.

Finally, the Draft Decision noted that movements in market variables such as interest rates, bond rates and expected inflation would need to be updated in the Final Decision.

4.3. Our Revised Proposal

We have accepted the majority of the Draft Decision, including capex, opex and the incentive arrangements. Nonetheless, with respect to these components, we have identified some concerns with the rationale that has been used. To avoid any misunderstanding of our views on those issues, we explore these in section 4.6 below.

We have also accepted that there was a need for further engagement on a relatively limited set of issues in our Terms and Conditions. We have undertaken that additional engagement and have proposed changes to our Terms and Conditions that address those concerns.

Finally, we have accepted the Draft Decision on demand and that we should update our demand forecast to take account of AEMO's 2023 GSOO. While we have considered the latest draft information that has been made public concerning AEMO's 2023 GSOO, given the preliminary nature of that information (and lack of available underlying data) we have refrained from revisiting this as part of our Revised AA Proposal at this time. However, we recognise the AER's Final Decision will need to be updated to reflect the 2023 GSOO and we will provide a submission to the AER in response to the release of that document.

There is one significant component of the Draft Decision we have not accepted. While we welcome the Draft Decision accepting our approach to accelerated depreciation, and that the Future of Gas modelling we undertook was reasonable, we have not accepted the targeting of a real price path of 0% per annum to determine the appropriate amount of accelerated depreciation. As such, following significant (post Draft Decision) customer engagement and research, we are proposing $200 million in accelerated depreciation

Further information on where we have not accepted the AER's Draft Decision and where we updated our proposal are outlined in sections 4.4 and 4.5 respectively.

4.4. Setting the price path and accelerated depreciation

We have not accepted the Draft Decision's placeholder constraint to set prices to inflation and only allow $83 million in accelerated depreciation. This is significantly below the $200 million we proposed in our AA Addendum.

While using a placeholder price constraint and keeping prices flat for the duration of the next AA period may have some short-term appeal, and may be welcomed by some stakeholders, we consider a longer-term view is more important in the face of uncertainty.[17] A longer-term approach is also more consistent with the NGO, which is:[18]

> *…to promote efficient investment in, and efficient operation and use of, natural gas services* ***for the long term interests of consumers*** *of natural gas with respect to price, quality, safety, reliability and security of supply of natural gas. [Bold added]*

[17] While specific policy details have not been announced, we note that there have been several high-level policy announcements at both the State and Federal level that increasingly suggest new policies will be required to help meet new and more ambitious environmental targets.
[18] We also set-out in our AA Proposal (section 9.6.3) how our proposal is consistent with the depreciation criteria and the revenue and pricing principles.

Our approach to accelerated depreciation reflects a careful and appropriate balance between protecting customers and maintaining affordability over the long-term while also ensuring we are sufficiently protected from asset stranding risk (due to the uncertainty associated with the future of gas). That is, our accelerated depreciation Revised AA Proposal looks to appropriately balance both short-term and long-term considerations, including current bills and how they may need to change over multiple AA periods.

We also engaged extensively with customers in preparing our accelerated depreciation proposal. In an ever-evolving regulatory landscape, we investigated, designed and applied an unprecedented level of scenario modelling to determine an outcome that will benefit consumers and consumer-facing energy businesses. We then shared all our modelling with stakeholders and briefed the AER (staff and Board) and customers on this important work. Importantly, notwithstanding the limited time available between the publishing of the Draft Decision and us having to submit our Revised AA Proposal, we continued our customer engagement on prices, bills and accelerated depreciation (see below and Chapter 3). This is all part of our commitment to encouraging a culture of continuous learning, sharing and transparency.

Consumers should, therefore, feel confident that we have carefully considered accelerated depreciation and how we can play our part in making sure Australia's transitioning energy sector is delivering for them. While we appreciate the divergent views that stakeholders have on accelerated depreciation, and we are very aware of the current cost-of-living pressures many of our customers are facing, we remain convinced that our long-term approach is superior to a simplistic, short-term price freeze to address a complex and very real medium to long-term challenge. This challenge has been underlined in the draft 2023 Draft GSOO forecasts shared by AEMO, which suggests a much more pessimistic outlook for gas networks.[19]

Before reaching the conclusion that $200 million of accelerated depreciation remains appropriate, we carefully considered the Draft Decision and identified three important issues that were not fully explored, namely:

- Protecting customers in the long-term as well as in the short-term.
- Poor incentive signals and unintended penalties imposed on our network by the indiscriminate nature of the placeholder price constraint. This goes to the fairness (or otherwise) of the Draft Decision.
- Use of a well-accepted and well supported approach (accelerated depreciation) to help address uncertainty and stranding risk.

After careful consideration of these issues, we concluded that we could not accept the Draft Decision. We continue to consider that $200 million, at just 10.4% of the Regulatory Asset Base (RAB), remains a reasonable additional recovery of capital given that:

- Stranding risk has increased further since the AA Addendum.
- Higher inflation forecasts have decreased the overall depreciation building block and the price impacts remain manageable.

Nonetheless, as we have demonstrated throughout this process, we remain committed to revisiting the balance between price rises and standing risk, including when new demand forecasts are released, as any reduction in demand will further increase prices (although not necessarily average bills). We also accept that the balance reached in our Revised AA Proposal may need to be revisited in light of new information, including new inflation forecasts, interest rate movements and the final 2023 GSOO demand forecasts.

Further information on the three issues identified above are outlined in more detail below.

4.4.1. Protecting customers in the long-term as well as the short-term

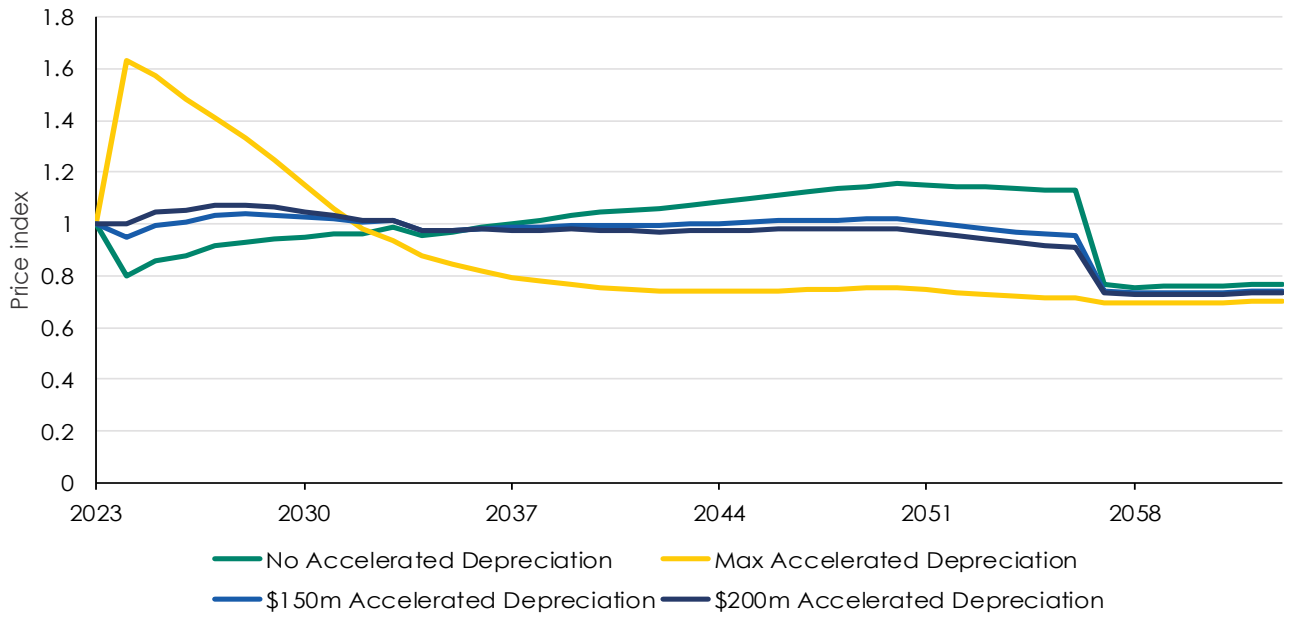
Our Revised AA Proposal better protects customers by keeping bills low both in the short-term and over the long-term (noting we are already the lowest price gas distributor in Australia), which is important given the uncertainty regarding the future of gas. This contrasts with the Draft Decision where a shorter-term focus on immediate price relief results in price and bill shocks over the longer-term. Our Future of Gas Modelling, submitted with our AA Proposal and then again with the AA Addendum shows that:

[19] While this draft information was not published, it was discussed in a public forum.

- In a declining demand environment (now likely), our prices could rise quickly over time. If demand declines too rapidly a death spiral can eventuate (resulting in prices unacceptable to customers).
- Accelerated depreciation can help reduce the longer-term price rises as less of the asset base needs to be recovered when the demand is materially lower.
- We have an opportunity to accelerate depreciation now, while prices are relatively low. Once prices start increasing, we may not be able to accelerate depreciation as the price path is already unacceptable to customers or the regulator.

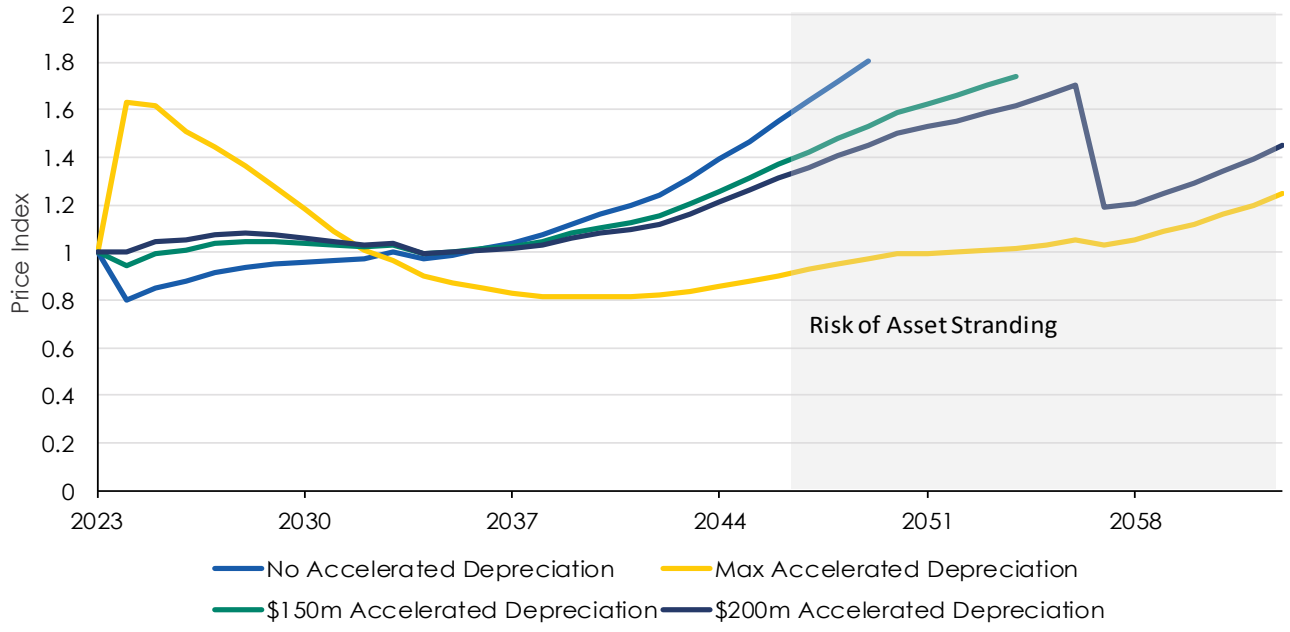
Figure 4.1 and Figure 4.2 below, shows that we chose an accelerated depreciation amount that appears to give reasonable stability to the long-term price path. We also tried to balance the short-term price impacts and did not (and still do not) consider the price increases we proposed in this AA period are unacceptable to our customers.

Figure 4.1: Gas Substitution Roadmap Scenario 1 – Residential distribution (volumetric) price per GJ Growth Index



Source: AusNet

Figure 4.2: Gas Substitution Roadmap Scenario 2 – Residential distribution (volumetric) price per GJ Growth Index



Source: AusNet

We consider the AER should place a stronger weight on the long-term price and investment recovery implications of preventing a reduction in the value of the RAB at a time when distribution charges are relatively low.

While in the short-term, smooth/flat prices and lower bills will be achieved with the Draft Decision, given recent Victorian and Federal Government announcements on climate targets and electrification incentives, the level of stranding risk we are facing has increased again since the AA Addendum was lodged. This means that the need to accelerate depreciation in future periods is likely to continue to grow. As such, unless steps are taken now to adequately address these risks, customers are increasingly likely to face material bill shocks in subsequent AA periods.

To demonstrate the potential long-term impact to customers of our current proposal for accelerated depreciation not being accepted we undertook some simplified ten-year modelling, the results of which was then used in the customer survey we undertook in December 2022 (see below and Chapter 3).

In particular, our modelling allowed us to identify four possible ways to recover $400 million in accelerated depreciation over the next two AA periods (see Figure 3.5, Chapter 3). Importantly, each of these four lines in that figure show the impact on bills of adopting the different approaches, with cheaper bills now meaning more expensive bills later. We also note that our Future of Gas Modelling shows that the next two AA periods are critical to keeping bills at acceptable levels. That is, if we do nothing now, or if we do not do enough now, additional upwards pressure on prices may be required to accommodate even more stranding risk (accelerated depreciation), which means the overall bill will become too unpalatable for customers.

4.4.1.1. Key finding from our customer survey

As outlined in Chapter 3, we asked over 800 participants of this survey a range of questions that looked to better understand their preferences with respect to prices and bills over both a 5- and 10- year period. The results of this analysis were very clear:

- Customers care about bill predictability and smoothness over time, and those who are impacted by the cost-of-living crisis even more so.
- Customers' preference long-term price stability over short-term price relief if short-term price relief means pushing costs to a later time.
- Both these trends hold across most demographic groups, including the key indicators of vulnerability.

