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2018 to 2022 Revised Access Arrangement Information

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2018 to 2022 Revised Access Arrangement Information

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Table of Contents

Executive Summary

On 21 December 2016, we submitted our Initial Access Arrangement (AA) Proposal and supporting Access Arrangement Information (AAI) to the Australian Energy Regulator (AER) for the forthcoming AA period, 1 January 2018 to 31 December 2022.

The AER issued its Draft Decision on 6 July 2017 in which it accepted much of our initial proposal. The AER did make some amendments to reflect the AER's preferred approach to determining certain input parameters (such as rate of return, gamma and inflation) and where it held a different view as to what constituted a reasonable forecast (such as the volume of mains to be replaced, connection forecast and marketing).

In summary we have accepted the majority of the AER's Draft Decision with the exception of the mains replacement program. In this submission we have provided additional evidence supporting a higher proposal than that allowed for in the Draft Decision (however still lower than our original proposal). We are also proposing a Capital Expenditure Sharing Scheme (CESS) consistent with the AER's draft decision for AGN and Ausnet Services.

In this Revised AAI we have:

- maintained our services, which the AER accepted;
- modified our opening capital base at 1 January 2018 to $1,193.0 million (Nominal) by accepting the AER's proposed revisions and updating for our actual 2016 capex and our reforecast 2017 capex;
- modified our closing capital base at 31 December 2022 to $1,446.3 million (Nominal), including by applying: our revised opening capital base; revised capex and depreciation forecasts; and the AER's forecast inflation;
- accepted the AER's position on rate of return and updated the rate of return for the most recent available market information, providing a rate of return of 5.59%;
- revised our forecast (net) capex to $418.4 million (Real $2017) to reflect a higher forecast of mains to be replaced relative to the AER's Draft Decision. We have however accepted all other aspects of the AER's forecast of capex, including connections, ICT, augmentation, meter replacement capex and other capex, as well as customer contributions;
- revised our opex forecast to $385.2 million (Real $2017) in line with the AER's Draft Decision;
- revised our forecast regulatory depreciation allowance to $205.7 million (Nominal) rather than the AER's forecast of $182.4 million (Nominal). The increase in depreciation reflects the increase to our capex forecast. The methodology applied to calculate the depreciation allowance is the same as that applied by the AER in its Draft Decision;
- accepted the AER's value of imputation credits (or gamma) of 0.4, as a result of which we have revised our forecast corporate income tax allowance to $61.1 (Nominal);
- accepted the AER's carryover amount under the efficiency carryover mechanism of negative $5.1 million (Real 2017), largely due to replacing our estimated opex with actual opex for 2016;
- maintained our tariffs and tariff classes, which the AER accepted;
- maintained our position that there should be fixed principles for the form of regulation;
- accepted the continued application of a price cap for haulage reference services and a rebalancing constraint of 2 per cent on the movements in our reference tariffs;

- accepted the AER's draft decision on our pass-through events, except for our Regulatory Change Event, Retailer Insolvency Event and Service Standard Event, although we have proposed changes to the definitions of certain other events;
- accepted the AER's minor revisions to our non-tariff components except for our proposed change to the terms and conditions for informing customers about disruptions caused by our own acts or omissions;
- revised our demand forecasts to reflect a change to the residential and commercial connections forecast requested by the AER in its Draft Decision i.e. removing the impact of the proposed marketing program not accepted by the AER . We have also used average customer numbers rather than closing customer numbers to calculate annual demand. All other aspects of the demand forecast were accepted by the AER and therefore are unchanged from our Initial AAI; and
- accepted the AER's decision not to introduce a new Network Innovation Competition, and have now proposed a CESS scheme consistent with that approved by the AER for Ausnet Services and AGN.

Where required, we have proposed revised changes to Parts A, B and C of our Access Arrangement to reflect the above positions. We look forward to continuing to engage with the AER and our other stakeholders to finalise our AA, so that we can continue to meet our customers' high expectations for the safe, reliable and efficient supply of natural gas into, and beyond, the forthcoming access arrangement period.

Proposal snapshot

We set out below the key financial elements of our Revised AAI, which we explain in the remainder of this document.

Proposal snapshot ($M, Real 2017)

	Initial MG Proposal	AER Draft Decision	Revised MG Proposal	Difference
Capital expenditure forecast (gross) includes equity raising costs*	517.3	399.6	462.0	62.4
Customer contributions	41.3	41.3	41.3	0.0
Regulatory asset base (as at 31 December 2022)	1,330.5	1,241.3	1,280.2	38.9
Revenue Requirements				
Return on capital	274.6	197.0	188.5	(8.5)
Regulatory depreciation (forecast)	342.1	315.1	340.0	24.9
Operating expenditure (including debt raising costs, excluding Ancillary Reference Services)	396.4	385.2	385.2	-
Efficiency benefit sharing scheme (carryover amounts)	3.7	(5.1)	(5.1)	(0.0)
Corporate tax allowance	96.1	53.1	56.6	3.5
Annual revenue requirement (unsmoothed)- Total	1,112.9	945.3	965.2	19.9
Annual revenue requirement (unsmoothed) - Haulage Reference Services	1,101.3	933.5	953.6	20.1
Annual revenue requirement (unsmoothed)- Ancillary Reference Services	11.6	11.8	11.7	(0.1)
Initial price change (%)	(9.12%)	5.56%	2.93%	(2.63%)
X factor (%)	(2.00%)	(1.70%	(1.70%)	0.00%
Tariff V – residential (TJs)	185,134	185,530	184,287	(1,242.5)
Tariff V – commercial (TJs)	22,914	22,913	22,913	0.2
Tariff L – commercial (TJs)	332	332	332	0.2
Total energy tariff V and L (TJs)	208,380	208,775	207,533	(1,242.0)
Tariff D and L (MHQs)	18,032	18,258	18,258	(0.2)
Forecast average customer numbers 2022	715,071	725,615	721,095	(4,520.3)

* Gross capex forecast relates to Reference Services because it includes the cost of asset relocations (which are treated as Ancillary Reference Services), - these costs are netted out through customer contributions. This forecast also includes $2.3 million (Real 2017) of capitalised equity raising costs.

Introduction

Purpose of this Revised Access Arrangement Information

This is our Revised Access Arrangement Information (AAI) that we are submitting to the AER for our forthcoming Access Arrangement period, 1 January 2018 to 31 December 2022. It responds to the AER's Draft Decision issued on 6 July 2017. This should be read in conjunction with:

- all of the documents and models provided to the AER on 21 December 2016 supporting our Initial Access Arrangement Information;
- all of the documents and models provided to the AER in relation to information requests made by the AER prior to making its Draft Decision;
- additional documents and revised models provided to the AER to support this Revised Access Arrangement Information; and
- our revised Access Arrangement Parts A, B and C provided to the AER that reflect our response to the AER's Draft Decision.

Next steps

We intend to continue to engage with our stakeholders throughout the remainder of the AA process. The key remaining dates in this process are:

- 14 August 2017 – we submit this revised proposal to the AER;
- 15 September 2017 – stakeholders make submissions on our revised proposal and the AER's Draft Decision;
- 29 November 2017 – the AER releases its Final Decision; and
- 1 January 2018 – our new access arrangement period begins.

Structure of this Revised Access Arrangement Information

We have structured this Revised AAI using the same section numbering, and ordering, as the attachments in the AER's Draft Decision. We have detailed in each section:

- the AER's Draft Decisions, which are drawn from the discussion in the body of each of the AER's attachments. For ease of reference, we have numbered each of these decisions – they do not correspond with a specific decision number in the AER's Draft Decision – and have used square brackets [like this] to refer to the page number where the draft decision appears in the AER's attachment. We have stated whether we accept, reject or propose modifications to each of these draft decisions;
- the AER's proposed revisions to our Access Arrangement, which are detailed at the end of each of the AER's attachments. For ease of reference, we have retained any numbering that the AER used for these revisions and, for ease of reference, have applied this format to those revisions that it did not number. Again, we have used square brackets [like this] throughout this document to refer to the page number where the AER has made its proposed revisions. We have also indicated whether we accept, reject or propose modifications to each of these proposed revisions; and

- commentary to explain why we have modified the AER's proposed revisions. We have generally made limited or no comment where the AER accepted our positions in the Initial AAI.

Where appropriate, we have made further revisions to our Access Arrangement Parts A, B and C to reflect our Revised AAI.

1. Services covered by the Access Arrangement

This section responds to the AER's draft decisions and requested revisions to our services for our next AA period.

1.1 AER draft decisions

AER Decision	MG Position
1.1. Approve MG's proposed haulage reference services [1-5, 1-9]	Accept
1.2. Approve MG's proposed ancillary reference services, including addition of a new service, being a second service valve to a pit [1-5, 1-9]	Accept

1.2 AER revisions [1-10]

	AER Revision	MG Position
1.1. Chapters 21 and 22	a. Insert service valve to pit	Accept
	b. Calculate price for service and insert into opex model	Accept

1.3 MG commentary

In Chapter 11 of our Initial AAI we proposed: retaining our existing Haulage Reference Services; adding one Ancillary Reference Service for "the installation of a service valve" in response to a request from retailers; and defining our Non-Reference Services to be those specified in Schedule 2 of Part C of our current Access Arrangement and a new general provision covering other services requested by individual customers that differ from Reference Services.

