

3 December 2021

Australian Energy Regulator
GPO Box 520
Melbourne Vic 3001
Submitted via: AERInquiry@aer.gov.au

Locked Bag 14051
Melbourne City Mail Centre
Victoria 8001 Australia
T: 1300 360 795
www.ausnetservices.com.au

Dear AER,

Approach to six-month extension of access arrangements: Victorian gas distributors

AusNet is pleased to have the opportunity to provide this submission to the position paper on the *Approach to six-month extension of access arrangements: Victorian gas distributors*.

AusNet generally supports the positions put forward in the paper and considers that they strike an appropriate balance between maintaining the incentive properties of the regulatory regime whilst minimising the costs of transitioning between regulatory periods. We make the following comments on specific details raised in the paper.

Demand

As noted by the AER, forecast demand plays an important role in the derivation of reference tariffs. The AER has concluded that:

“Given the short length of the extension period, we consider using the most recent actual demand for the equivalent, January to June period is reasonable, and will provide the best forecast of demand in the circumstances.”

AusNet does not agree that the most recent actual demand for Jan-Jun will provide the best forecast of demand. In the previous Jan-Jun period, gas distribution businesses experienced a number of short term factors that mean this period is not typical of expected gas usage. In particular:

- Covid has driven a significant increase in domestic gas consumption as additional people have been working from home.
- The last two winters have been colder than average, which has again driven higher than normal gas consumption.

Failing to account for these factors and simply adopting the last years actual consumption, would not result in the best forecast of demand in the circumstances. AusNet considers that Gas distribution businesses should be able to forecast demand based on their expertise and knowledge of the business. The AER can then assess whether this is a best forecast of demand in the circumstances and whether it is better than simply using the previous years actual demand.

Tariffs/Billing – Tariff D/M customers

We have identified a number of complexities related to billing in the six-month extension period for Tariff D/M customers. Under the current access arrangement, we are required to bill on forecast demand and then, if actuals are higher than the forecast, a true-up will occur during October to December. However, with the extension, there is no mechanism under the current access arrangement to allow for us to correct for volumes billed in this six-month extension period.

Our initial thinking is that the most appropriate approach is to bill Tariff M/D customers on actuals for the six month extension period. This is simple to implement in our billing systems and ensures that all customers are billed on actual consumption for this period. However, this will be non-compliant with the current GAAR. As such, we would need to submit a “no action” letter to the AER. We note there are similar complexities in moving the billing cycle from calendar to financial years, which will have to be resolved in our regulatory proposal for the 2024-2028 GAAR.

Tariffs/Billing – inflation adjustment

Some sections of the AER’s position paper it contemplates that tariffs in the six month extension period will remain unchanged from the 2022 tariffs. However, it also indicates in other sections that the 2022 tariffs will be adjusted for a half year actual inflation. AusNet Services considers that escalating the tariffs for a half year of actual inflation is the appropriate approach and asks the AER to clarify its position on this.

If you have any queries on our submission, please do not hesitate to contact Michael Larkin at

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Yours sincerely,

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Tom Hallam
General Manager, Regulation