This research has been instrumental in developing the Revised AA Proposal, as it demonstrates that an approach that ensures a smoother long term price path is preferred by customers.

4.4.1.2. Our approach ensures a smoother long-term price path

Our proposed approach to accelerated depreciation is more likely to avoid bill shock and provides a smoother price pathway over the longer-term for our customers, including the most vulnerable, and better matches their preferences. This was an important consideration when we were developing our initial AA Proposal and AA Addendum as we know that customers value a smooth price path-way and that the AER accounts for this in its Decisions. For example, in 2012, when several determinations had to be re-made the AER chairman (Andrew Reeves) noted:

> *…in remaking these determinations the AER has been mindful to smooth the price impact over the remaining years of the regulatory period to minimise any price shock to customers,*[20]

The need to minimise volatility was also reflected in the AER's more recent decision on the six-month extension to the current AA period, where it noted that '[t]o minimise price volatility for Victorian consumers, we propose to extend 2022 calendar year prices to 30 June 2023.'[21] We also note that the most recent Post Tax Revenue Model (PTRM)

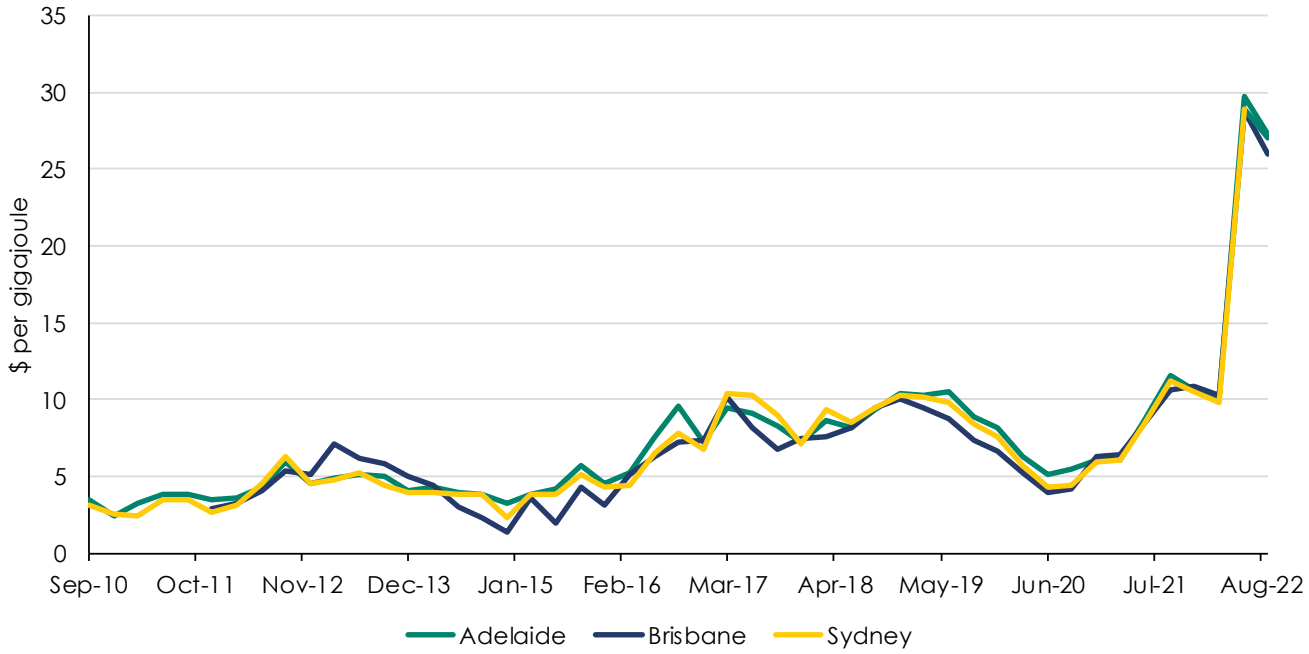
[20] https://www.aer.gov.au/news-release/aer-varies-victorian-electricity-network-charges-following-tribunal-decision (accessed 24/11/2022).
[21] https://www.aer.gov.au/system/files/Position%20paper%3A%20Approach%20to%20six-month%20extension%20of%20access%20arrangements%20for%20Victorian%20gas%20distributors%20-%20November%202021_1.pdf, p. 3 (accessed 10/01/2023).

handbook for gas highlights that when considering the X-factor that price stability is an issue that the AER should consider.[22]

Given the above, we consider our deliberate focus on the total bill has not been appropriately considered. Specifically, our research clearly demonstrates that when customers think about affordability, they consider what their total bill will be, rather than how unit prices change.

We also note that the distribution component of the total gas bill has fallen and will continue to fall as gas networks have delivered stable real prices over time. With gas prices expected to rise significantly next year because of wholesale prices, distribution charges can be expected to fall as a proportion of the total bill.[23] In this context, our proposed rises in the distribution charge does not make a meaningful contribution to the overall affordability of gas.

Figure 4.3: Eastern Australia gas market prices (quarterly average)



Source: AER State of the Energy Market 2022

Other important considerations include:

- We are one of the most efficient gas businesses in Australia (see below).
- Above 0% price increases have been approved in several recent AER decisions (see section 4.4.2.1.7).
- Price pressures are expected to start to decline in early 2023 (see section 4.4.2.1.7).

All of the above considerations suggest changes to the Draft Decision are justified and necessary.

We best protect customers by being the least cost gas distribution business. Therefore, more weight should be given to our current low prices relative to our peers. As we are the cheapest gas distribution business in Australia and have the lowest average customer bills, we are concerned that the Draft Decision limits our ability to minimise stranding risk, not because we are inefficient but because we have been more efficient and have passed these efficiencies (savings) through to our customers. Perversely, under the placeholder constraint that has been applied, if we were a less efficient business, we would have been able to recover more revenue and more accelerated depreciation in the next AA period. While unintentional, it fundamentally undermines the incentive properties of the regulatory framework.

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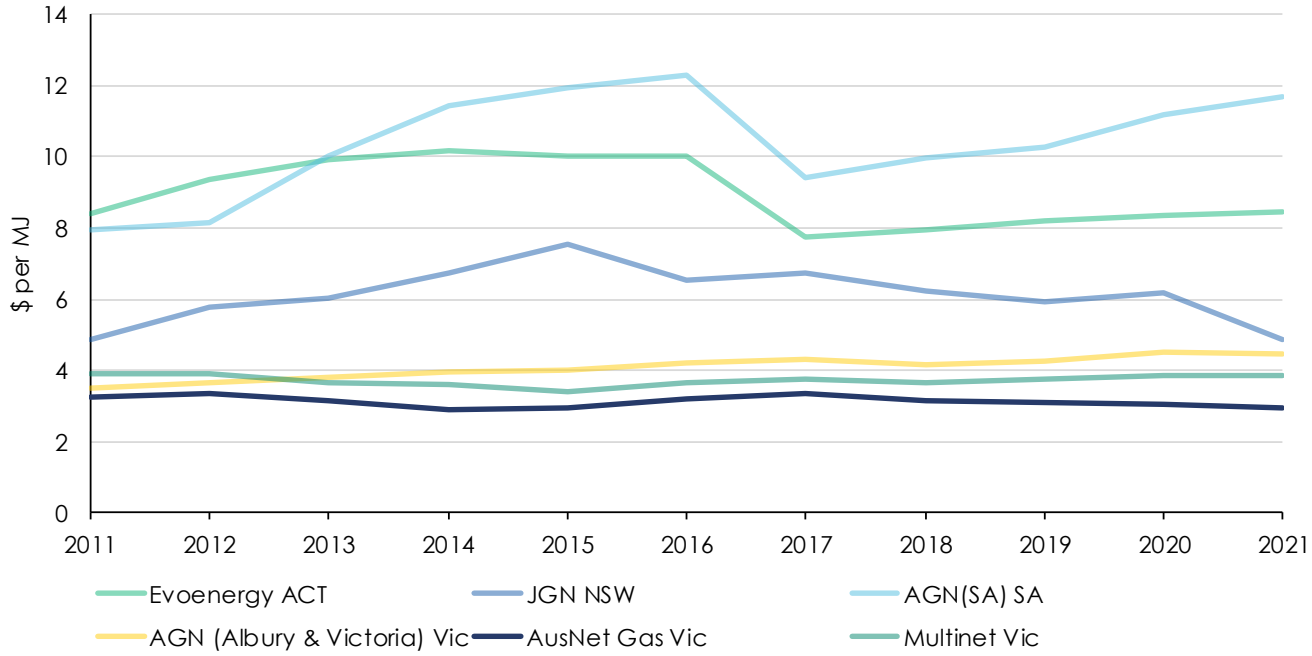
[22] https://www.aer.gov.au/system/files/Appendix%20C%20-%20Amended%20gas%20distribution%20PTRM%20handbook%20-%20April%202021.pdf, p. 33 (accessed 24/11/2022).

[23] For example, in December 2022, the Federal Government noted that "without action, retail gas prices are expected to increase by 20 per cent in both 2022-23 and 2023-24, with the majority of the gas price increase for this year having already occurred due to global energy shocks." Source: https://minister.dcceew.gov.au/bowen/media-releases/responsible-and-meaningful-action-gas-prices (accessed 09/01/2023).

The AER's Gas Network Performance Report[24] shows that our reference services revenue per customer is the lowest in Australia, 13% below our nearest peer, and we are the only distributor that has had a declining trend in recent years (see Figure 4.4 below). More broadly, we note that the Victorian businesses are the three lowest cost businesses in the NEM and so this analysis applies equally to the whole Victorian distribution network sector (see Figure 4.5 below).

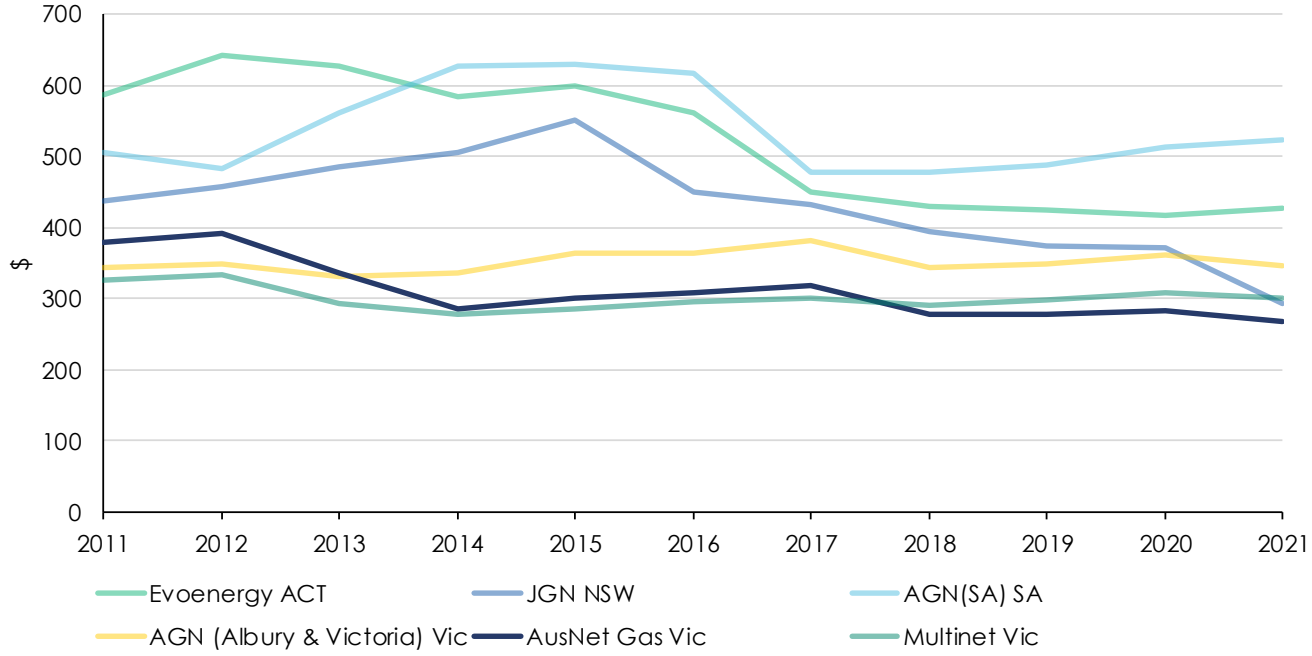
Figure 4.4: Actual revenue per MJ



Source: AER Gas network performance report 2022

Additionally, we have the lowest reference services revenue per customer in Australia.

Figure 4.5: Average bill (or actual revenue per customer)



Source: AER Gas network performance report 2022

[24] AER, Gas network performance report, December 2022.

While the AER has rightly recognised that customers are sensitive to absolute prices, particularly in the current environment, it is nonetheless also important to account for the relative level of prices and bills before deciding whether a hard (and somewhat arbitrary) limit on price increases is necessary.

As outlined above, our customers benefit from having the cheapest distribution cost anywhere in the country. We estimate that it would be possible for our prices to increase by:

- 13% if we were looking to bring our average charges up to the level of MGN's average charges.
- 30% if we were looking to bring our average charges up to the level of AGN's average charges.
- 10% if we were looking to bring our average charges to a comparable level with New South Wales' average charges. However, we note Jemena Gas Network's (JGN) average charges dropped considerably in 2021 and its charges have previously been significantly higher than this. There appears to be several factors effecting JGN's forecasts, including the end of their remittal process, and this level looks to be the new normal.
- 96% if we were looking to bring our average charges to a comparable level with South Australia's average charges.

While we are not proposing that our prices should be matched with the average prices set by the New South Wales businesses or the other Victorian business, the above illustrates that a Revised AA Proposal where the average customer bill is only expected to increase by 1% is reasonable and still leaves our customers with the cheapest prices in the country.