The AER's acceptance of this proposal is a good outcome for customers and retailers as it provides necessary stability in the provision of our services in the next access arrangement period, while addressing a specific retailer concern.

We have revised:

- Schedule 1 of Part A of our Access Arrangement to include "Insert service valve to pit" as a new service; and
- Schedule 2 of Part B of our Access Arrangement to include our initial tariff for "Insert service valve to pit".

Our initial tariffs for the "Insert service valve to pit" are detailed in Table 1.1.

Table 1.1We have determined this price based on a quotation from our service provider. Rather than use a blended average rate, we have split this into four different service offerings that better reflect on-site conditions.

Table 1.1 – Insert service valve to pit – new tariffs (Real 2017)

Service	Price ($) (excluding GST)
Service valve - paved (without traffic management)	$ 3,190.76

Service	Price ($) (excluding GST)
Service valve - paved (with traffic management)	$ 3,953.96
Service valve - unpaved (without traffic management)	$ 1,514.44
Service valve - unpaved (with traffic management)	$ 2,086.84

2. Capital Base

This section responds to the AER's draft decisions and requested revisions for our capital base for our current and next access arrangement periods.

2.1 AER draft decisions

AER Decision	MG Position
Opening capital base at 1 January 2018	
2.1. Increase opening capital base at 1 January 2018 from MG's proposal of $1,190.8 million (Nominal) to $1,192.4 million (Nominal) because [2-5, 2-11]: • Adjusted opening capital base at 1 January 2013 to match the final decision model for the 2013-17 period [2-12] • Adjusted movements in capitalised provisions [2-13] • Adjusted forecast depreciation in 2013-17 period [2-14]	Modify opening capital base at 1 January 2018 to $1,193 million (Nominal) to address the AER requirement to: • update actual 2016 capex • reforecast 2017 capex. Refer Table 2.1 below.
Closing capital base at 31 December 2022	
2.2. Decrease closing capital base at 31 December 2022 from MG's proposal of $1,446.1 million (Nominal) to $1,401.0 million (Nominal) because [2-6, 2-14]: • Increased opening capital base by $1.6 million (Nominal) [2-14] • Reduced forecast capex by $115.2 million (Nominal) [2-15] • Increased inflation from 1.68% to 2.5%, which increased the capital base by $47.9 million (Nominal) [2-15] • Reduced depreciation by $20.4 million (Nominal) [2-15]	• Modify opening capital base, as per above • Modify forecast capex, as per section 6 below • Modify depreciation, as per section 5 below • Accept inflation • Modify closing capital base at 31 December 2022 to $1,446.3 million (Nominal) Refer Table 2.2 below.
Opening capital base as at 1 January 2023	
2.3. Accept MG's proposal to establish the opening capital base as at 1 January 2023 using forecast depreciation based on forecast capex at the asset class level [2-16]	Accept – reflect in section 7 of Part B of our Access Arrangement
2.4. 2.4 Accept MG's proposed new fixed principle 7.2(b) regarding adjustments to be made when establishing the opening asset base for 2023-27 period, subject to the removal of subclause 7.2(b)(3) [2-16]	Accept – reflect in section 7 of Part B of our Access Arrangement

2.2 AER revisions [2-17]

AER Revision	MG Position
2.1. Make all necessary amendments to reflect this draft decision on the roll forward of the capital base for the 2013–17 access arrangement period, as set out in Table 2.1.	Modify opening capital base to $1,193 million (Nominal) to address the AER requirement to: • update actual 2016 capex • reforecast 2017 capex Refer Table 2.1 below.
2.2. [Delete as duplicate of 2.1 above]	

AER Revision	MG Position
2.3. Amend section 7.2(b) of the access arrangement fixed principle as follows: The opening capital base for the Sixth access arrangement period will be determined in accordance with rule 77(2) of the NGR and the opening capital base at the start of the Fifth Access Arrangement Period will be adjusted to take account of: 1. Changes to CPI over the Fifth Access Arrangement Period; 2. the value of disposals in the ordinary course of business during the Fifth Access Arrangement Period, other than a disposal of: a. all of the assets of the Service Provider; b. assets pursuant to which the assets of the Service Provider are sold and leased back to the Service Provider 3. disposals in the ordinary course of business during Calendar Year 2017, other than a disposal of: a. all of the assets and liabilities of the Service Provider; b. assets pursuant to which the assets of the Service Provider were sold and leased back to the Service Provider; and This Fixed Principle will apply until the end of the Sixth Access arrangement period.	Accept – reflect in section 7 of Part B of our Access Arrangement
2.4 Insert the following provision after section 8 of the 2018–22 access arrangement: **9. Depreciation for establishing the capital base as at 1 January 2023** The depreciation schedule (straight-line) for establishing the opening capital base as at 1 January 2023 will be based on forecast capital expenditure at the asset class level approved for the 2018–22 access arrangement period.	Accept – reflect in new section 9 of Part B of our Access Arrangement

2.3 MG commentary

The AER largely accepted our opening capital base as at 1 January 2018, subject to relatively minor adjustments which increased the value by $1.6 million (Nominal). We have accepted the AER's adjustments and have updated our:

- actual 2016 net capex from $68.2 million (Nominal) to $70.2 million (Nominal); and
- reforecast our 2017 net capex from $79.0 million (Nominal) to $81.2 million (Nominal).

We have reflected these changes below in a revised version of the AER's Table 2-1. Our revised opening asset base as at 1 January 2018 is therefore $1,193 million (Nominal).

Table 2.1 – Revised capital base roll forward for 2013-17 access arrangement period ($M, nominal)

	2013	2014	2015	2016	2017
Opening capital base	1,055.0	1,087.4	1,108.7	1,135.7	1,161.5
Net capex	57.3	53.0	60.1	70.2	81.2
Indexation of capital base	21.1	23.5	25.6	17.1	15.1
Less: straight-line depreciation	(46.0)	(55.3)	(58.7)	(61.5)	(64.7)
Closing capital base	**1,087.4**	**1,108.7**	**1,135.7**	**1,161.5**	**1,193.0**
Opening capital base as at 1 January 2018					**1,193.0**

We have revised our closing capital base as at 31 December 2022 by applying:

- the opening capital base as at 1 January 2018 from Table 2.1 above;
- our revised forecast capex for 2018 to 2022, as detailed in section 6 below;
- our revised forecast depreciation for 2018 to 2022, as detailed in section 5 below;
- the AER's revised inflation forecast.

Our revised closing capital base at 31 December 2022 is $1,446.3 million (Nominal). This is reflected below in a revised version of the AER's Table 2-2.

Table 2.2 – Revised projected capital base roll forward for 2018-22 access arrangement period ($M, nominal)

	2018	2019	2020	2021	2022
Opening capital base	1,193.0	1,255.8	1,301.4	1,356.6	1,404.0
Net capex	98.9	83.9	96.9	90.5	88.7
Indexation of capital base	29.5	31.0	32.1	33.5	34.7
Less: straight-line depreciation	(65.6)	(69.3)	(73.8)	(76.7)	(81.1)
Closing capital base	**1,255.8**	**1,301.4**	**1,356.6**	**1,404.0**	**1,446.3**

3. Rate of return

3.1 AER's draft decisions

AER Decision	MG Position
Multinet to amend its proposal to reflect • A return on equity of 7.2% • A cost of debt of 4.79% • Inflation of 2.47%	Accept the AER Decision and updating for a more recent measurement period – noting that the actual measurement period to be applied in the Final Decision will be the period approved by the AER in its draft decision.

3.2 AER revisions

Update the revised proposal to incorporate a cost of capital consistent with the draft decision.

3.3 MG commentary

In this revised proposal we accept the AER's draft decision in relation to rate of return. Our Initial AA Proposal, departed from the AER's approach in respect of the following parameters:

1. Return on equity (MRP and the proposed alpha adjustment)
2. Return on debt (third party data source); and
3. Expected Inflation.

Since the submission of our Initial AA Proposal, the AER has commenced its review process of the current Rate of Return Guidelines. The AER is also undertaking a review of its methodology for expected inflation. We consider that it appropriate for the issues raised in our Initial AA Proposal to be debated and consulted on through the industry wide Guideline and expected inflation reviews, rather than through this AA review process.

We support the AER's proposed approach to the Guideline review[1] and we consider that the additional consultation, dedicated consumer group and sub-panel, independent expert panel and steps such as the "hot-tubbing" of experts will result in a robust and thorough review process. We intend to actively participant in the review and our hope is that it results in the development of a guideline which is acceptable to all stakeholders.