Importantly, if an arbitrary price cap is applied in the Final Decision, further consideration needs to be given to the basis of how that price limit is set, as customers on other networks and in other jurisdictions clearly value their gas supply while paying substantially more for it on an ongoing basis. This is important context which needs to be considered if the incentives that are currently in place to encourage businesses to improve and pass those benefits to their customers are to be maintained.

4.4.2. Incentives and fairness

4.4.2.1. The AER's arbitrary approach lacks general fairness

We appreciate the importance of the short-term affordability driver that was used in the Draft Decision. However, prior to the Final Decision being made, the outcomes of previous AA decisions for each network needs to be considered, particularly if the way those decisions impact on the current decision-making process reflect chance or luck rather than design. This will ensure that any proposed action or constraint:

- Has the same proportional impact for each network given their different circumstances and starting positions.
- Maintains the desired incentive properties of the regime.

Failure to consider such issues will distort decision making, introduce unfairness into the regulatory environment, could undermine the regulatory regime and result in worse outcomes for customers in the long-term.

While we acknowledge the simplicity of a Draft Decision that keeps prices flat for all three gas distributors in Victoria, such an outcome does not result in equitable treatment of the three networks.

Unfortunately, by keeping the prices flat, the Draft Decision fails to adjust for impacts that arise from previous regulatory decisions taken for the current AA period and for the six-month extension period. These issues need to be considered when setting prices in the forthcoming AA period, with the failure to do so resulting in an arbitrary price constraint that will have materially different consequences for each network. These differential impacts can be seen when we consider the effects of the placeholder zero real price constraint in light of:

- The price path in the current AA period and the six-month extension period.
- The accuracy of the current period's customer and demand forecasts.
- Revenue adjustments for efficiencies.
- Accelerated depreciation embedded in the current regulatory price paths.
- RAB metrics.
- Other relevant issues.

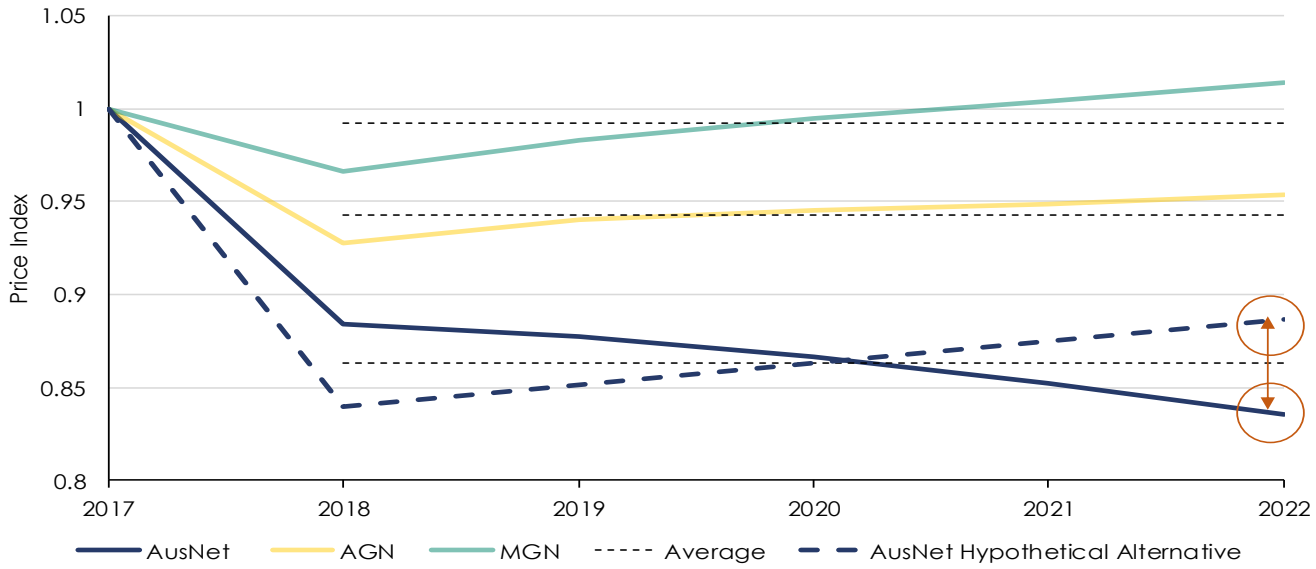
We explore each of these topics below.

4.4.2.1.1. The price path set in previous regulatory decisions

The AER's standard approach to price smoothing set the prices at the end of the current AA period at a level automatically assumed to be appropriate for the next AA period. The AER's Draft Decision sets the Po and X-Factors to zero for all years of the next AA period, which keeps prices flat with the last year of this AA period. As such, the shape of the price path applied in the current AA period (where circumstances were quite different, and consideration was not given to the need to transition to a low carbon economy[25]), has a material impact on the amount of depreciation that can be incorporated in the new AA period without impacting prices. Without the benefit of hindsight, it is a matter of luck whether the previous price path works in favour of being able to accept more accelerated depreciation.

As outlined in Figure 4.6 below, we made a significant price cut in 2018, followed by annual price cuts each year thereafter. By fixing the prices at the 2022 levels, our prices are set at the lowest level we charged over the last AA period and below our average charges. We could have proposed other price paths, for example, matching our peers with a bigger initial price cut and then annual price increases, which would have delivered a very different revenue outcome in the forthcoming AA period under the placeholder constraint.

Figure 4.6: Real Price path from previous access arrangement periods



Source: AusNet

The Draft Decision, therefore, makes selection of the current price path 6 years ago a critically important decision in hindsight. In particular, the movement in prices across the AA period is now a critical input into the revenue we might receive in the subsequent period. If, for example, we had used the hypothetical alternative Figure 4.6 above, then the Draft Decision would have locked in significantly higher prices and would have allowed us a relatively larger amount of accelerated depreciation.

We also note, as outlined in section 4.4.1.2, our actual revenue per MJ of gas delivered is the lowest in Australia and we are the only distributor that has had a declining trend in recent years. These are outcomes that benefit customers, and which should be encouraged, not discouraged.

4.4.2.1.2. Six-month over recovery

A similar issue arises from the Final Decision for the six-month month AA extension. The approach to tariff setting in the six-month extension period involves escalating tariffs by the Consumer Price Index (CPI) from the 2022 calendar year. However, a true-up between the tariff revenue and the calculated building blocks revenue will then be applied.

[25] Consideration was not given, not least, as it was prior to the 2050 zero carbon commitment made by the Federal Government at the Paris COPS (Conference of the Parties) meeting.

While all three businesses will need to return revenue to customers (which places downwards pressure prices in the 2023-28 AA period), the amount of the true-up varies significantly between each business.

The different true-up levels reflect a combination of price path and forecasting errors in the current AA period. Under the Draft Decision, the accelerated depreciation allowed will reflect the size of the true-up, which in turn reflects the accuracy of the forecasts that have been used. We do not consider that a business should be penalised (being allowed less accelerated depreciation) for having more accurate forecasts. This sends the wrong incentive signals to the industry and could result in worse outcomes for customers.

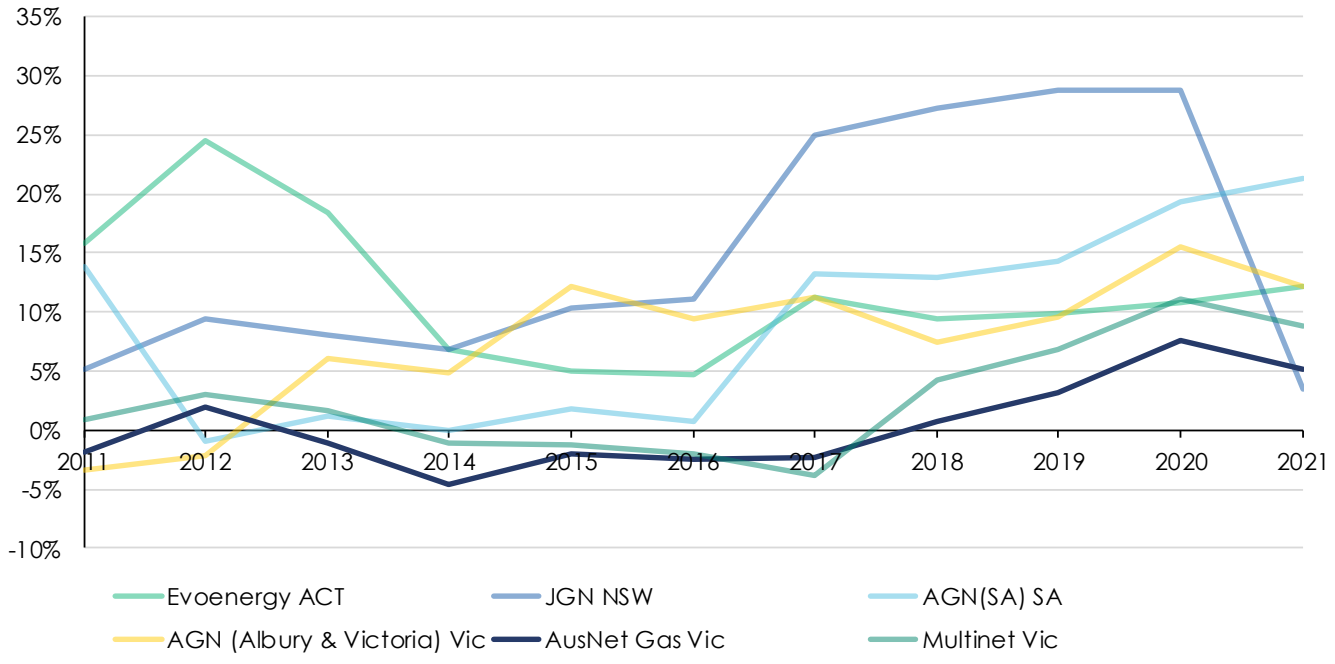
4.4.2.1.3. Accuracy of customer and demand forecasts set in previous regulatory decisions

Tariffs in 2022 were set based on forecasts of the customer numbers and demand at the time of the Final Decision for the 2018-22 AA period, which was made in 2017. When the tariffs are reset for the next AA period, there will be upward or downward adjustments to recalibrate the tariffs to the new demand forecasts, which are based on the latest information and actual data. For example, if actual demand and customer numbers were higher than forecast, this would *prima facie* result in a downwards adjustment to tariffs providing more room for accelerated depreciation under the placeholder constraint.

Consequently, if the Draft Decision, which simply maintains prices at the end of the current AA period, fails to consider the accuracy or otherwise of the forecast that was used to calculate those prices, the placeholder constraint rewards any under-forecasting inaccuracy in previous demand and customer number forecasts.

Again, we have had a relatively accurate demand forecasts during the current AA period (and over the last decade) yet we end up worse off as a result. This is shown in Figure 4.7 below, which shows the revenue performance of each gas distribution network. While there may be several drivers of the revenue outperformance, the AER attributes most of the impact to demand outperformance.[26]

Figure 4.7: Reference service revenue compared to forecast revenue – DNSPs

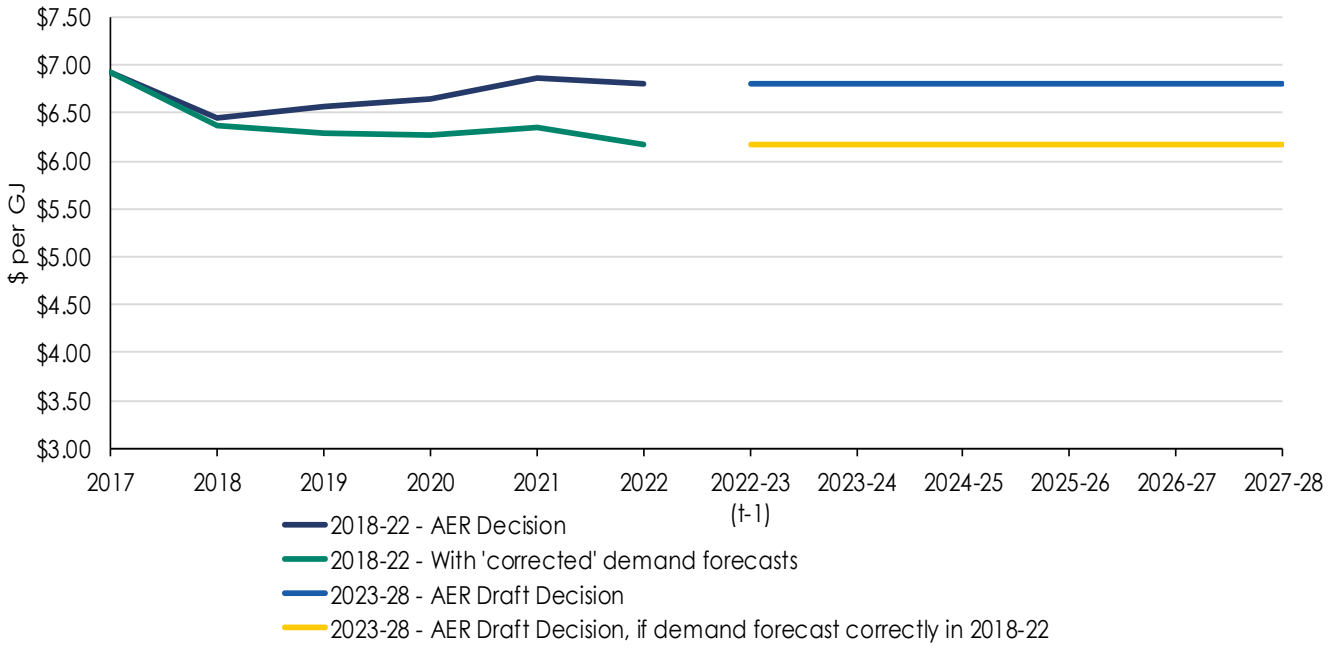


Source: AER Gas network performance report 2022

The potential impact of using and approach that is based on forecasts of the customer numbers and demand at the time of the Final Decision for the 2018-22 AA period is illustrated in Figure 4.8 below.

[26] AER, Gas network performance report, 2022, p. 38.

Figure 4.8: Impact of demand forecasts on the AER's price cap approach



Source: AusNet

Figure 4.8 shows revenue per GJ with tariffs set in the AER's Final Decision for the 2018-22 AA period as well as the AER's Draft Decision for the 2023-28 AA period (which are based on that previous decision (i.e., no real price increases compared to the 2022 tariffs)). Importantly, this figure also shows what the tariffs that would have been if a gas business had perfect knowledge of the demand it would face for the 2028-22 AA period. In particular, this example shows that demand would have been higher and tariffs lower if a gas business had perfect foresight as to expected demand.

Consequently, if the AER had made its Draft Decision based on these lower tariffs, then prices would have been set at a significantly lower level for the next AA period. This illustrates that the accuracy of a gas business' demand forecasts materially impacts the decision on accelerated depreciation made in the Draft Decision.

As shown in Figure 4.7 above, we have been consistently among the most accurate demand forecasters and the Draft Decision penalises us for the significant effort we have undertaken over several periods to improve the our forecasting accuracy. In other words, the Draft Decision rewards inaccuracy and sends an unintended but clear message that there are negative incentives for businesses to improve their forecasting ability and deliver more accurate pricing information.

4.4.2.1.4. Efficiency

We generated around $30 million in incentive scheme rewards in the 2018-22 AA period, on top of around $8 million in rewards achieved from the 2013-17 AA period. This reflects the significant effort we have put into finding efficiency savings and reducing our expenditure, which ultimately benefits customers through lower price, while maintaining safety.

In comparison to our peers, we have generated more efficiencies during the current period (and over the last decade) yet end up worse off as a result. Most worryingly, if we assume the AER will apply similar constraints at future GAAR Decisions, we will be better off becoming increasingly inefficient during the upcoming AA period so we can fit more depreciation under a future price constraint.

Undermining the incentive regime in such a way is not in the long-term interests of customers or consistent with the NGO.

4.4.2.1.5. Revenue adjustments

Many of these issues highlighted above and other factors outlined in the table below are typically brought together as revenue adjustments in the building block. As many of these are not recurrent, under any given price restraint, large negative adjustments allow for more accelerated depreciation.

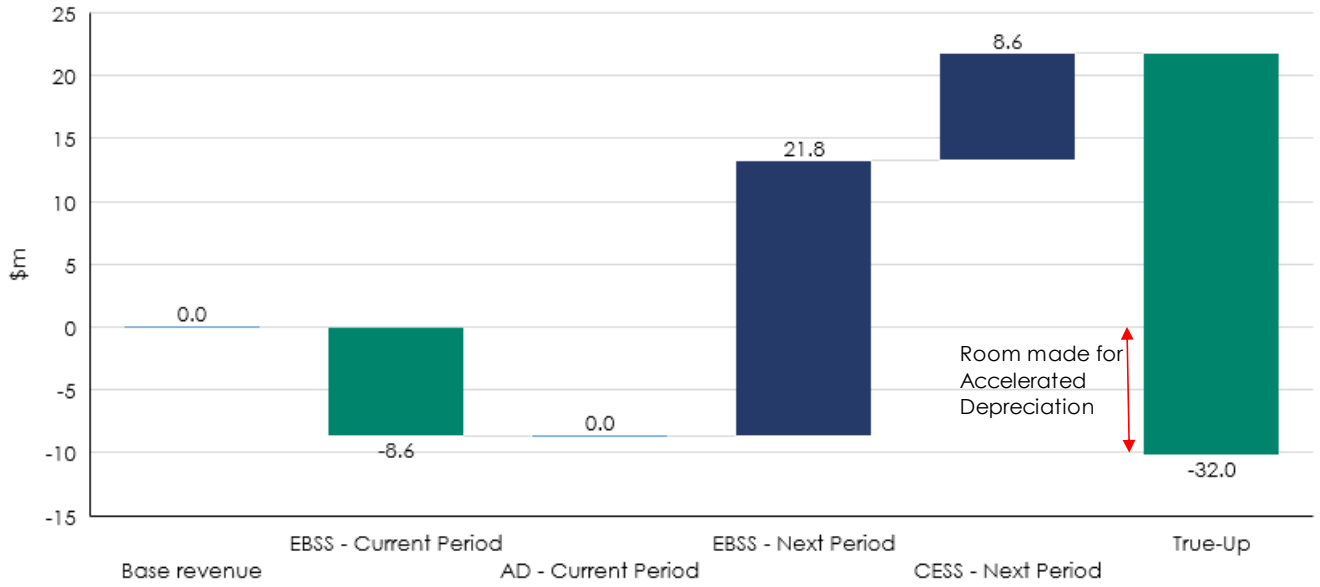
Table 4.1: Revenue adjustments

Issue	Description	Impact of the Draft Decision
Incentive schemes adjustment (EBSS and the Capital efficiency Saving Scheme (CESS))	Under both these schemes, significant financial rewards can be levied on a business if efficiency improvements are achieved, or financial penalties can be incurred if efficiency falls.	Under the Draft Decision, a business that is receiving a CESS/EBSS penalty in the 2023-28 AA period, will be rewarded for this inefficiency with a higher amount of accelerated depreciation being permitted. There are also adjustments as any reward/penalty from previous periods embedded in the current tariffs that need to be considered. For example, a business with a EBSS reward in the 2018-23 AA period, would have this drop out of their revenue allowance in 2023-28. This was a reward for efficiency in the 2013-17 period and should not impact the revenue in the 2023-28 AA period.
Accelerated deprecation	Under the current regime, earlier decisions on accelerated depreciation can be embedded in current AA period revenue.	A business with considerable accelerated depreciation in the current AA period, can (prima facie) receive the same amount next period, without any upwards pressure on their prices. Whereas a business with no accelerated depreciation in the current period will face upwards pressure on prices from a similar proposal. Under the Draft Decision, the accelerated depreciation position of each business in the current period will, therefore, influence the amount allowed in the next period, irrespective of its merit. This is not an efficient outcome. It should be noted that the accelerated depreciation approved for the last period was not based on the uncertainty about the future of gas but was related to the retirement of the low pressure mains asset base.
Revenue-true-up from the six-month stub period	The approach to tariff setting in the six-month period involved escalating tariffs by CPI from the 2022 calendar year. However, a true-up between the tariff revenue and the calculated building blocks revenue will then be applied.	While all three businesses will need to return revenue to customers (which places downwards pressure on prices in the 2023-28 AA period), the amount of the true-up varies significantly between each business. The different true-up levels reflect a combination of price path and forecasting errors in the current AA period. Under the Draft Decision, the accelerated depreciation allowed will reflect the size of the true-up, which in turn reflects the accuracy of the forecasts that have been used. We do not consider that a business should be rewarded (being allowed more accelerated depreciation) for having less accurate forecasts. This sends the wrong signals to the industry and could result in worse outcomes for customers.

Source: AusNet

To illustrate the potential magnitude of these adjustments, we have plotted the impact of these factors on each Victorian network. This analysis shows that, relative to other businesses, the lack of large negative revenue adjustments does not allow us to propose large amounts of accelerated depreciation within the placeholder price cap. However, as explained above, the lack of large negative adjustments is the result of good performance (efficiencies and accurate forecasting) or bad lack (little revenue over recovery in the six-month extension).

Figure 4.9: AusNet adjustments



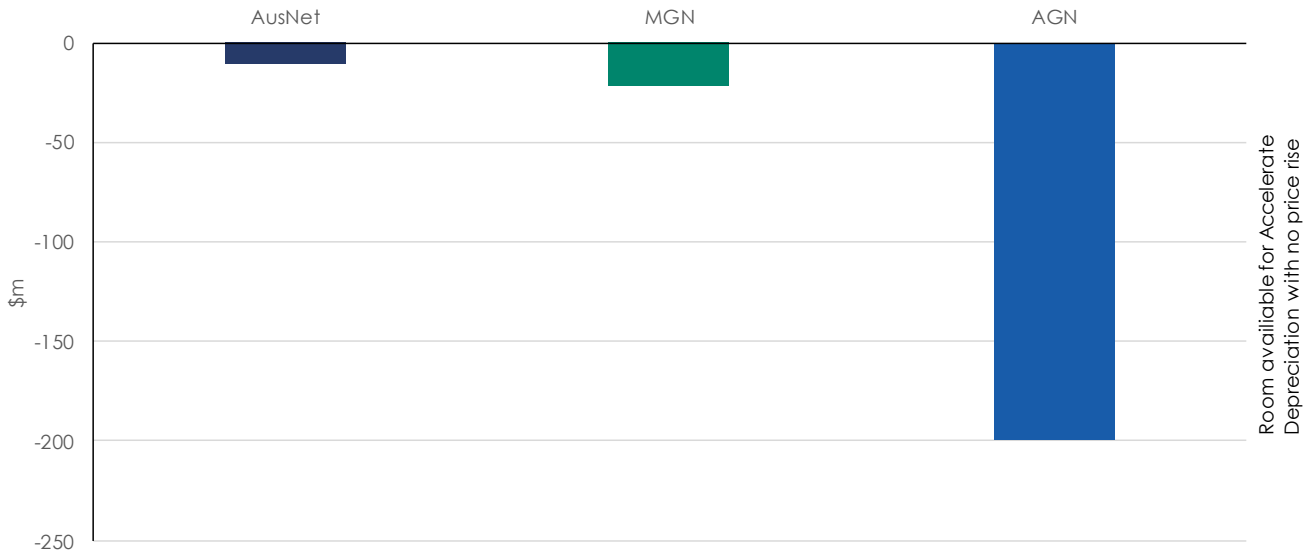
Source: AusNet

As can be seen in the figure above, we have generated approximately $30 million of EBSS and CESS rewards, which reflects considerable efficiencies that we have been able to achieve in the current (2018-22) AA period. These offset the true-up of the six-month revenue, meaning we 'loose' approximately $10 million in revenue after these adjustments. However, this $10 million represents additional accelerated depreciation that we could absorb (all other things being equal) before we need to put our prices up.

However, if we compare our situation with the other Victorian businesses, we see that:

- AGN has a very large downward adjustment, which leaves considerably greater scope for higher levels of accelerated depreciation to be approved without price increase resulting (see Figure 4.10 below)
- MGN has a smaller, albeit still larger, downward adjustment which again provides greater scope for accelerated depreciation to be approved.

Figure 4.10: Australian Gas Networks' adjustments



Source: AusNet

As stated previously, we do not consider that the impact of efficiency schemes or the accuracy of a business' forecasts should be the basis of the AER allowing more or less accelerated depreciation. However, where such an approach is adopted, it would appear reasonable that the approach should not penalise those networks with more accurate forecasts. Likewise, the presence of EBSS and CESS rewards should not diminish a business's ability to minimise its stranding risk through accelerated depreciation.

4.4.2.1.6. RAB metrics

Our AA Proposal and AA Addendum sought to carefully balance minimising price impacts in this AA period with our need to minimising stranding risk over the longer team. And, an explicit part of our plan – a plan we shared with our stakeholders and which was understood – was that we start decreasing our nominal RAB per customer by taking a more pessimistic view than the other networks on the future of gas. However, under the Draft Decision, we are left with a higher stranding risk than that proposed in our AA Addendum.

While we recognise that some judgement may be required to find the appropriate balance, acting now has a greater beneficial long-term impact on customers. Importantly, the environment for gas networks is likely to get worse rather than better. This, in-turn, means we will likely face even higher risk than currently projected, which means higher and higher bills may be required in subsequent AA periods.

Our Revised AA Proposal allows us to have a falling nominal RAB by the end of the AA period and we continue to consider this is an appropriate step to de-risk our network for the future.

While we accept that considering the nominal RAB is a simple way to consider stranding risk, and that RAB per customer or RAB per GJ would be better, however, the latter are highly dependent on the forecasts of customer numbers and energy use that are used.

In our AA Addendum we forecast slightly increasing customer numbers in the next AA period and our demand is close to flat. This is quite different to AGN and MGN, both of which have falling customer numbers and demand.

While we are expecting new connections to drop to 25% of current levels by the end of the AA period, there is still forecast growth in our network in the shorter-term. However, this is likely to stop and reverse in the medium term. Because of this, in additional to using our own forecasts, we have considered what would happen if our forecasts were more pessimistic and more like AGN's.

Under our AA Proposal as amended by the AA Addendum, the RAB per customer and RAB per GJ are essentially flat, with small increases if the Draft Decision is applied. However, there is a risk that customer numbers and demand decrease faster than what we have forecast. If that scenario eventuates, then rather than using this AA period to begin to decrease the stranding risk we are facing, the Draft Decision would have entrenched a higher stranding risk into the future. However, in the Revised AA Proposal we have looked to better manage this risk while also looking to address customers' concerns regarding prices, including how they may change both within the next 5 years and over the longer-term. As such, our Revised AA Proposal, which has a falling nominal RAB is the most appropriate path for our RAB to take.

Within that context, we note that next year's federal budget is expected to include funding for an electrification package targeted at low-income people and renters, which aims to improve energy efficiency and insulate households against volatility in prices for fossil fuels. While the Federal Energy Minister, Chris Bowen, has said the details would be the subject of consultation with science experts, he did indicate that the package could include concessional loans to households looking to upgrade.[27] This highlights the very real and increasing risk of asset stranding that we are facing in the current and fast-evolving regulatory landscape.

4.4.2.1.7. Other issues

There are also three other issues that warrant further consideration prior to the Final Decision on accelerated depreciation being made. While each issue can be considered individually, if taken as a whole, they add more weight to the reasonableness of our accelerated depreciation proposal.