We note that in the Draft Decision the AER raised a number of issues with our proposed rate of return approach. Notwithstanding that we have determined to accept the AER's draft decision for the purposes of this review, we consider the matters raised warrant further discussion. With this in mind Attachment 1 summarises our high level response to the AER's Draft Decision, in particular in relation to the alpha-adjustment.

The table below provides a summary of our revised Cost of Capital proposal. We have updated the measurement period to reflect month of June 2017. The AER will update these numbers in the Final Decision for the nominated measure period approved by the AER in its Draft Decision.

Table 3-3.1 – Revised cost of capital for 2018-22 access arrangement period

	Initial MG proposal	AER draft decision	Revised MG proposal
Return on equity			
- Nominal risk free rate	1.92%	2.60%	2.45%
- Market risk premium	7.50%	6.50%	6.50%

[1] Set out in the AER's Consultation Paper: Process for reviewing the rate of return guidelines, July 2017

	Initial MG proposal	AER draft decision	Revised MG proposal
- Equity Beta	0.7	0.7	0.7
- Alpha adjustment	1.14%	-	-
Return of equity	**8.31%**	**7.20%**	**7.00%**
Return on debt	**4.67%**	**4.79%**	**4.65%**
Gearing	60%	60%	60%
Inflation	1.68%	2.45%	2.47%
Nominal rate of return	**6.12%**	**5.75%**	**5.59%**

4. Value of imputation credits

4.1 Draft Decisions

AER Decision	MG Position
Apply a gamma value of 0.4 consistent with the decision of the Full Federal Court handed down 24 May 2017.	Accept the AER Decision

4.2 AER revisions

Update the revised proposal to incorporate a gamma value of 0.4.

4.3 Our response to the Draft Decision

We have noted the recent findings of the Federal Court in respect of gamma, which found no error in the AER's approach to estimating gamma, relying primarily on equity ownership estimates. We accept that our original proposed gamma of 0.25 (based on market evidence from dividend drop-off studies) has not been supported by the Full Federal court. For the purposes of this Draft Decision and our response, therefore, we propose to accept a gamma of 0.4.

We do however consider that further discussion is warranted in respect of two issues; tax statistics and Lally's distribution rate of 0.83. As with the rate of return parameters, we will consult with the AER and stakeholders in more detail in the forthcoming Guideline review process.

For completeness, Attachment 1 sets out our response in relation to the AER's Draft Decision.

5. Regulatory depreciation

This section responds to the AER's draft decisions and requested revisions for our forecast regulatory depreciation for our next access arrangement period.

5.1 AER draft decisions

AER Decision	MG Position
Straight-line depreciation	
5.1. Approve MG's proposal to use a real straight-line method to calculate regulatory depreciation allowance [5-5]	Accept
Forecast depreciation	
5.2. Reduce regulatory depreciation allowance from $250.8 million (Nominal) to $182.4 million (Nominal) because: [5-5] • Increase opening capital base • Increase forecast inflation • Reduce forecast capex	Modify opening capital base Accept forecast inflation Modify forecast capex
Regulatory asset lives	
5.3. Accept MG's proposed standard asset lives other than: • Buildings – continue to apply 50 years, rather than MG's proposal of 35 years [5-5, 5-14] • Equity raising costs – apply 47 years [5-5, 5-17]	Accept
5.4. Accept MG's proposed revision to 'meters' asset class lives from 30 years to 15 years, although don't accept proposal to reduce the asset lives of all existing meters to 5 years [5-6, 5-16]	Accept
Year-by-year tracking	
5.5. Accept MG's proposed year-by-year tracking approach for depreciating its capital base [5-6, 5-12]	Accept
Accelerated depreciation	
5.6. Accept MG's proposed accelerated depreciation of mains and services to be replaced over 2018-22 period, subject to: • adjustments to length of mains replacement [5-6, 5-13] • correction of two errors (that offset each other) in application of accelerated depreciation [5-13]	Modify subject to revised length of mains replacement
Remaining asset lives of residual assets	
5.7. Extended proposed remaining asset lives of residual older mains and services by 7 years to 2040 [5-6]	Modify based on revised length of mains replacement

5.2 AER revisions [5-18]

AER Revision	MG Position
5.8. Make all necessary amendments to reflect this draft decision on the regulatory depreciation allowance for the 2018–22 access arrangement period, as set out in Table 5.1.	Accept, subject to revised capex forecast
5.9. Make all necessary amendments to reflect this draft decision on the standard asset lives, as set out in Table 5.3.	Accept
5.10. Make all necessary amendments to reflect this draft decision on the accelerated depreciation, as set out in section 5.4.2.	Accept, subject to revised length of mains replacement

5.3 MG commentary

Our revised forecast regulatory deprecation was arrived at by applying the same methodology as that applied by the AER in its Draft Decision. The revised forecast of regulatory deprecation allowance presented in table 5.1 below is however different to that determined by the AER in its Draft Decision on account of our revised capex forecast being different to that of the AER Draft Decision capex forecast (see section 6 below). The individual steps taken to derive the forecast regulatory depreciation allowance in our Revised AAI is set out below:

- our proposed real straight-line method, which the AER accepted;
- our proposed year-by-year tracking approach, which the AER accepted;
- our revised opening capital base as at 1 January 2018 from

- Table 2.1 above;
- our revised forecast capex for 2018 to 2022, as detailed in section 6 below;
- the AER's revised inflation forecast;
- the regulatory asset lives in the AER's Table 5.3 [5-17];
- the accelerated depreciation of mains and services being replaced as part of the mains replacement program, which the AER accepted, subject to the revised length of mains replacement detailed in section 6 below; and
- the same end of life of 2033 as we proposed in our original AAI for the low pressure networks – consistent with our proposed end date of replacement for residual older mains discussed in section 6 below.

We have reflected this below in a revised version of the AER's Table 5-1. Our proposed revised forecast regulatory depreciation for the next regulatory control period is therefore $205.7 million (Nominal), rather than the AER's forecast of $182.4 million (Nominal).

Table 5.1 – Revised forecast regulatory depreciation for 2018-22 access arrangement period ($M, nominal)

	2018	2019	2020	2021	2022	Total
Straight-line depreciation	65.6	69.3	73.8	76.7	81.1	366.5
Less: indexation on capital base	29.5	31.0	32.1	33.5	34.7	160.8
Regulatory depreciation	**36.1**	**38.2**	**41.7**	**43.2**	**46.4**	**205.7**

6. Capex forecasts

This section responds to the AER's draft decisions and requested revisions for our actual and estimated capex for our current access arrangement period and our forecast capex for our next access arrangement period.

6.1 AER's draft decisions

<table>
<tr><th colspan="3">AER Decision</th><th>MG Position</th></tr>
<tr><td colspan="3">Current period capex</td><td></td></tr>
<tr><td colspan="3">6.1. Approve MG's proposed $258.3 million (Real 2017) of total net capex for 2013-16 period [6-5, 6-9]</td><td>Modify for:
• updated actual 2016 capex
• reforecast 2017 capex
Refer
Table 2.1 above and Table 6.1 below.</td></tr>
<tr><td colspan="3">Total forecast capex</td><td></td></tr>
<tr><td colspan="3">6.2. Reduce forecast total net capex from $472.3 million (Real 2017) to $356.9 million (Real 2017) for 2018-22 period [6-5, 6-6, 6-10, 6-13]</td><td>Modify – propose revised total forecast capex of $418.4 million (Real 2017). Refer Table 6.2 and Table 6.3, and revisions by expenditure category, below.</td></tr>
<tr><td colspan="3">Mains replacement capex</td><td></td></tr>
<tr><td colspan="3">6.3. Reduce mains replacement capex from MG's proposal of $249.7 million (Real 2017) to $159.5 million (Real 2017) [6-8, 6-14]</td><td>Modify – revised forecast capex of $217.3 million (Real 2017) – refer discussion below</td></tr>
<tr><td colspan="3">6.4. Assess that MG's forecast exceeds capex required to minimise risks of leaks and improve network safety [6-14]</td><td>Modify – refer discussion below</td></tr>
<tr><td colspan="3">6.5. Accept MG's unit rates [6-14, 6-23]</td><td>Accept</td></tr>
<tr><td colspan="3">6.6. Reduce mains replacement volumes (kilometres) as follows [6-15 to 6-16]</td><td rowspan="6">Modify – refer discussion below</td></tr>
<tr><td></td><td>MG proposal</td><td>AER draft decision</td></tr>
<tr><td>LP</td><td>625</td><td>425</td></tr>
<tr><td>MP</td><td>24</td><td>12</td></tr>
<tr><td>HDPE</td><td>40</td><td>-</td></tr>
<tr><td>Total</td><td>689</td><td>437</td></tr>
<tr><td colspan="3">6.7. Reduce LP volumes:
• to 85 kilometres per annum consistent with 2003 to 2016 average [6-14, 6-16, 6-18]
• because historical leakage rate has decreased [6-17, 6-18]
• because revised volumes will improve network integrity and public safety [6-18]</td><td>Modify – refer discussion below</td></tr>
<tr><td colspan="3">6.8. Reduce MP volumes by: [6-20]
• Accepting Aughtie Drive and Graham Street
• Rejecting $6.3 million (8.1 kilometres) of small diameter cast iron
• Rejecting $1.5 million (3.2 kilometres) of block renewal at Clayton South
Reject on basis of:</td><td>Modify – refer discussion below</td></tr>
</table>

AER Decision	MG Position
• leak and facture rates [6-20] • view that should base mains replacement program on condition not age [6-22]	
6.9. Remove HDPE volumes because not satisfied replacement necessary to maintain and improve safety [6-23]	Modify – refer discussion below
Connections capex	
6.10. Reduce connections capex from MG's proposal of $108.1 million (Real 2017) to $105.2 million (Real 2017) [6-24]	Accept
6.11. Accept MG's proposed methodology used to forecast connection volumes using ACIF data [6-25]	Accept
6.12. Reject MG's proposed additional connection volumes associated with marketing program [6-25, 6-27]	Accept
6.13. Accept MG's proposed unit rates [6-27, 6-28]	Accept
6.14. Accept MG's forecast capital contributions [6-28]	Accept
6.15. Accept MG's proposed Tariff D connections capex based on three-year historical capex [6-28]	Accept
ICT capex	
6.16. Reduce ICT capex from MG's proposal of $45.7 million (Real 2017) to $38.1 million (Real 2017) [6-28]	Accept
6.17. Accept recurrent ICT capex [6-28]	Accept
6.18. Reject four non-recurrent ICT capex projects [6-30]: • IT08 - mobility integration ($4.3 million) • IT09 - digital metering ($0.6 million) • IT38 - customer experience improvements ($1.5 million) • IT40 - business intelligence ($1.1 million)	Accept
6.19. Reject mobility integration because should be self-funding [6-30]	Accept
6.20. Reject digital metering because not prudent and efficient given do not approve digital meter trial [6-31]	Accept
6.21. Reject customer experience improvements because not clear customers value benefits [6-31]	Accept – we will re-assess our business case during the next period, including by undertaking further stakeholder engagement in order to assess whether our customers value the proposed project
6.22. Reject business intelligence because should be self-funding [6-32]	Accept – we will however re-assess the project during the next AA period as we do not consider the project is in fact self-funding
Augmentation capex	
6.23. Reduce Augmentation capex from MG's proposal of $17.3 million (Real 2017) to $15 million (Real 2017) [6-32]	Accept
6.24. Accept [6-32]: • $9.2 million (Real 2017) for the Oakleigh HP augmentation [6-32, 6-33]	Accept

AER Decision	MG Position
• $0.8 million (Real 2017) for the Korumburra HP augmentation [6-32, 6-34] • $5.0 million (Real 2017) for the Eastern HP augmentation [6-32, 6-34]	
6.25. Reject South Melbourne project, but MG acknowledged post submission that this was no longer required [6-32]	Accept
Meter replacement capex	
6.26. Reduce Meter Replacement capex from MG's proposal of $9.9 million (Real 2017) to $7.9 million (Real 2017) [6-35]	Accept
6.27. Accept: • Meter replacement program [6-35] • Handheld meter reading devices [6-36]	Accept
6.28. Reject digital gas metering pilot study because not prudent and efficient, including because technology is still in development and is not yet mature – benefits appear limited [6-36]	Accept
SCADA capex	
6.29. Reduce SCADA capex from MG's proposal of $6.6 million (Real 2017) to $4.1 million (Real 2017) [6-36]	Accept
6.30. Reject MG's proposed step control capex for MP to LP because not required – not convinced that there can be many more adjustments to the regulators that would justify installing step control on district regulators [6-38]	Accept
Other capex	
6.31. Accept MG's proposal of $45.5 million (Real 2017) [6-39]	Accept
Overheads	
6.32. Reduce overheads from MG's proposed $29 million to $20 million (Real 2017) [6-40]	Modify – refer discussion below
6.33. Applied 2013-17 average to determine overhead, rather than estimates from 2016 and 2017 [6-40]	Accept

6.2 AER revisions [6-41]

AER Revision	MG Position
6.1. Make all necessary amendments to reflect our draft decision on conforming capex for 2018–22, as set out in Table 6.2.	• Modify – we accept the AER's Draft Decision capex forecast, but have modified to take account of revised mains replacement forecast and more recent available information in respect of determining the overheads

6.3 MG commentary

6.3.1 Current period capex

We have updated our current period capex for more recent available information. As requested by the AER in its Draft Decision, we have replaced our estimate of 2016 capex with actual as it is now known and have also reforecast our expected 2017 capex. As discussed in section 2 of this Revised AAI above, we have reflected these updates in our revised opening capital base as at 1 January 2018.

Current period gross capex is now $370.5 million ($2017 The details of our Revised AAI capex forecast are provided in a revised version of the AER's Table 6-1 below.

Table 6.1 – Revised annual capex for 2013-17 access arrangement period – update of AER Table 6-1 ($M, Real 2017)

	2013	2014	2015	2016	2017	Total
Connections	17.9	19.1	23.3	23.0	20.8	104.0
Mains replacement	12.4	24.8	21.5	31.1	42.6	132.4
Meter replacement	2.3	3.0	2.0	2.5	3.4	13.2
Augmentation	0.7	0.1	0.6	1.5	1.6	4.6
SCADA	0.2	0.0	0.1	0.0	0.1	0.4
Other capex	4.6	7.3	10.2	15.5	13.6	51.2
IT	25.4	3.5	6.3	5.4	4.4	44.9
Escalation	-	-	-	-	-	-
Overheads	2.8	3.0	3.7	5.1	5.2	19.8
Gross total - excludes equity raising costs	**66.3**	**60.8**	**67.6**	**84.1**	**91.7**	**370.5**
Less customer contributions	6.1	6.7	7.8	15.0	12.8	48.4
Net capex	**60.2**	**54.0**	**59.8**	**69.0**	**79.0**	**322.1**

6.3.2 Total forecast capex

We accept the AER's revised capex forecasts for the next access arrangement period for:

- Connections capex;
- ICT capex;
- Augmentation capex;
- Meter replacement capex;
- Other capex; and
- Customer contributions.

- We have modified the AER's Draft Decision for:
- Mains replacement and;
- Overheads.

Table 6.2 below compares our revised capex forecasts to our initial proposal and the AER's Draft Decision. It is an update of the AER's Table 6-4 and would replace its Table 6-1.

Table 6.2 – Comparison of total forecast capex for 2018-22 access arrangement period – replace AER Table 6-3 ($M, Real 2017)

	Initial MG proposal	AER draft decision	Revised MG proposal	Difference - draft decision to revised proposal
Connections	108.1	105.2	105.2	0.0
Mains replacement	249.7	159.5	217.3	(57.8)
Meter replacement	9.9	7.9	7.9	0.0
Augmentation	15.0	15.0	15.0	0.0
SCADA	6.6	4.1	4.1	0.0
Other capex	45.5	45.5	45.5	0.0
IT	45.7	38.1	38.1	0.0
Escalation	4.0	3.2	3.4	(0.2)
Overheads	29.0	20.0	23.4	(3.4)
Gross Total Capital Expenditure	**513.5**	**398.5**	**459.8**	**(61.3)**
Contributions	41.3	41.3	41.3	(0.0)
Net Total Capital Expenditure	**472.2**	**357.2**	**418.4**	**(61.2)**

Table 6.3 below provides an annual breakdown of our revised capex forecasts. It is an update of the AER's Table 6-5 and would replace its Table 6-3. We justify our proposed revisions to the two capex categories we have modified in the discussion below these tables.

Table 6.3 – Revised annual forecast capex for 2018-22 access arrangement period – replace AER Table 6-2 ($M, Real 2017)

	2018	2019	2020	2021	2022	Total
Connections	22.0	21.1	20.3	20.7	21.2	105.2
Mains replacement	50.3	41.2	46.4	40.7	38.7	217.3
Meter replacement	3.0	0.7	2.0	1.0	1.0	7.9
Augmentation	4.1	5.0	3.5	2.4	-	15.0
SCADA	1.2	1.0	0.6	0.6	0.6	4.1
Other capex	10.1	8.6	9.4	8.0	9.3	45.5
IT	4.6	4.5	9.2	10.4	9.5	38.1
Escalation	0.5	0.4	0.6	0.9	0.9	3.4
Overheads	5.1	4.4	4.9	4.5	4.4	23.4
Gross Total Capital Expenditure	**101.0**	**86.9**	**97.0**	**89.2**	**85.7**	**459.8**
Contributions	8.2	8.2	8.3	8.3	8.3	41.3
Net Total Capital Expenditure	**92.8**	**78.7**	**88.7**	**80.9**	**77.4**	**418.4**

6.3.3 Mains replacement capex

We have not implemented the AER's adjustments to our mains replacement capex program. However, while we do not agree with the scale of the AER's reductions to the volume of mains scheduled for replacement during the 2018-22 access arrangement period, we have revisited our proposal and updated it for the latest information.