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[27] The Guardian, Labor's energy price cap plan to pass after Greens strike gas transition deal for households, available at: https://www.theguardian.com/australia-news/2022/dec/14/labor-energy-price-cap-plan-to-pass-parliament-greens-deal-gas-transition-electrification-households (accessed 22/12/2022).

The AER's approach is inconsistent with recent decisions under the same external circumstances

The table below show the X-Factors (negative X-Factor is a real price increase) approved in recent regulatory decisions under similar affordability and stranding risk environments. As demonstrated in the table below, a constraint of 0% real price rises has not been applied in other recent decisions for gas networks, nor has the AER deemed it necessary to provide each network with the same price path recognising individual network circumstances. As noted earlier, these businesses are already more expensive than AusNet on both a per customer and per MJ basis and yet have had price rises approved. Indeed, the Final Decision for APA (Victorian Transmission) has significant price rises approved, while in the same geographic location the AER's Draft Decision for AusNet has constrained us to no real price increases, albeit that this is a holding position.

We also note that while the real price rises approved for APA (9.15% in the first year and a cumulative price rise by the end of the period of 16.4%) follow a different profile than we have proposed, overall the price increases are higher (14.5% increase on average) than both our AA Addendum and Revised AA Proposal:

- The AA Addendum had an average price increase of 5.5%.
- Our Revised AA Proposal has an average price increase of 11.6%.

Table 4.2: X-factors in recent final regulatory decisions

	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	Cumulative real price impact
Evoenergy	4.85%	-2.01%	-2.01%	-2.01%	-2.01%		-3.19%
Roma to Brisbane pipeline (eastbound and westbound)		-5.11%	0.00%	0.00%	0.00%	0.00%	-5.11%
APA Victorian Transmission System (VTS)		-9.15%**	-2.25%	-3.60%	-3.42%	2.66%	-16.40%
Amadeus Gas Pipeline	39.07%	2.65%	2.92%	2.39%	2.65%		74.32%
Jemena Gas Networks (NSW)	22.00%	4.50%	1.54%	-2.35%	-2.35%		23.17%
AGN (South Australia)	8.76%	-0.90%	-0.90%	-0.90%	-0.90%		5.95%

** Note: negative numbers equate to a price rise in accordance with the CPI-X approach to price setting.*

*** Note: The AER set tariffs directly in this year and did not publish an X-factor. We have estimated this value from the AER's final decision where they referred to a nominal price rise of 12. 4%.*

For simple comparison purposes we have put calendar and financial years in the same columns without adjustment.

Source: AER Final Decision documents

Our accelerated depreciation and price path proposal was not singled out as being problematic

Throughout our extensive joint engagement with the VGNSR and RRG our higher accelerated depreciation and price path was never referenced or called out as problematic by stakeholders relative to the other two AA Proposals. No stakeholder questioned or proposed that price paths for the different networks should be expected to be the same. Indeed, stakeholders recognised that we were the most upfront about stranding risk driving our accelerated depreciation and that we had included significant amounts from the beginning of our engagement.

While some stakeholders expressed fundamental concerns with accelerated depreciation, this was general in nature and not specific to a particular network. and often more to do with the perceived inadequacy of the current regulatory framework to deal with stranding risk (and the potential for more Government intervention). Importantly, several submissions were silent on accelerated depreciation (suggesting this was not an issue) while EUAA, Origin and Evoenergy accepted the need for accelerated depreciation in the regulatory contract.

Importantly, in all the written material we examined we did not identify any submission that specifically identified our level of accelerated depreciation as being particularly problematic relative to the other businesses.

We also note that:

- Accelerated depreciation has been discussed at numerous joint workshops over the past 18 months and there has been no indication from stakeholders and customer advocates that suggest they consider AusNet's accelerated depreciation should be lower than that of the other networks.
- It has been broadly acknowledged that the circumstances leading us to propose accelerated depreciation are common to all networks. If anything, the sentiment has been that perhaps AusNet has a case for more accelerated depreciation given we were quick to cut discretionary capex that may exacerbate asset stranding risk (e.g., spending on hydrogen readiness) and that AusNet has lower prices at present (i.e., potentially more room to move while remaining affordable and efficient).

Price pressures are forecast to lessen during the next two years

The October 2022-23 federal budget states:

> *High global energy prices and floods mean inflation is expected to peak at 7¾ per cent in the December quarter 2022, before moderating gradually over the next 2 years.*[28]

And:

> *The Budget provides for responsible cost-of-living relief that does not add to inflation pressures.*[29]

While the latest RBA monetary statement suggests slightly higher inflation in 2022, it also notes that inflation is expected to come down:

> *Headline consumer price inflation is expected to peak around 8 per cent at the end of 2022, before starting to decline in early 2023; …. Inflation is still expected to decline towards the top of the target band over coming years.*[30]

Importantly, average economic growth is expected to continue at 2% in 2023 and 1.5% in 2023/2024 and 2024/2025.

Taken together, this evidence suggests that setting a 0% price increase for the duration of the next AA period may not be necessary as the cost-of-living pressures customers are facing are expected to lessen. While we disagree with a 0% price increase for the duration of the next reset, and continue to consider the price increases we have proposed remain appropriate, we do recognise that the profile of our price changes could help customers over the next few years. This is why (as outlined above), we have proposed a relatively modest price increase in the first year of the next AA period, with slightly higher but still modest price increases in the latter years. Importantly, even with our proposed price increases in the latter half of the next AA period, the average bill in the new period will remain only 1% higher than the current period in real terms and is less likely to require large increases at the next AA review. Most importantly, our customers will continue to benefit from us being the lowest cost distribution network in Victoria.

4.4.3. Our proposal is built on a robust and accepted approach

Taken as a whole, we consider that our Future of Gas modelling shows that accelerated depreciation is the appropriate way to manage the uncertain future of the gas networks in the next AA period. In particular, in the face of uncertainty, accelerated depreciation allows us to better protect our customers by altering the balance of short- and long-term price impacts as well as the risk of capital under recovery faced by our investors.

We, therefore, welcome the Draft Decision accepting that the Future of Gas modelling we undertook was reasonable and note the AER's finding that:

> *Overall, we [the AER] consider the future of gas modelling submitted by AusNet and AGIG was a useful tool to consider relative long-term impacts of accelerated depreciation on price and demand under a range of scenarios. Further, the various inputs and assumptions for the modelling were largely well-documented.*[31]

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[28] Budget overview, p. 1, See: https://budget.gov.au/2022-23-october/content/bp1/index.htm (accessed 18/11/2022).
[29] Budget overview, p. 2 (accessed 18/11/2022).
[30] RBA, Statement on Monetary Policy – November 2022, Economic Outlook, see: https://www.rba.gov.au/publications/smp/2022/nov/economic-outlook.html (accessed 18/11/2022).

We also welcome the AER's continued acceptance that where there is stranding risk on gas networks that the most appropriate tool to address this risk is through accelerated depreciation:

> *As noted in our [the AER's] information paper, bringing forward the cost recovery of the efficient investments that regulated businesses have already made would increase the certainty that incurred costs would be recovered, thereby reducing stranded asset risk and the potential need for material upwards price adjustments in the future*.[32]

Noting that the AER's issues paper states:

> *We have not provided any compensation to regulated businesses for stranded asset risk via the return on capital. This is because stranded asset risk is generally considered non-systematic. In addition, it has not been considered material to date. We consider that adjusting regulatory depreciation (return of capital), one of the building blocks we use to determine gas access prices, would be more appropriate to manage stranded asset risk under the regulatory regime*.[33]

We do, however, recognise that providing a network business a reasonable opportunity to recover at least the efficient costs they incur in providing services does not mean gas consumers must guarantee that the regulated businesses recover their costs under any circumstances. That is, a network business can still bear some asset stranding risk on inefficient or discretionary expenditure.

Importantly, in preparing our AA Proposal and AA Addendum we carefully listened to our customers' views (see Chapter 3). While we note that some stakeholders have expressed concern with the use of accelerated depreciation, and there have been suggestions for a more coordinated approach to the energy transition with government(s), we must operate within the framework that we currently have, with an expectation that it is applied in a fair manner.

While we would welcome changes to our operating environment and/or the current regulatory regime that would help reduce the risks we are facing (therefore, the need for accelerated depreciation), in the absence of such assistance we continue to consider that our proposal for $200 million accelerated depreciation is reasonable. In particular, this outcome carefully balances several completing concerns, including the need to keep bills stable over the longer-term.

Given the AER acceptance of both the Future of Gas modelling and the use of accelerated depreciation to manage risks, we are therefore, concerned by the Draft Decision as it:

- Fails to adequately consider the long-term interest of customers as it places greater focus on current prices, notwithstanding our efficiency (see Box 1 below) or that our prices are already low relative to our peers. This means that our customers will face higher bills in the future than they would if our proposal was accepted.
- Results in stranding risk that is higher than otherwise would be the case or is justified by the supporting analysis. If the Final Decision prevents us from taking prudent and efficient steps to minimise our stranding risk, at a time when prices are currently low (and ours are the lowest in the country), then this is strengthening the case for the Government to backstop our risk, if stranding becomes imminent.

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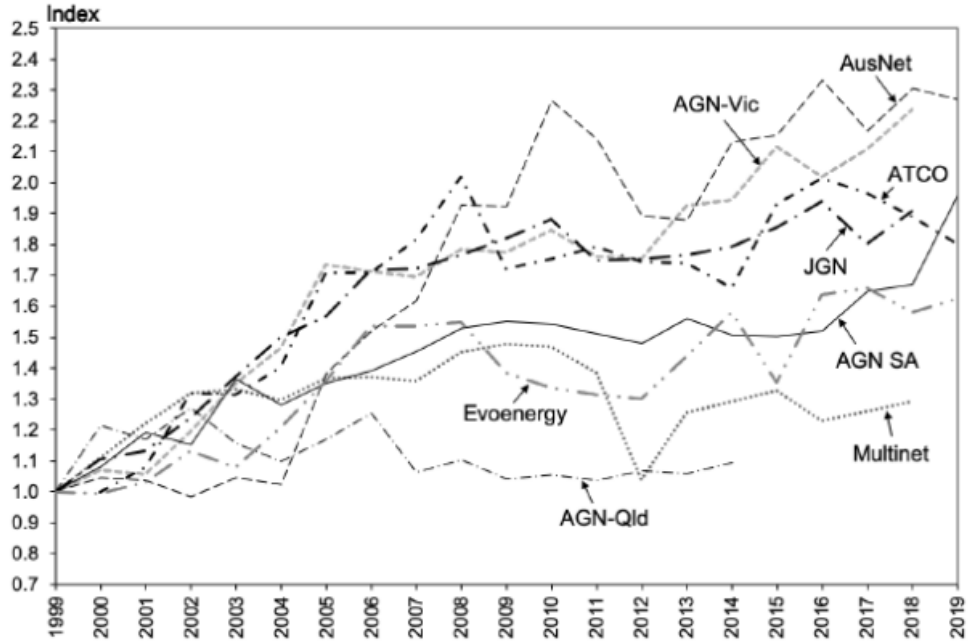
[31] AER, Draft Decision, Attachment 4: Regulatory depreciation, p. 14.
[32] AER, Draft Decision, Attachment 4: Regulatory depreciation, p. 14.
[33] https://www.aer.gov.au/system/files/AER%20Information%20Paper%20-%20Regulating%20gas%20pipelines%20under%20uncertainty%20-%2015%20November%202021.pdf (accessed 24/11/2022).

Box 1: Efficiency

Our low prices are the result of a running an efficient business and this is backed up by the last benchmarking review that was produced by an independent consultant. That report shows that the Victorian business are the most efficient in Australia, with AusNet arguably being the most efficient. This is illustrated in the figure below.

Figure B.1: Opex particular productivity comparisons (1999-2019)



Source: Economic Insight 2021, The Productivity Performance of Australian Gas Network's South Australian Gas Distribution System, Report prepared for Australian Gas Networks (AGN), 15 June, Figure 3.5

Source: AGN, Attachment 7.4, Economic Insights, The productivity performance of Australian Gas Networks' SA gas distribution system, SA Final Plan July 2021 – June 2026, p. 27.

Looking at the data underpinning AusNet's opex partial factor productivity growth over the full period from 1999 to 2019, we see that our PFP was 4.2% per year. This was higher than most other gas distribution businesses and the average for all the gas distribution businesses (2.9%). The only similar outcome over the same period was achieved by another Victorian gas distributer (AGN) over the same period (4.3%). However, looking at the results from only the last couple of years shows that our partial factor productivity has been the highest.

4.5. Updates and new information

This section explores the updates that we have included in our Revised AA Proposal, including those that were requested by the AER. The updates and new information we have made relate to:

- Terms and Conditions.
- Cost pass throughs.
- The safeguard mechanism.
- The shortening of asset lives.
- The Weighted Average Cost of Capital (WACC).

4.5.1. Terms and Conditions

In the Draft Decision several areas were identified where further refinement was required:

- Amendments to give full effect to the National Gas Amendment (DWGM Distribution connected facilities) Rule 2022 from 1 May 2024.
- Amendments to several definitions to correct errors and/or to appropriately capture relevant material.
- Refinement and clarification of our customer information requirements.
- Consideration of an alternative credit support mechanism.

While we have addressed all these issues, and our changes are reflected in our updated Terms and Conditions, there are two issues – the credit support mechanism and gas service abolishments – that we explore in more detail below.[34]

For further information on the amendments we have made to the Terms and Conditions, please see:

- The tracked-change versions of Part A, B and C that forms part of our Revised AA Proposal.
- Appendix 3, which provides information more information as to why we have made the changes that we have.