First of all, we have reviewed the proposed unit rates for the replacement program. By using the latest tender costs, and applying it to the revised replacement volumes and locations discussed below, the average direct unit rate for the low pressure replacement program has fallen from $334.50 per metre to $332.60 per metre.

We have also reduced the volume of low pressure mains scheduled for replacement by 94 km's or 15 per cent. Our revised replacement volume of 531 kilometres (average 106 kilometres per year), reflects a reasonable rate of replacement that we will deliver during the 2018-22 period. It also represents an amount that will set a platform for achieving our ESV-endorsed target of removing all this high risk material by 2033, while maintaining the overall level of network risk associated with these assets to as low as reasonably practicable.

Though our low pressure mains replacement volumes have not been reduced to the levels proposed in the AER's draft decision, we consider the revised replacement schedule is a prudent program that reflects an efficient delivery rate while managing the network risk to an acceptable level.

We do not, however, agree with the AER's decision that a lesser volume of medium pressure cast iron mains can be safely replaced during the period, and that the high-risk HDPE mains can continue to be safely managed via monitoring and maintenance activities alone. We consider that not replacing the specified medium pressure and early first generation HDPE mains during the 2018 to 22 access arrangement period would not reflect the actions of a prudent network operator managing risk to as low as reasonably practicable.

Therefore, we do not propose any change to the volume of replacement for medium pressure cast iron mains (24 kilometres[2]) and early first generation HDPE mains (31 kilometres[3]) in our initial proposal. These mains have the same or higher risk than low pressure cast iron mains.

We understand that the AER's Draft Decision has been formed based on its interpretation of the information presented to it. Therefore, in this Revised AAI including the attachments we have provided the following additional information to demonstrate the prudence and efficiency of our modified mains replacement program:

- Revised unit rates;
- A risk assessment that applies the framework specified under AS/NZS 4645;
- Additional information on our 2017 delivery performance;
- Fracture and leak rates for the medium pressure mains; and
- Break and leak rates for the HDPE mains.

In summary, in this Revised AAI, we submit that:

- The current level of risk associated with the low pressure cast iron mains under the AS/NZ 4565 risk assessment framework is rated as high. This risk rating implies that these mains must be replaced as soon as practicable, and that it would not be prudent to extend the proposed replacement program beyond the 2033 target agreed with ESV;
- Medium pressure cast iron mains are higher risk mains than low pressure cast iron mains, and should be replaced as a priority. While the Graham St. and Aughtie Drive medium pressure replacement programs do support the low-pressure mains replacement program that is not the primary driver for replacing these assets. The risk associated with all medium pressure cast iron mains is high, and is the reason all of this material must be removed from the network as quickly as possible, regardless of whether it directly supports the low pressure replacement program;
- Early first generation HDPE mains are assessed as higher risk than low pressure cast iron mains and have higher break and leak rates. The program to replace these mains will commence as soon as the design and planning for this work is completed, and will coincide with the completion of the medium pressure cast iron main replacement program.

We also note that ESV provided the AER information that supported Multinet maintaining the 2033 target completion date for the low pressure mains replacement program. ESV recognised that the medium pressure cast iron mains and early first generation HDPE mains can be higher risk than low pressure cast iron mains[4]. Therefore, we consider our revised program is consistent with good practice and will enable us to achieve our safety obligations within the 2033 time frame.

Our revised mains replacement capex is $230.8 million (including overheads and escalation). This a reduction of $36.1 million compared to our initial proposal

Table 6.4 – Revised forecast compared to initial forecast and AER draft decision for MRP expenditure 2018-22 access arrangement period ($M, nominal)

[2] 24 kilometres of medium pressure cast iron mains will be replaced and a further 4 kilometres will be abandoned, removing a total of 28 kilometres of medium pressure cast iron mains from the network.

[3] In order to replace 31 kilometres of first early generation HDPE mains, a further 9 kilometres of PE will need to be replaced making a total of 40 kilometres replaced under this program.

[4] Energy Safety Victoria, email response to questions from the AER about Multinet's mains replacement program, 3 May 2017.

	Original	Draft Decision	Revised	Diff
Low pressure mains	209.0	142.4	176.6	(34.2)
Medium pressure cast iron	18.1	10.4	18.1	(7.8)
Early first generation HDPE	15.9	-	15.9	(15.9)
Reactive mains replacement	1.0	1.0	1.0	-
Unplanned service renewals	5.7	5.7	5.7	(0.0)
Total direct expenditure	**249.7**	**159.5**	**217.3**	**(57.9)**
Overheads	15.0	8.5	11.7	(3.3)
Escalation	2.2	1.3	1.8	(0.5)
Total expenditure	**266.9**	**169.2**	**230.8**	**(61.6)**

The revised mains replacement volumes compared with the initial proposal and the AER's draft decision are provided in the table below. The AER accepted the reactive mains replacement and unplanned service renewals as proposed so these are not included in the volumes below.

Table 6.5 – Revised forecast volumes compared to initial forecast and AER draft decision for MRP volumes 2018-22 access arrangement

	Original	DD	Revised	Diff
Low pressure mains	624.0	425.0	531.0	(106.0)
Medium pressure cast iron	24.0	12.0	24.0	(12.0)
Early first generation HDPE	40.0	-	40.0	(40.0)
Total expenditure	**688.0**	**437.0**	**595.0**	**(158.0)**

Further support for our revised mains replacement capital program can be found in attachment 2 to this submission.

6.3.4 Overheads

- We have updated our actual 2016 overheads and have re forecast our 2017 overheads in Table 6.1 above.
- We accept the AER's draft decision to apply the 2013-17 average overheads to determine our overhead forecast for the next access arrangement period.
- On this basis, and our higher revised capex forecast we have replaced the AER's forecast overheads of $20.0 million (Real 2017) with a revised forecast of $23.4 million (Real 2017), as detailed in Table 6.2 and Table 6.3.

7. Opex forecasts

This section responds to the AER's draft decisions and requested revisions for our forecast opex for our next access arrangement period.

7.1 AER's draft decisions

AER Decision	MG Position
Total forecast opex	
7.1 Reduce forecast total opex from $396.4 million (Real 2017) to $385.1 million (Real 2017) for 2018-22 period [7-5, 7-16]	Accept
Base opex	
7.2 Accept 2016 base year opex is efficient [7-20]	Accept
7.3 Add licence fee adjustment back into base year opex and exclude licence fee factor from tariff variation formula [7-21]	Accept – refer discussion below
Rate of change	
7.4 Price growth: • Reduce labour price growth from MG's proposal of 0.8 to 0.7 [7-21] because used • average of DAE and BIS indices whereas MG only used BIS indices [7-22] • Accept applying CPI to non-labour price growth [7-22] • Accept 62:38 labour-non-labour split [7-22]	Accept
7.5 Accept output growth of 0.6% based on customer numbers and pipeline length and 45:55 split – note AER expressed some concerns about how MG determined output growth [7-23]	Accept
7.6 Accept productivity growth – note AER expressed some concerns about how MG determined productivity growth [7-25]	Accept
Step changes	
7.7 Reject step change for joint marketing [7-26] because have reconsidered position on past approach (e.g. for JGN) for accepting marketing step change [7-28]. Now consider: • Not sufficient to say marketing campaign cannot be self-financed [7-28] • Business can choose to prioritise marketing spending within its base opex [7-28]	Accept – refer discussion below

7.2 AER revisions [7-33]

	AER Revision	MG Position
Revision 7.1	Make all necessary amendments to reflect our draft decision on the proposed opex for the 2018–22 access arrangement period, as set out in Table 7.1.	Accept

7.3 MG commentary

a) Total forecast opex

- The AER has largely accepted our opex forecast for the next access arrangement period, with the exception of our proposed marketing step change, The AER Draft Decision opex forecast of $385 million is $11 million less than our Initial Proposal of $396 million, which reduction reflects the rejection of the marketing step change offset by an increase to the 2016 base year...
- Table 7.1 below compares our revised opex forecasts to our initial proposal and the AER's Draft Decision. It is an update of the AER's Table 7-2.

Table 7.1 – Comparison of total forecast capex for 2018-22 access arrangement period – update AER Table 7-2 ($M, Real 2017)

	Initial MG proposal	AER draft decision	Revised MG proposal	Difference - draft decision to revised proposal
Based on reported opex in 2016	357.4	365.5	365.5	0.0
Movement in provisions	(7.1)	(2.4)	(2.4)	0.0
2016 to 2017 increment	4.5	4.5	4.5	0.0
Price growth	7.7	7.2	7.2	0.0
Output growth and productivity	7.2	7.3	7.3	0.0
Step changes	23.3	–	-	0.0
Debt raising costs	3.4	3.1	3.1	0.0
Total opex	**396.4**	**385.1**	**385.1**	**0.0**

b) Licence fee adjustment

We accept the AER's approach of adding a licence fee adjustment into our base year opex allowance and removing the current licence fee factor from the tariff variation formula. This is appropriate treatment for so long as the licence fee remains relatively constant. However, the ESC's licence fee has historically varied significantly – it has been as high as $1 million and is currently around $100,000. We would seek either a base year adjustment or a step change in future access arrangement periods if the ESC was to significantly increase our licence fee above the current levels.

c) Step changes

Our initial proposal included a marketing step change of $23.3 million (Real 2017) on the basis that both we, and AEMO, are projecting that average residential consumption will continue to fall over the next access arrangement period. This means that there is a risk of our future average network prices increasing as we recover our largely fixed costs over a smaller consumption base.

We also noted in our initial proposal that research indicates that potential new customers see the upfront costs of purchasing new gas appliances, and getting them installed, as barriers to connecting to our network and to using gas, particularly when they have alternatives such as electricity readily available.

Our proposed marketing step change would support a targeted marketing campaign, in conjunction with the two other Victorian gas distributors. Stakeholders that we consulted told us that they supported this strategy and saw that it would promote customers' long-term interests, as our reference tariffs would be lower than they would otherwise be, consistent with the National Gas Objective.

However, on balance, given that the AER has largely approved the remainder of our proposed opex forecast, we reluctantly withdraw our marketing step change proposal. We will consider how we best promote gas usage in the next access arrangement period using the opex that we are allowed and responding to the incentives that the regulatory regime presents.

8. Corporate income tax

This section responds to the AER's draft decisions and requested revisions for our corporate income tax allowance for our next access arrangement period.

8.1 AER's draft decisions

AER Decision	MG Position
Overall tax allowance	
8.1 Accept MG's proposed approach to forecasting corporate income tax allowance [8-5]	Accept
8.2 Reduce forecast tax allowance from MG's proposal of $101.3 million (Nominal) to $57.3 million (Nominal) for 2018-22 period based on amendments to: [8-5, 8-10] • Opening TAB as at 1 January 2018 • Standard tax asset lives • Remaining tax asset lives as at 1 January 2018 • Value of imputation credits by increasing value of gamma from 0.25 to 0.4 • Other building blocks – return on capital, depreciation and forecast opex	Modify – revised forecast corporate income tax allowance of $61.1 million (Nominal) – refer discussion below
Tax depreciation	
8.3 Accept MG's proposed transition to AER's preferred straight-line tax depreciation approach for all asset classes [8-10, 8-12]	Accept
Opening TAB as at 1 January 2018	
8.4 Accept approach to determining opening TAB [8-10]	Accept
8.5 Reduce opening TAB from MG's proposal of $484.6 million (Nominal) to $484.3 million (Nominal), mainly due to amendments to actual net capex inputs – note AER says that MG has accepted this change post-submission [8-11]	Accept
Standard tax asset lives	
8.6 Accept majority of MG's proposed standard tax asset lives except for the following, as do not accept MG's proposed approach of setting standard tax asset lives equal to capital base standard asset lives: • Supply regs/valve stations – decrease from MG's proposal of 50 years to 40 years • SCADA – decrease from MG's proposal of 15 years to 10 years	Accept
8.7 Applied standard tax asset life of 5 years to equity raising costs consistent with ATO practice [8-12]	Accept
Remaining tax asset lives as at 1 January 2018	
8.8 Reject MG's proposed method of setting the remaining tax asset lives equal to capital base remaining lives as at 1 January 2018	Accept
8.9 Apply alternative approach: standard tax asset life for asset class multiplied by ration of capital base remaining asset life to the capital base standard asset life [8-13]	Accept

8.2 AER revisions [8-15]

AER Revision	MG Position
8.1 Make all necessary amendments to reflect this draft decision on the proposed corporate income tax allowance for the 2018–22 access arrangement period, as set out in Table 8.1	Modify – revised forecast corporate income tax allowance of $61.1 million (Nominal) – refer discussion below
8.2 Make all necessary amendments to reflect this draft decision on the opening tax asset base as at 1 January 2018, as set out in Table 8.4.	Accept
8.3 Make all necessary amendments to reflect this draft decision on the standard tax asset lives and remaining tax asset lives for the 2018–22 access arrangement period, as set out in Table 8.5.	Accept

8.3 MG commentary

We accept the AER's Draft Decisions and requested revisions for our corporate income tax allowance for our next access arrangement period with the exception of revising our forecast corporate income tax allowance in accordance with the table below, which is an update of the AER's Table 8-1. This forecast reflects the effects of our revised capex forecasts and other consequential changes in this Revised AAI.

Table 8.1 – Revised corporate income tax allowance – replace AER Table 8-1 ($M, Nominal)

	2018	2019	2020	2021	2022	Total
Tax payable	18.4	18.4	19.5	22.8	22.7	101.8
Less: value of imputation credits	(7.4)	(7.3)	(7.8)	(9.1)	(9.1)	(40.7)
Net corporate income tax allowance	**11.0**	**11.0**	**11.7**	**13.7**	**13.6**	**61.1**

9. Efficiency carryover mechanism

This section responds to the AER's draft decisions and requested revisions to the application of the Efficiency Carryover Mechanism for our next access arrangement period.

9.1 AER's draft decisions

AER Decision	MG Position
Carryover amount	
9.1 Reduce efficiency carryover from MG's proposed positive $3.7 million (Real 2017) to negative $5.1 million (Real 2017) [9-5, 9-8] by: • correcting how MG removed movements in provisions by removing movements in provisions, not just increase/decrease in provisions charged to opex [9-9] • adjusting scale factor in reforecast opex for current period using actual customer numbers [9-9] • adjusting how MG applied CPI values in converting opex to real 2017 [9-9]	Accept
9.2 Correct how MG removed movements in provisions – AER removed movements in provisions, not just increase/decrease in provisions charged to opex [9-9]	Accept
Application of ECM in 2018-22 period	
9.3 Approve application of Efficiency Carryover Mechanism in 2018-22 period [9-10]	Accept
9.4 Amend MG's proposed Efficiency Carryover Mechanism to reflect the AER's November 2013 changes to EBSS, which would amend equations to allow MG to choose any base year [9-10]	Accept
9.5 Accept the following exclusions and adjustments to calculate Efficiency Carryover Mechanism amounts: • exclude movements in provisions from actual opex [9-10] • adjust so forecast expenditure consistent with any capitalisation policy changes [9-11] • other matters MG and AER agree from time to time [9-11]	Accept
9.6 Treat as follows other exclusions and adjustments to calculate Efficiency Carryover Mechanism amounts that MG proposed: • costs of complying with ROLR – reject because MG can apply for cost pass through [9-11] • amounts for approved cost pass throughs – accept but adjust opex forecast ex post rather than removing costs from actual opex [9-11] • UAFG expenses – accept as long as continue to forecast in current manner [9-11] • Licence fee – reject because will exclude licence fee from tariff variation formula and have included licence fee in base opex [9-12] • Debt raising costs – accept but covered in clause that excludes all costs not forecast using a single year revealed cost approach [9-12] • Changes in scale of activities – reject because risk of output growth forecasting error is symmetrical [9-12] • Opex not forecast using a single year revealed cost approach – include new clause [9-12]	Accept

9.2 AER revisions [9-13]

AER Revision	MG Position
9.1 We require the following revisions to make the access arrangement proposal acceptable – [refer pages 9-14 to 9-16 of the Draft Decision]	Accept

9.3 MG commentary

We accept the AER's Draft Decision for efficiency carryover mechanism in the next access arrangement period and its proposed changes to clause 6.4 of Part B of the Access Arrangement. In particular, we accept:

- applying an efficiency carryover amount of negative $5.1 million (Real 2017) from the current access arrangement period;
- amending the Efficiency Carryover Mechanism to be consistent with the AER's November 2013 version of the Efficiency Benefit Sharing Scheme, including amending the equations to provide MG with the flexibility to choose any base year;
- apply the following exclusions and adjustments under the Efficiency Carryover Mechanism:
  - exclude movements in provisions from actual opex;
  - exclude unaccounted for gas, debt raising costs and any other cost that is forecast using a single year revealed cost approach
  - exclude any other matters that we agree with the AER from time to time;
  - adjust the opex forecast ex post to account for any determined or other AER approved cost pass through events; and
  - adjust the opex forecast for any future capitalisation policy changes.

10. Reference tariff setting

This section responds to the AER's draft decisions and requested revisions for our reference tariffs for our next access arrangement period.