4.5.1.1. Credit support

The Draft Decision noted we are 'required to consider and put forward an alternative credit support framework, and that alternative - which may be based on Part 21 of the NGR (including related amendments to the retailer insolvency cost pass through event), the credit support arrangements that apply to electricity distributors in Victoria, or another model - should seek to re-balance risk between AusNet, retailers and customers by exploring ways to reduce the cost of pre-emptive, up-front risk management and balancing this with ex post recovery only where the risk is realised.'[35]

Having carefully considered stakeholders' views and the Draft Decision, we are proposing to replicate Division 4 of Part 21 of the NGR in our Terms and Conditions. This approach should help mitigate retailer's concerns that they will need to make upfront credit support payments when their continued financial viability is most at risk (to protect us from the costs arising from a retailer becoming insolvent, including billed but unpaid charges, unbilled charges and other costs incurred or likely to be incurred as a result of the insolvency).

By adopting this approach, we have elected to clarify that the Retailer Insolvency Event cost pass through is not subject to a materiality threshold (in other words, it is a zero threshold cost pass through) – see section 4.5.2 below.

4.5.1.2. Gas service abolishments

In the Draft Decision, the AER noted it would like us to separate our residential (small) customer connection abolishments, which the AER agreed should be a reference service, and business (large) customer connection abolishments, which the AER considered should be a non-reference ancillary service. We have clarified in our Revised AA Proposal that our abolishment fee only applies to Tariff V customers and abolishments for large customers are fully charged to those customers as a non-reference service.

The Draft Decision presented two possible approaches for recovering the costs of small customer connection abolishments:

- an ancillary reference service (the approach we proposed in our Initial AA Proposal); or
- bundling abolishment charges with haulage tariffs (thereby socialising the cost across the entirety of the distributor's small customer base.

The AER invited distributors and stakeholders to comment on the relative merits of these proposal.

Following the Draft Decision, we undertook research to test the AER's proposals with our customers. Overwhelmingly, survey respondents favoured a reference service fee for small customers. Respondents' views were that a property

[34] Another area we updated was the EBSS section of Part B. This update was made to reflect the AER's Draft Decision (see revisions 8.1 to 8.9 in Attachment 8 of the AER's Draft Decision).
[35] AER, Draft Decision, Attachment 11 – Non-tariff components, pp. 7-8.

owner seeking a permanent disconnection should meet the cost of disconnecting the service at the property boundary (e.g., digging up the foot path or nature strip in front of the premises). We note that where the service abolishment is requested as part of substantial renovations required to electrify the premises, the abolishment fee is likely to be modest relative to the cost of the renovation project. In such cases, we agree it is reasonable that the property owner meet the full cost of the abolishment.

Our customers also told us that abolishment costs should not be socialised and that any potential arrangement that would result in the full socialisation of services abolishment costs was the least preferred option. We agree with our customers that bundling abolishment costs with haulage tariffs is problematic as it:

- Excuses those customers abolishing their supply for purpose of undertaking a renovation or redevelopment from bearing the full cost of the service, even if they eventually reconnect to the gas network. This is inconsistent with the 'causer pays' approach to tariff setting that has been a key feature of energy regulation in Australia for many years.
- Transfers the cost burden of abolishment from those who are better able to bear the burden (the renovating customer) to those who may be less able to absorb it (such as customers who cannot afford to electrify their homes).

Socialising abolishment costs will also create perverse incentives by making abolishment cheaper than standard disconnection/reconnection services, even though abolishment is a markedly more expensive service for a distributor to provide.

Another component of these perverse incentives is the greater effectiveness of abolishments in managing the risk of energy theft in comparison to disconnecting at the meter. While there may be reputational damage from undertaking costly abolishment works, retailers may be influenced by their commercial objective to remove bad debt accounts by abolishing the supply (and only keeping customer sites with strong track records of paying for the gas they consume). It is, therefore, reasonable to expect that bundling could incentivise retailers to request abolishments for many bad debt customer disconnections (rather than requesting a disconnection and reconnection at the meter costs, which currently costs $132.27). We forecast this incentive would result in a significant increase in the volume of abolishment service requests, up from the current 2,000 per year to 10,000 per year (that is, every second disconnection could become an abolishment). A significant increase in connection abolishments, would likely cause market distortions and customer inequity that outweigh any potential benefit.

We acknowledge that one of the arguments in favour of bundling is that it mitigates the risk that retailers may lack adequate means to recoup abolishment costs charged to it by the distributor.[36] The ability for retailers (and, in turn, distributors) to recover small customer abolishment charges is an important consideration because over the longer term (the next 10 or more years), we anticipate there will be a safety imperative to remove unused gas service lines and that will escalate the costs of abolishing supplies. We understand that currently, where retailers find themselves unable to recover connection abolishment changes from small customers, they are already socialising these costs.

However, irrespective of the materiality of these costs, the risks facing retailers cannot simply be shifted back onto distributors. Distributors do not have a direct relationship with end-use customers and so have no ability to influence which service the customer requests. Similarly, distributors do not have the necessary legal and customer service relationships with customers to enable distributors to recover unpaid abolishment charges themselves. The retailer is a critical intermediary. Therefore, it is appropriate that retailers assume some of the risk of customer bad debt and the costs arising from the customer incentive to opt for disconnection rather than abolishment to drive economically efficient service outcomes.

To strike a more appropriate balance between the safety and economic risks facing distributors, retailer recoupment risks, and customer affordability and equity concerns, we are proposing a new cost pass through event. This event, named the Unrecoverable Abolishment Service Charges Event, will allow us to initiate our Reference Tariff Variation Mechanism in clause 8 of Part B of our AA where abolishment service charges are billed but unpaid and there is no reasonable prospect that we will be paid, or the service is provided but cannot be billed for. We understand this is similar to an event definition that AGN and Multinet are incorporating in their Revised AA Proposals.

[36] The inability to recover can arise where a customer moves out and the new occupant does not sign the retail energy offer, or an abolishment service is validly requested by the retailer and performed by the distributor, but the customer does not pay the service charge.

We recognise the Unrecoverable Abolishment Service Charges Event cost pass through has not been the subject of consultation with stakeholders. We further acknowledge that the Event may not go far enough to help mitigate the risk that retailers face a genuine inability to recover from their customers charges we have billed them and which they are required to pay under the terms of the AA. Therefore, we invite all interested parties to make a submission on this proposed cost pass through, and welcome the opportunity to participate in discussions with the AER, our customers and stakeholders, and other distributors to develop other arrangements that will deliver cost-effective, safe and efficient outcomes for our customers.

In summary, having considered the issues raised by the AER and our customers and stakeholders, our Revised AA Proposal is, therefore, to:

- Maintain our ancillary reference service for abolishments for small customers.
- Propose a non-reference ancillary service for abolishments for business (large) customer connections.
- Propose a new cost pass through event to apply in situations where small customer abolishment charges cannot be recovered.

We also expect there to be further engagement across the industry during the forthcoming AA period to consider the role of service abolishment in facilitating the transition to Net Zero and the implementation of the Roadmap. For example, the Essential Services Commission (ESC) intends to review and revise the Gas Distribution System Code of Practice later this year. This review may canvas the circumstances in which service providers are permitted to levy abolishment service charges, and retailers are permitted to pass on and recover those charges from customers. In this, or any other review or initiative that seeks to alter the current cost recovery arrangements for connection abolishment charges, it will be essential that any proposals for change recognise and are consistent with the rights and obligations of service providers and retailers under the AA approved by the AER.

4.5.2. Cost pass throughs

Connected with the proposed change to our credit support arrangements (section 4.5.1.1 above) and our gas service abolishments (section 4.5.1.2 above), we have proposed a minor variation to our existing Retail Insolvency Event definition, and a new cost pass through as part of our proposal for managing cost recovery of small customer abolishment charges.

Retailer Insolvency Support

The Retailer Insolvency Event occurs in situations where a retailer who is the gas supplier of last resort cannot supply its customers and becomes insolvent, and its insolvency results in lost revenue. It is an existing Relevant Pass Through Event that replicates the event of the same name that applies under the National Electricity Rules in those jurisdictions who have adopted the National Energy Retail Law.

Our Revised AA Proposal is not proposing any changes to our Retailer Insolvency Event definition. However, in light of our proposal to align our credit support arrangements for retailers with Division 4 of Part 21 of the NGR in our Terms and Conditions, it is essential that our AA is clear that no materiality threshold applies in respect of a Retailer Insolvency Event. Our view is that although the absence of any reference to materiality in the definition as it is currently drafted provides the necessary clarity, there is benefit to stating this explicitly. Therefore, we are proposing to add a clarificatory note beneath the definition to prevent any possible misinterpretations.

Unrecovered Abolishment Service Charges Event

As discussed in section 4.5.1.2 (above), we are proposing a new cost pass through event as a way to ensure small customer connection abolishment charges are recovered. It allows us to initiate the Reference Tariff Variation Mechanism at the end of each financial year to recover any small customer abolishment service charges that we have billed for but which remain unpaid and are overdue, and there is no reasonable prospect that those amounts will be repaid. The Event definition also allows us to recover the cost we incur when it is necessary for safety reasons, or because we are required (whether by a Regulatory Instrument or otherwise for safety), to abolish a small customer connection and the connection is not assigned to a customer in the data held by a retailer as required by the Gas Interface Protocol and provided to us in accordance with clause 9.4(a) of the AA.

The Event definition intends that we be able to notify the AER of a pass through annually. This reflects that unrecovered abolishment service charges will accrue over time and we will have to carry those accrued amount unless and until the AER approves a variation to our tariffs. For this reason, we propose that the Unrecovered Abolishment Service Charges Event not be subject to a materiality threshold.

4.5.3. Safeguard mechanism in the tariff control formula

In January 2023, the Federal Government released a Position Paper on safeguard mechanism reforms.[37] Importantly, this paper is still seeking feedback on the proposed design to deliver emissions reductions consistent with Australia's Nationally Determined Contribution under the Paris Agreement and strengthen Australia's competitiveness in a decarbonising global economy.[38]

The proposed safeguard mechanism reforms aim to help industry reduce emissions in line with Australia's climate targets and requires Australia's largest greenhouse gas emitters to keep their net emissions below an emissions limit (a baseline).

The Federal Government proposes:

- Gradually reducing baselines to help Australia reach net zero emissions by 2050, while introducing new obligations in manageable increments and giving businesses flexibility around the timing of their abatement investments.
- Introducing safeguard crediting and trading for facilities that can achieve emissions below their baseline – that is, for over-performing on their individual emissions limit.
- Allowing businesses to access cost-effective abatement outside the scheme.
- Providing tailored treatment to emissions-intensive, trade-exposed facilities to help ensure businesses are not competitively disadvantaged compared to international competitors and emissions do not 'leak' overseas.[39]

Given the scope for further refinement to the proposed safeguard mechanism reforms, we consider the most appropriate mechanism to deal with the associated uncertainty is to amend the Tariff Control Formula. Our approach is outlined below.[40]

Tariff Control Formula

(a) The Tariff Control Formula adopted is consistent with the tariff basket form of price control.

(b) The Tariff Control Formula is:

$$(1 + \Delta CPI_t)(1 - X_t)(1 + C_t)(1 + PT_t) \geq \frac{\sum_{i=1}^{n}\sum_{j=1}^{m} p_t^{ij}\, q_{t-2}^{ij}}{\sum_{i=1}^{n}\sum_{j=1}^{m} p_{t-1}^{ij} q_{t-2}^{ij}}$$

where the Service Provider has *n* Haulage Reference Tariff categories, each category having up to *m* Haulage Reference Tariff Components and where:

ΔCPI_t	is the annual percentage change in the ABS CPI All Groups, Weighted Average of Eight Capital Cities for the December quarter in Regulatory Year t-2 to the December quarter in Regulatory Year t-1, calculated using the following method The ABS CPI All Groups, Weighted Average of Eight Capital Cities for the December quarter in Regulatory Year t-1 divided by the ABS CPI All Groups, Weighted Average of Eight Capital Cities for the December quarter in Regulatory Year t-2 minus 1. If the ABS does not, or ceases to, publish the index, then CPI will mean an index which the Regulator considers is the best available alternative index.
t	is the Regulatory Year for which tariffs are being set.

[37] See: https://consult.dcceew.gov.au/safeguard-mechanism-reform-consult-on-design (accessed 11/01/2023).
[38] Feedback on this Position Paper is due with the Federal Government by Friday 24 February 2023.
[39] DCCEEW, Safeguard Mechanism Reforms, Position Paper, January 2023, pp. 1-5.
[40] The C-factor was chosen to indicate Carbon. We did not use S for Safeguard as this could be confused with the S-Factor used by the AER for the reliability scheme in the electricity sector.

X_t	is the X factor for each year of the Sixth Access Arrangement Period as determined in the PTRM as approved in the full access arrangement decision, and annually revised for the Return on Debt Update calculated for the relevant year in accordance with that approved in the full access arrangement decision.
C_t	is the C factor or Safeguard Mechanism Factor for Regulatory Year t, as defined below PT_t is the adjustment factor for Regulatory Year t as calculated in accordance with clause 3.1.3.
n	is the number of different Haulage Reference Tariffs.
m	is the different components, elements or variables ("components") comprised within a Haulage Reference Tariff.
p_t^{ij}	is the proposed component j of Haulage Reference Tariff i in Regulatory Year t.
p_{t-1}^{ij}	is the prevailing component j of Haulage Reference Tariff i in Regulatory Year t-1.
q_{t-2}^{ij}	is the audited Quantity of Haulage Reference Tariff Component j of Haulage Reference Tariff i that was sold in Regulatory Year t-2.

The Safeguard Mechanism Factor is:

C is the Safeguard Mechanism adjustment to the Distribution price control in Regulatory Year *t* for the Service Provider as determined below. For the purpose of this formula the Safeguard amount includes all costs incurred in meeting the Safeguard mechanisms set out in the *National Greenhouse and Energy Reporting Act 2007*.

Calculation of the Safeguard Mechanism factor:

The Safeguard Mechanism Factor C_t, for the Service Provider is:

$$1 + C_t = \frac{(1 + C'_t)}{(1 + C'_{t-1})}$$

where:

If Regulatory Year *t* is 2023-24:

$$C'_t = \frac{cf_{t-1}(1 + realWACC_t)^{\frac{3}{2}}(1 + CPI_t)^{\frac{3}{2}} + \Delta cf_{t-2}(1 + realWACC_{t-1})(1 + realWACC_t)^{\frac{3}{2}}(1 + CPI_{t-1})(1 + CPI_t)^{\frac{3}{2}}}{(1 + CPI_t)(1 - X_t)(1 + PT_t)(1 - PT_{t-1})\sum_{i=1}^{n}\sum_{j=1}^{m} p_{t-1}^{ij} q_{t-2}^{ij}}$$

If Regulatory Year *t* is 2024-25 to 2027-28:

$$C'_t = \frac{cf_{t-1}(1 + realWACC_t)^{\frac{3}{2}}(1 + CPI_t)^{\frac{3}{2}} + \Delta cf_{t-2}(1 + realWACC_{t-1})(1 + realWACC_t)^{\frac{3}{2}}(1 + CPI_{t-1})(1 + CPI_t)^{\frac{3}{2}}}{(1 + CPI_t)(1 - X_t)(1 + PT_t)\sum_{i=1}^{n}\sum_{j=1}^{m} p_{t-1}^{ij} q_{t-2}^{ij}}$$

C'_{t-1} if Regulatory Year *t* is the Regulatory Year ending 30 June 2024, the value is zero; an

if Regulatory Year *t* is after the Regulatory Year ending 30 June 2024, is the value of the C_t determined in Regulatory Year *t*-1.

cf_{t-1} is the estimate of the Safeguard mechanism costs incurred by the Service Provider for the Financial Year ending June of the Regulatory Year *t*-1.

Δcf_{t-2} is the actual Safeguard mechanism cost for regulatory year t-2 less the estimated Safeguard mechanism cost for regulatory year t-2. For the avoidance of doubt, the estimated Safeguard mechanism cost for regulatory year t-2 is the same as cf_{t-1} determined for regulatory year t-1

$realWACC_t$ is the real vanilla weighted average cost of capital as set out in this final decision and updated annually within the PTRM for regulatory year t

$realWACC_{t-1}$ is the real vanilla weighted average cost of capital as set out in this final decision and updated annually within the PTRM for regulatory year t-1

4.5.4. Shortening of asset lives

The Draft Decision did not accept our proposal to shorten the asset lives of our mains and services pipelines. Our proposal was in two parts:

- Shortening the asset lives on a forward-looking basis.
- An adjustment to recover asset values that should have already been depreciated based on the shorter asset lives.

While we continue to consider that both parts of our proposal have merit, we have accepted that no adjustment to recover delayed depreciation will be applied as part of this process. However, we do not accept that shorter asset lives should not be applied on a forward-looking basis.

A standard asset life of 60 years being applied to new pipeline assets constructed today, suggests that on average these assets will still be in use in 2083. If the gas network sees significant demand reduction before 2083, which seems increasingly likely, then this long asset life will simply serve to keep the RAB larger than necessary, inflating the asset stranding risk and risk of future price rises for our customers.

While shortening the asset lives to 50 years is unlikely to be sufficient to solve all future asset stranding risks (noting this still implies widespread asset usage in 2073), it is a modest step at this time, to mitigate a future risk. Given this, and that the engineering assessment shows that 50 years reflects the actual useful life on our network at this time, we consider our proposal to shorten the asset lives of any new pipeline assets should be accepted by the AER.

We also note that in the recent Final Decision on Evoenergy, the AER accepted a shortening of the asset lives based on the uncertain future of the network:

> *Our final decision is to accept Evoenergy's revised proposal for shorter standard asset lives for its new pipeline assets. This applies to its forecast expenditure for pipeline assets which are chiefly located in the ACT but also to other pipeline assets in the NSW region.*
>
> *In our draft decision, we accepted Evoenergy's proposed shorter standard asset lives for pipeline assets in the ACT region. This was because we considered that there was sufficient evidence to justify that new pipeline assets in the ACT would have shorter economic lives than their technical lives due to the ACT Government's policies to move away from gas use even though there were still some uncertainties regarding the path the ACT Government would choose to achieve net zero emissions.*[41]

We agree with the AER's reasoning in the Evoenergy decision.

While we recognise that the Roadmap is not as definitive as the Australian Capital Territory Government's policy, it nonetheless points to a greater role for electrification and reduced gas demand. We also note that in the Draft Decision the AER has accepted our demand forecasts and customer connection expenditure based on this case, and has approved accelerated depreciation on this uncertainty. Given this, a 50-year asset life for new pipeline assets is not only more consistent with the rest of the Draft Decision, but it is also a prudent step that should be supported in the Final Decision.

4.5.5. Weighted Average Cost of Capital

In the Draft Decision the AER applied the current 2018 Rate of Return Instrument (2018 Instrument) and in the Final Decision the AER will need to apply the 2022 Rate of Return Instrument (2022 Instrument).

[41] AER, Attachment 4: Regulatory depreciation, Final Decision – Evoenergy Access Arrangement 2021–26, p. 5.

Reflecting this expected update, we have in this, our Revised AA Proposal:

- Updated the WACC to incorporate an updated estimate of the equity Risk Free Rate based on the 10 year Government bond rate from 3.89% to 3.445%, to reflect actual rates in December 2022, when we locked in this parameter.
- Updated the Market Risk Premium from 6.1% to 6.3%, which is a placeholder and does not reflect our position or expectation on what this or any other WACC parameter should be, which have been separately communicated to the AER as part of the RORI process.

Our update has reduced the Return on Equity from 7.55% to 7.23%, while the Return on Debt remains unchanged.

4.6. Other observations

4.6.1. Opex

While we welcome and accept the Draft Decision on opex, which provides for a total opex allowance of $330.9 million (including the ESV levy, and excluding debt raising costs), we note:

- The best mechanism to recover the prudent and efficient cost of the ESV levies remains via the control mechanism, where customers only pay for the exact levied amount (no more and no less). This approach is consistent with the treatment of ESV levies in the electricity distribution sector where the exact levies are recovered as a jurisdictional scheme amount in the control mechanisms formula.
- The output measures (customer numbers, mains length and energy throughput) and weights should be revisited at the next regulatory reset to ensure they are fit-for-purpose and reflect the latest available data.
- As a result of the lower demand forecasts in the draft 2023 GSOO, productivity has likely fallen further since we submitted our AA Addendum. Consequently, the Draft Decision's use of an average productivity level of 0.2% per annum should be considered as the upper limit, with the actual levels likely to be lower.
- The AER has averaged BIS Oxford Economics' Wage Price Index (WPI) and KPMG's WPI to coming to a view of WPI changes. We note that the AER has adopted a pre-superannuation value of 0.4% for BIS Oxford Economics' FY2024 estimate where it should be 0.5%.
- The Environment Protection Act step change that we proposed in our AA Proposal should not be rejected on the basis of materiality. Such an approach forces network businesses to absorb legitimate costs that are incurred in providing gas services. We have already agreed to absorb $6 million in opex cost and our ability and willingness to absorb such costs going forward will have to be reconsidered if use of this materiality threshold (which is not outlined in the NGR) is continued.

4.6.2. EBSS

While we welcome the Draft Decision on the EBSS and have accepted the Draft Decision of $21.8 million, we note that the approved opex and actual opex in our AA Addendum EBSS model, for 2015 and 2017, were already exclusive of Ancillary Reference Services (ARS).

4.7. Our Revised AA Proposal

Reflecting all the updates outlined above, our Revised AA Proposal results in modest unit price rises and, more importantly, even smaller average bill increases for our customers, while also allowing us to manage the uncertainty we are facing. In particular, in the next AA period, we are proposing:

- A first year price increase of 0.43%.
- In subsequent years a price increase of 5.27% per annum above inflation.

Importantly, real average bills over the next AA period will only be 0.8% higher than the current AA period. This small increase is within a range that we consider should be acceptable to our customers and the AER.

Our proposed revenue requirement is $1,346 million in unsmoothed nominal dollar terms. In real, smoothed dollar terms, the proposed revenue requirement is $1,216 million, or an average of $243 million, which is 11% above the expected revenue in the current AA period.

Our new revenue proposal is set out in the table below.

Table 4.3: Unsmoothed Revenue Requirement Change from Draft Decision ($m, nominal, unsmoothed)

	Draft Decision	Revised AA Proposal	Change
Return on Capital	587.5	558.6	-28.9
Return of Capital	217.7	364.3	146.6
Operating Expenditure[42]	370.9	370.4	-0.4
Revenue Adjustments	(2.7)	1.8	4.5
Net Tax Allowance	32.9	50.7	17.8
Unsmoothed Revenue Requirement	**1,206.3**	**1,345.9**	**139.6**

Source: AusNet Services PTRM (2024-28). Excluding Ancillary Reference Services

Table 4.4: Total building block revenue requirement ($m, nominal, unsmoothed)

	2023-24	2024-25	2025-26	2026-27	2027-28	Total
Return on Capital	103.6	108.1	112.6	116.2	118.1	**558.6**
Return of Capital	60.9	62.3	71.1	80.9	89.1	**364.3**
Operating Expenditure[43]	70.5	74.1	73.6	75.0	77.2	**370.4**
Revenue Adjustments	-18.2	8.7	5.5	3.8	2.0	**1.8**
Net Tax Allowance	10.3	9.6	9.3	10.4	11.2	**50.7**
Unsmoothed Revenue Requirement	**227.0**	**262.8**	**272.2**	**286.2**	**297.7**	**1,345.9**

Source: AusNet Services PTRM (2024-28). Excluding Ancillary Reference Services

Further information on each of these components is available in earlier chapters of this document.

4.7.1. Smoothed revenue requirement

We have smoothed the revenue requirement to deliver a stable annual revenue profile over the forthcoming AA period. In the Draft Decision, the AER proposed a flat price path of 0% real price change in each year of the AA period. We have applied the AER's default smoothing approach in this Revised AA Proposal as it is the AER's default approach and is also broadly supported by customers (see Chapter 3 on 5-year pricing path preferences, section 3.5.3.3). Almost three quarters (72%) of customers rank this as their most- or second-most-preferred of the 4 scenarios tested, and it received the lowest proportion (10%) of least-preferred rankings.

[42] Excluding Ancillary Reference Services.
[43] Excluding Ancillary Reference Services.

Importantly, this price path keeps prices lower in the first year of the AA period, when higher inflation and cost-of-living pressures are most likely to be felt, and then prices increase at a constant rate over the remainder of the AA period. This provides relatively stable and consistent prices for our customers, while also helping to mitigate short-term price pressures.

In accordance with the requirements of rule 92(2), the revenues defined by the smoothed profile return the same NPV as the unsmoothed revenue shown in the table above.

Table 4.5: Total smoothed revenue requirement ($m, $June 2023)

	2023-24	2024-25	2025-26	2026-27	2027-28	Total
Draft Decision	218.7	218.4	218.4	217.9	216.6	**1,090.0**
Revised AA Proposal	219.6	230.9	243.0	255.2	267.1	**1,215.9**
Price change (% real)	0.43%	5.27%	5.27%	5.27%	5.27%	
Change from Draft Decision	0.9	12.5	24.6	37.4	50.5	**125.9**

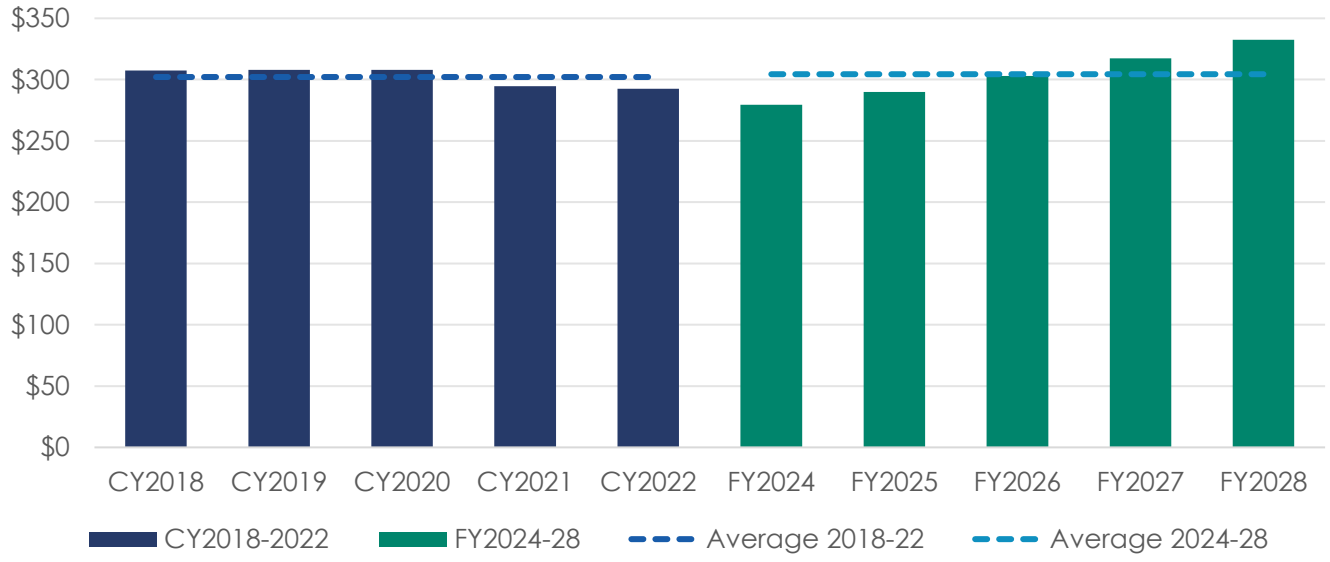
Source: AusNet Services PTRM (2024-28)

4.7.2. Affordability and price/bill outcomes

We have carefully balanced the adjustments we have made to account for the increased stranding risk with the importance of maintaining affordability. Our Revised AA Proposal results in a real price increase for customers of around 11.3% on average over the period and the average bill in the 2024-28 regulatory period is only 0.8% above the average bill in the 2018-22 regulatory period (see Figure 4.12).