10.1 AER's draft decisions

AER Decision	MG Position
Tariffs and tariff classes	
10.1 Accept MG's proposed approach to allocation of revenue and costs to reference tariffs [10-10]	Accept
10.2 Accept MG's proposed structure of reference tariffs for 2018-22 period [10-5, 10-9, 10-10]	Accept
10.3 Satisfied MG's proposed tariff classes and revenue limits meet NGR requirements about [10-10]: • Stand-alone and avoidable costs • Transaction costs • LRMC • Response to customer price signals	Accept
Fixed principles	
10.4 Require change to fixed principle (a) about the form of regulation so that it applies only to 2018-22 period – more appropriate to leave decision on future application to decisions about MG's proposals for following period [10-12]	Accept
10.5 Reject MG's proposed fixed principle (e) to allow the carryover of any under or over recovery of revenue because do not accept MG's original proposal to apply a revenue cap [10-5, 10-9]	Accept
10.6 Amend the proposed access arrangement to specify that proposed fixed principle (g) will apply only to the 2018-22 access arrangement period [10-5, 10-13]	Accept

10.2 AER revisions [10-14]

AER Revision	MG Position
10.1 Amend the quantum of reference tariffs to reflect our draft decision on total revenue.	Modify, based on proposed total revenue
10.2 Amend the proposed access arrangement to specify that proposed fixed principle (a) will apply only to the 2018-22 access arrangement period.	Accept
10.3 Revision 10.3: Amend the proposed access arrangement to remove fixed principle (e).	Accept
10.4 Amend the proposed access arrangement to specify that proposed fixed principle (g) will apply only to the 2018-22 access arrangement period.	Accept

10.3 MG commentary

The AER has accepted our proposed tariff classes, and our approach for allocating revenue and costs between reference tariffs, for the next access arrangement period.

The AER requested that we amend the quantum of our reference tariffs to reflect its revisions to our total revenue in its Draft Decision.

We have made further revisions to our total revenue, which are summarised in section 15. We confirm that we have revised our proposed reference tariffs to recover this revised total revenue.

11. Reference tariff variation mechanism

This section responds to the AER's draft decisions and requested revisions for our reference tariff variation mechanism and associated formulae and pass through events for our next access arrangement period.

11.1 AER's draft decisions

AER Decision	MG Position
Reference tariff variation mechanism	
11.1 Reject replacement of WAPC with revenue cap – i.e. retain WAPC [11-5, 11-8] Note – MG emailed AER post-submission indicating that it would accept this outcome	Accept
11.2 Vary the WAPC formula as follows: • Change timing of CPI escalation from September quarter to June quarter to reduce administrative burden [11-12] • Accept MG's proposed X factor definition to reflect updates to the return on debt [11-12] • Reject MG proposal to include licence fee factor adjustment because amount included in opex forecasts [11-12] • Make other minor changes to WAPC to make consistent with formulae for other gas DBs [11-12] • Reject MG's proposal to include adjustment for additional incentive scheme payments because do not consider MG will receive any of these payments [11-13] • Reject MG's proposal to include adjustment for carbon emissions scheme because MG has not established that the alternatives to purchasing carbon credits are unavailable or inapplicable to MG [11-13]	Accept
Re-balancing control formula	
11.3 Reject MG's proposed increase to the rebalancing constraint from 2% to 10% because could lead to increased price volatility and potential price shocks to customers [11-15]	Accept
Pass through factor formula	
11.4 Include in reference tariff variation mechanism formula a pass through adjustment factor consistent with that applied to other gas DBs [11-17]	Accept
Ancillary reference tariff variation formula	
11.5 Accept MG's proposed annual ancillary reference tariff variation formula as it is consistent with that for current period [11-18]	Accept
Pass through events	
11.6 Approve MG's proposed process for notifying and seeking approval of a cost pass through [11-24]	Accept
11.7 Change in Taxes Event – accept but require MG to remove the associated clause that extends the operation of this event by providing that references to costs in its definition of the event will be read as references to the reduced revenue due to that Change in Taxes Event [11-24]	Accept
11.8 Disaster Event – accept but require MG to revise the definition and change the	Accept

AER Decision	MG Position
name to "Natural Disaster Event" [11-25]	
11.9 Insurance Cap Event – accept [11-26]	Modify by removing "materially" from the definition
11.10 Insurer Credit Risk Event - accept but require MG to revise the definition [11-26]	Modify by removing "materially" from the definition
11.11 Major Upstream Failure Event – reject because too broadly defined and uncertain in its scope of operation – AER considers that it is unknown what type of events might be covered [11-27]	Accept
11.12 NECF Event – reject because covered by the Regulatory Change Event and/or the Service Standard Event [11-29]	Accept
11.13 Regulatory Change Event – accept but require MG to revise the definition [11-29]	Modify including "substantially" because only threshold should be "materiality" and there shouldn't be another test that is open to interpretation
11.14 Service Standard Event – accept but require MG to revise the definition [11-29]	Modify including "substantially" because only threshold should be "materiality" and there shouldn't be another test that is open to interpretation
11.15 Retailer Insolvency Event - accept but require MG to revise the definition and delete the redundant Financial Failure of Retailer Event [11-30]	Modify – propose revised definition as already agreed with the AER
11.16 Terrorism Event – accept [11-30]	Accept

11.2 AER revisions [11-31]

AER Revision	MG Position
11.1 Amend Part B - Reference Tariffs and Reference Tariff Policy of Multinet's proposed access arrangement to be consistent with the current weighted average price cap reference tariff variation mechanism	Accept
11.2 Replace the definitions of the following cost pass through events with those set out in section 11.2.5 of this attachment: disaster event, insurer credit risk event, regulatory change event, retailer insolvency event, terrorism event.	Modify – refer discussion below
11.3 Remove the term "financial failure of a retailer event" from Part A of the proposed 2018–22 access arrangement as this term is not referred to elsewhere in the proposed access arrangement.	Accept – refer discussion below
11.4 Amend the pass through events as set out in Table 11.1	Modify – refer discussion below

11.3 MG commentary

11.3.1 Reference tariff variation mechanism and associated formulae

We accept the AER's decision to continue to apply in the next access arrangement period:

- a weighted average price cap reference tariff variation mechanism for our Haulage Reference Services. We are very familiar with the workings of this mechanism, as we are currently operating under it. We will continue to respond appropriately to the incentives that this mechanism presents; and
- an annual rebalancing constraint of 2 per cent on movements in our reference tariffs. This is the constraint that we currently apply. We will continue to manage changes in our tariffs within this constraint.

We also support the AER's decision to:

- include a pass through adjustment factor within the weighted average price cap formula. This will ensure that we can appropriately recover any approved pass through amounts in a manner consistent with other gas distributors; and
- accept our proposed annual ancillary reference tariff variation formula. This is consistent with what we apply in the current access arrangement period and will ensure that we can appropriate adjust our ancillary reference tariffs from year to year.

11.3.2 Pass through events

The AER accepted, subject to revising the relevant definitions, our proposed pass through events, with the exception of the Major Upstream Failure Event and the NECF Event. The following are our revised positions on each of these events.

11.3.2.1 Change in Taxes Event

We proposed retaining our current definition of this event, which has been accepted by the AER.

However the AER required amendment in the cost pass through section, Part B, clause 8, which provides that references to costs in the definition should be read as references to reduced revenue due to the changes in taxes event.

We accept the AER's amendments on the basis that it will align with what applies to other gas distributors. We have revised Part B of our Access Arrangement accordingly.

11.3.2.2 Disaster Event

We accept the AER's request to rename this event as a “Natural Disaster Event” and to amend the definition. We have accordingly revised:

- the name of this event in clause 8 of Part B of our Access Arrangement; and
- the name and definition of this event in Schedule 2 of Part A of our Access Arrangement.

11.3.2.3 Insurance Cap Event and Insurer Credit Risk Event

We accept the AER's proposed revisions to the definition of these events but we have removed references to “materiality” to align them with the definitions for the same events for AGN Victoria. We have revised the definitions in Schedule 2 of Part A of our Access Arrangement accordingly.

The AER accepted the Insurance Cap Event which Multinet proposed in its access arrangement. Multinet proposed no change in the drafting of this cost pass through from that approved by the AER in the last access period. The AER has suggested amendments to align the definition to corresponding events approved in recent determinations which seek to add more clarity to the AER's consideration of a pass through event.

Our view is that the AER could consider these matters when assessing an application for an event in any case. Multinet has proposed minor amendments to align better to the AGN approved definition. AGN has proposed this drafting in recent access arrangements - these have been approved by the AER. This cost pass through event is subject to a materiality threshold, there is no reason that the word materially needs to be used to define the amount above the insurance cap.

We note that AGN does not specify the dates of the Access Arrangement Period. Multinet also proposes this approach so that the event could be retained unchanged in future access periods.

The following minor amendments to the AER proposed definition are proposed:

Insurance Cap Event means an event whereby:

(a) the Service Provider makes a claim or claims and receives the benefit of a payment or payments under a relevant insurance policy;

(b) the Service Provider incurs costs beyond the relevant policy limit of that insurance policy; and

(c) the costs beyond the relevant insurance policy limit ~~Materially~~ increase the costs to the Service Provider of providing Reference Services;

For the purposes of this Insurance Cap Event:

; and

(d) A relevant insurance policy is an insurance policy held during the ~~2018-22~~ Access Arrangement Period or a previous period in which access to the pipeline services was regulated

(e) the Service Provider will be deemed to have made a claim on a relevant insurance policy if the claim is made by a related party of the Service Provider in relation to any aspect of the Distribution System or the Service Provider's business.