After these changes, we should remain the lowest cost distribution network in Victoria.

Figure 4.12: Average smoothed revenue per customer ($ June 2023)



Source: AusNet

The table below shows the average bill expected per customer in nominal dollars.

Table 4.6: Average bill by customer type ($ June 2023)

Customer Type	Volume	2022-23 (Current)	2023-24 (Year 1)	2024-25	2025-26	2026-27	2027-28
Small residential (GJ)	15	$187	$188	$198	$216	$235	$255
Medium residential (GJ)	40	$255	$256	$279	$304	$330	$359
Large residential (GJ)	70	$337	$338	$368	$400	$436	$474
Small commercial (GJ)	15	$194	$194	$212	$230	$251	$273
Medium commercial (GJ)	75	$377	$379	$412	$449	$488	$531
Large commercial (GJ)	700	$2,291	$2,301	$2,504	$2,725	$2,965	$3,227
Small industrial (MHQ)	5	$1,600	$1,607	$1,748	$1,903	$2,070	$2,253
Medium industrial (MHQ)	20	$6,247	$6,274	$6,827	$7,429	$8,084	$8,797
Large industrial (MHQ)	80	$19,828	$19,913	$21,669	$23,580	$25,660	$27,923

Source: AusNet

4.8. Reference tariffs

Reflecting the various changes outlined above, we have revised our tariffs to reflect our Revised AA Proposal. Outlined below is the relevant information on our proposed tariffs.

Table 4.7: Tariff V Haulage Reference Services

Central	Unit	Domestic	Non-domestic
Fixed charge	$/day	0.4636	0.4839
Peak 0 – 0.1	$/GJ	6.3861	1.1504
Peak > 0.1 – 0.2	$/GJ	3.8490	1.0960
Peak > 0.2 – 1.4	$/GJ	0.6692	0.9862
Peak > 1.4	$/GJ	0.6011	0.7529
Off peak 0 – 0.1	$/GJ	2.1647	1.0901
Off peak > 0.1 – 0.2	$/GJ	1.7106	0.7627
Off peak > 0.2 – 1.4	$/GJ	0.6556	0.6279
Off peak > 1.4	$/GJ	0.2325	0.6088

West	Unit	Domestic	Non-domestic
Fixed charge	$/day	0.4636	0.4839
Peak 0 – 0.1	$/GJ	3.3755	1.7581
Peak > 0.1 – 0.2	$/GJ	2.4305	1.4818
Peak > 0.2 – 1.4	$/GJ	0.7852	0.9154
Peak > 1.4	$/GJ	0.7525	0.3432
Off peak 0 – 0.1	$/GJ	1.0437	0.8147
Off peak > 0.1 – 0.2	$/GJ	0.9781	0.6863
Off peak > 0.2 – 1.4	$/GJ	0.5577	0.3307
Off peak > 1.4	$/GJ	0.1101	0.2460

Adjoining Central	Unit	Domestic	Non-domestic
Fixed charge	$/day	0.4636	0.4839
Peak 0 – 0.1	$/GJ	10.4584	4.3001
Peak > 0.1 – 0.2	$/GJ	7.5370	4.0977
Peak > 0.2 – 1.4	$/GJ	2.6846	3.8736
Peak > 1.4	$/GJ	2.5742	3.6586
Off peak 0 – 0.1	$/GJ	4.6838	3.9582
Off peak > 0.1 – 0.2	$/GJ	2.7162	3.7997
Off peak > 0.2 – 1.4	$/GJ	2.3635	3.6819
Off peak > 1.4	$/GJ	2.2729	3.5920

Adjoining West	Unit	Domestic	Non-domestic
Fixed charge	$/day	0.4636	0.4839
Peak 0 – 0.1	$/GJ	7.3287	5.3064
Peak > 0.1 – 0.2	$/GJ	6.1531	4.9809
Peak > 0.2 – 1.4	$/GJ	3.1578	4.2781
Peak > 1.4	$/GJ	2.8324	3.7605
Off peak 0 – 0.1	$/GJ	4.3490	4.0794

Off peak > 0.1 – 0.2	$/GJ	3.2891	3.8814
Off peak > 0.2 – 1.4	$/GJ	2.3550	3.3933
Off peak > 1.4	$/GJ	2.2813	3.2313

Source: AusNet

Table 4.8: Tariff M Haulage Reference Services

Blocks	Central	West	Adjoining Central	Adjoining West
0 – 10 MHQ (GJ/hr)	740.9939	740.9939	740.9939	740.9939
10 – 50 MHQ (GJ/hr)	705.7349	705.7349	705.7349	705.7349
>50 MHQ (GJ/hr)	147.3589	147.3589	147.3589	147.3589

Source: AusNet

Table 4.9: Tariff D Haulage Reference Services

Blocks	Central	West	Adjoining Central	Adjoining West
0 – 10 MHQ (GJ/hr)	338.0243	338.0243	338.0243	338.0243
10 – 50 MHQ (GJ/hr)	321.9306	321.9306	321.9306	321.9306
>50 MHQ (GJ/hr)	156.3013	156.3013	156.3013	156.3013

Source: AusNet

4.9. Supporting documents

The following documents are provided in support of this chapter:

- ASG – GAAR 2024-28 – Appendix 3 – Response to changes required to the AA – 24 January 2023 – PUBLIC
- ASG – GAAR 2024-28 – Capex Model – 24 January 2023 – PUBLIC
- ASG – GAAR 2024-28 – Opex Model – 24 January 2023 – PUBLIC
- ASG – GAAR 2024-28 – PTRM – 24 January 2023 – PUBLIC
- ASG – GAAR 2024-28 – RFM – 24 January 2023 – PUBLIC
- ASG – GAAR 2024-28 – Depreciation Module – 24 January 2023 – PUBLIC
- ASG – GAAR 2024-28 – ARS Model – 24 January 2023 – PUBLIC

5. Other key information

For completeness, outlined below is information on key issues not covered elsewhere in this document. For further information on these table, including information on the rationale/drivers of this data, please refer to the AER's Draft Decision, our AA Proposal or AA Addendum.

Table 5.1: Residential gas consumption

	2023-24	2024-25	2025-26	2026-27	2027-28
AA Proposal	31,255,312	31,135,197	31,298,331	31,746,712	32,283,973
AA Addendum	30,705,953	30,129,709	29,809,760	29,562,134	29,194,533
Draft Decision	30,705,953	30,129,709	29,809,760	29,562,134	29,194,533
Revised AA Proposal	30,705,953	30,129,709	29,809,760	29,562,134	29,194,533
Change from Draft Decision to Revised AA Proposal (%)	-	-	-	-	-

Source: AusNet

Table 5.2: Capex by driver ($m, June 2023)

Capex by driver	Draft Decision	Revised AA Proposal	Difference Draft Decision to Revised AA Proposal
Mains replacement	132.3	132.3	-
Customer connections*	187.0	187.0	-
Meter replacement	33.7	33.7	-
Augmentation	19.8	19.8	-
SCADA	3.2	3.2	-
ICT	72.0	72.0	-
Other*	56.3	56.3	-
Total Gross capex	**504.4**	**504.4**	**-**
Customer contributions	(76.8)	(76.8)	-
Net capex	**427.6**	**427.6**	**-**

Source: AusNet

Table 5.3: Overview of our proposed opex by driver ($m, June 2023)

	Draft Decision	Revised AA Proposal	Change
Base	283.3	283.3	-
Trend	12.0	12.0	-
Capex to opex transfers	31.2	31.2	-
Priority Service Program	4.4	4.4	-
Total opex excluding debt-raising cost	**330.9**	**330.9**	**-**
Debt raising cost	4.8	4.4	-0.4
Total opex including debt-raising cost	**335.7**	**335.3**	**-0.4**

Source: AusNet

Table 5.4: Projected capital base comparison ($m nominal)

Regulatory year	2023-24	2024-25	2025-26	2026-27	2027-28
Draft Decision	1,940.2	2,015.8	2,076.0	2,109.7	2,121.2
Revised AA Proposal	1,918.5	1,966.2	1,996.3	1,998.0	1,975.1
Change ($)	-21.7	-49.6	-79.6	-111.7	-146.1
Change (%)	-1.1%	-2.5%	-3.8%	-5.3%	-6.9%

Source: ASG Proposal PTRM (2024-28)

Table 5.5: Projected capital base ($m nominal)

Regulatory year	2023-24	2024-25	2025-26	2026-27	2027-28
Opening capital base	1,865.3	1,915.6	1,963.9	1,994.8	1,997.2
Net capex	111.1	110.6	102.0	83.3	67.0
Straight line depreciation	-123.8	-126.9	-137.4	-148.2	-156.5
Inflation on Opening capital base	62.9	64.6	66.2	67.3	67.4
Closing capital base	**1,915.6**	**1,963.9**	**1,994.8**	**1,997.2**	**1,975.1**

Source: ASG Proposal PTRM (2024-28)

Table 5.6: Net depreciation allowance comparison 2024-28 ($m June 2023)

Regulatory year	2023-24	2024-25	2025-26	2026-27	2027-28	Total
Draft Decision	34.4	32.8	37.9	43.4	47.1	**195.7**
Revised AA Proposal	58.9	58.3	64.4	70.9	75.5	**327.9**
Change from Draft Decision to Revised AA Proposal	24.5	25.5	26.5	27.4	28.4	**132.2**
Change from Draft Decision to Revised AA Proposal (%)	71.0%	77.6%	69.8%	63.2%	60.3%	**67.6%**

Source: ASG Proposal PTRM (2024-28)

Table 5.7: Proposed long Future of Gas accelerated depreciation 2024-287 ($m June 2023)

Regulatory year	2023-24	2024-25	2025-26	2026-27	2027-28	Total
Accelerated depreciation - Future of gas	45.7	45.7	45.7	45.7	45.7	**228.5**
Existing asset classes offset	-5.7	-5.7	-5.7	-5.7	-5.7	**-28.6**
Net accelerated depreciation	**40.0**	**40.0**	**40.0**	**40.0**	**40.0**	**199.9**
Net FoG Acc Dep – Draft Decision	16.2	16.2	16.2	16.2	16.2	**81.1**
Change from Draft Decision	23.8	23.8	23.8	23.8	23.8	**118.8**

Source: ASG Proposal PTRM (2024-28)

Table 5.8: Long life assets accelerated depreciation 2024-28 ($m June 2023)

Regulatory year	2023-24	2024-25	2025-26	2026-27	2027-28	Total
Existing assets	79.8	72.6	71.8	70.7	69.4	**364.2**
Accelerated depreciation – Asset lives	0.0	0.0	0.0	0.0	0.0	**0.1**
Accelerated depreciation - FoG	40.0	40.0	40.0	40.0	40.0	**199.9**
New assets	0.0	6.1	12.6	19.1	23.2	**61.0**
Escalation of Opening RAB	-60.9	-60.5	-60.0	-58.9	-57.1	**-297.3**
Net depreciation allowance	**58.9**	**58.3**	**64.4**	**70.9**	**75.5**	**327.9**
AER Draft Decision	34.4	32.8	37.9	43.4	47.1	**195.7**
Change from Draft Decision	24.5	25.5	26.5	27.4	28.4	**132.2**

Source: AusNet

Table 5.9: Estimated nominal vanilla WACC

Regulatory year	2023-24	2024-25	2025-26	2026-27	2027-28
Draft Decision	5.68%	5.78%	5.87%	5.96%	6.05%
Revised AA Proposal	5.55%	5.64%	5.73%	5.82%	5.91%
Change from Draft Decision to Revised AA Proposal (%)	-0.13%	-0.13%	-0.13%	-0.13%	-0.13%

Source: ASG Proposal PTRM 2024-28

Table 5.10: Corporate tax allowance ($m June 2023)

Regulatory year	2023-24	2024-25	2025-26	2026-27	2027-28	Total
Draft Decision	6.8	5.8	5.2	5.8	6.2	**29.8**
Revised AA Proposal	9.9	8.9	8.4	9.1	9.5	**45.8**
Change from Draft Decision to Revised AA Proposal	3.1	3.2	3.2	3.3	3.3	**16.1**
Change from Draft Decision to Revised AA Proposal (%)	46.3%	54.9%	61.7%	56.0%	53.3%	**54.0%**

Source: ASG Proposal PTRM 2024-28

Glossary

Abbreviation	Full name
AA	Access Arrangement
ABS	Australian Bureau of Statistics
ACT	Australian Capital Territory
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
AGN	Australian Gas Networks
AGIG	Australian Gas Industry Group
ARS	Ancillary Reference Services
Capex	Capital Expenditure
CESS	Capital Efficiency Sharing Scheme
CPI	Consumer Price Index
EBSS	Efficiency Benefit Sharing Scheme
ESV	Energy Safe Victoria
GJ	Gigajoule
GSOO	Gas Statement of Opportunities
MGN	Multinet Gas Networks
MJ	Megajoule
NGO	National Gas Objective
NGR	National Gas Rules
Opex	Operating and Maintenance Expenditure
PTRM	Post Tax Revenue Model
RAB	Regulatory Asset Base
RoLR	Retailer of Last Resort
The Roadmap	The Victorian Government's Gas Substitution Roadmap
RRG	Retailer Reference Group
VGNSR	Victorian Gas Networks Stakeholder Roundtable
WPI	Wage Price Index

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