Note in making a determination ~~in making a determination~~ on an Insurance Cap Event, the Regulator will have regard to, amongst other things:

(1) the insurance policy for the event;

(2) the level of insurance that an efficient and prudent Service Provider would obtain in respect of the event; and

(3) any assessment by the Regulator of the Service Provider's insurance in making its access arrangement decision for the relevant period.

The AER accepted the Insurance Credit Risk Event which Multinet proposed in its access arrangement. Multinet proposed no change in the drafting of this cost pass through from that approved by the AER in the last access period. The AER has however decided that the scope of the pass through is too broad as it covers the changes associated with an increase in cost of insurance premiums and the scope needs to be confined to costs that are specific to an existing or potential claim against the failed insurer.

Multinet accept the AER changes with some minor amendments to align better to the AGN approved definition. AGN has proposed this drafting in recent access arrangements and had it approved by the AER. This cost pass through event is subject to a materiality threshold, there is no reason that the word materially needs to be used to define the claim limit amount or the deductible. It is important that the event meets the materiality threshold and there is no need to define the claim limits or deductible.

Insurer Credit Risk Event means an event where the insolvency of an insurer of the Service Provider occurs, as a result of which the Service Provider:

(a) in respect of a claim for a risk that was insured by the Service Provider's insolvent insurers, is under a new policy subject to a ~~materially~~ higher or lower claim limit or a ~~materially~~ higher or lower deductible than would have applied under the policy with the insolvent insurer; or

(b) incurs additional costs associated with self-funding an insurance claim which would have otherwise been covered by the insolvent insurer;

Note: In making its decision to approve or reject a proposed reference tariff variation arising from an Insurer Credit Risk Event, the Regulator will have regard to, amongst other things:

(c) the Service Provider's attempts to mitigate and prevent the event from occurring by reviewing and considering the insurer's track record, size, credit rating and reputation.

(d) in the event that a claim would have been made after the insurer became insolvent, whether the Service Provider had reasonable opportunity to insure the risk with a different insurer.

11.3.2.4 Major Upstream Failure Event

The AER rejected this event on the basis that it was too broadly defined and its scope of operation was uncertain. This event was intended to cover circumstances such as the 25 September 1998 Longford gas explosion, where upstream gas supplies were unavailable and gas supplies did not resume until 14 October 1998. We consider it reasonable that we should be able to recover the costs that we incur as a result of such an event.

We accept the AER's draft decision on the basis that other gas distributors do not have this as a pass through event. We have removed this event from:

- clause 8 of Part B of our Access Arrangement; and
- the definitions in Schedule 2 of Part A of our Access Arrangement.

11.3.2.5 NECF Event

We proposed retaining this event, and its associated definition, which the AER approved in our current Access Arrangement.

We accept the AER's draft decision to remove this event on the understanding from the AER's Draft Decision[5] that it would be covered by a Regulatory Change Event.

Accordingly, we have removed this event from:

- clause 8 of Part B of our Access Arrangement; and
- the definitions in Schedule 2 of Part A of our Access Arrangement.

[5] See page 29 of Attachment 11 of the AER's Draft Decision

11.3.2.6 Regulatory Change Event and Service Standard Event

We proposed retaining these events, and their associated definitions, which the AER approved in our current Access Arrangement. We do not accept the AER's proposals to include the word "substantially" in the definitions of both of these events, as there is already a "materiality" threshold in the definition and including an additional test would only complicate the definition and interpretation of this event.

We have therefore not changed the definitions of these events in Schedule 2 of Part A of our Access Arrangement.

The AER recognise that the nature of type of the event can be clearly identified and Multinet often will have limited ability to prevent or mitigate the event. An event is measured by its impact on the cost of the event in providing reference services, there should be no need that changes in regulations or service standards should have to also ensure that it substantially affects the manner in which the Service Provider provides the Reference Service. For example a regulatory change could require a change to a number of different aspects in providing reference services, e.g. systems, processes etc. however each of the detailed regulatory changes within the event might not be considered as a material change in the manner in which reference services are provided.

The AER states that there is no need for a National Energy Customer Framework (NECF) pass through event as this would likely be covered by a Regulatory Change Event. The AER should make clear that the Regulatory Change event will cover the NECF event in the same manner before removing the NECF event. The NECF event in the current access arrangement has no materiality threshold for the event. By removing the specific NECF event, the event will now need to have costs exceed a 1 per cent threshold before the event is covered. Many of the individual tasks required of Multinet to implement NECF may not be considered as substantially affecting the manner in which reference services are provided, however together the tasks are likely to result in a substantive cost. Multinet consider that the second threshold test should not be added.

Multinet propose the following minor amendments to the AER proposed definition:

Regulatory Change Event means:

the introduction of, or a change in, a regulatory obligation or requirement that:

(a) falls within no other category of Relevant Pass Through Event; and

(b) occurs during the course of an Access Arrangement Period; and

(c) ~~substantially~~ affects the manner in which the Service Provider provides Reference Services; and

(d) Materially increases or materially decreases the costs of providing those Reference Services.

Service Standard Event means:

a legislative or administrative act or decision that falls within no other category of Relevant Pass Through Event that:

(a) has the effect of:

(1) ~~substantially~~ varying, during the course of an access arrangement period, the manner in which the Service Provider is required to provide a Reference Service;

(2) imposing, removing or varying, during the course of an access arrangement period, minimum service standards applicable to Reference Services; or

(3) altering, during the course of an access arrangement period, the nature or scope of the Reference Services, provided by the Service Provider; and

(b) Materially increases or materially decreases the costs to the Service Provider of providing Haulage Reference Services.

11.3.2.7 Financial Failure of Retailer Event and Retailer Insolvency Event

The AER's Draft Decision was to require us to remove reference to the "Financial Failure of Retailer Event" .

We agree to this change, and have also modified the definition of the "Retailer Insolvency Event" in line with recent discussions with the AER..

"Multinet proposed this event to pass through additional costs it incurs or is unable to recover from a retailer due to the retailer becoming insolvent. Multinet proposed that no materiality threshold to apply to this event.[2]

Including an event of this type in the access arrangement for the 2018–22 period will place Multinet in a similar position to gas distributors in NECF jurisdictions. Rule 520 of the NGR, which does not apply in Victoria because the NECF has not taken effect in Victoria, provides for the pass through of certain costs incurred by a distributor when a retailer becomes insolvent."

The revised wording agreed between the three gas distributors and the AER will give effect to the intent to cover a retailer insolvency event consistent with Rule 520.

Multinet propose to remove the retailer insolvency event and replace with the following:

Retailer Insolvency Event means that until such time as the National Energy Retail Law set out in the Schedule to the National Energy Retail Law (South Australia) Act 2011 of South Australia is applied as a law of Victoria, retailer insolvency event has the meaning set out in the National Gas Rules as in force from time to time, except that:

(a) where used in the definition of 'retailer insolvency event' in the National Gas Rules, the term 'retailer' means the holder of a licence to sell gas under the Gas Industry Act (Vic) 2001; and

(b) other terms used in the definition of retailer insolvency event in the Rules as a consequence of amendments made to that definition from time to time, which would otherwise take their meaning by reference to provisions of the National Gas Law, National Gas Rules or National Energy Retail Law not in force in Victoria, take their ordinary meaning and natural meaning, or their technical meaning (as the case may be).

Note: This retailer insolvency event will cease to apply as a Relevant Pass Through Event on commencement of the National Energy Retail Law in Victoria.

11.3.2.8 Terrorism Event

The AER accepted our definition of this event with modifications to align to AER approved events for other Distributors. Multinet accepted the AER's proposed changes.

11.3.2.9 Materiality

We proposed that the materiality for certain cost pass through events was 1 per cent, however for the NECF event and retailer insolvency event Multinet proposed that there be no materiality threshold. Multinet's proposal for no materiality threshold for the NECF event and for the retailer insolvency events was consistent with the current access arrangement in relation to NECF and consistent with what we believed the AEMC would decide on the retailer-distributor credit support rule change proposals. In February 2017 the AEMC

[2] Multinet Gas, *2018 to 2022 Access Arrangement Information*, December 2016, p. 145.

made a final rule on retailer-distributor credit support arrangements which included the removal of a 1 per cent threshold for a retailer insolvency pass through event in gas. We do not support the AER's proposed drafting which is inconsistent with the AEMC Final Determination that states the new retailer insolvency arrangements have no materiality threshold and override any inconsistent provisions in a distributor's access arrangement. Multinet consider that the cost pass through provisions drafted in Part B, clause 8 should be consistent with the AEMC Final Determination and the intent of the cost pass through arrangements. Multinet has amended the list of the cost pass through events that have the 1 per cent materiality threshold and has removed the NECF event from the events with no materiality threshold.

Multinet is not able to find the AER's justification to support the AER draft decision position.

The AEMC state in the Final Determination on retailer credit support arrangements:[6]

"The final rules (both in the NER and NGR) will:

– enhance the operation of the retailer insolvency cost pass-through provisions by removing the materiality threshold (currently one per cent of a distributor's annual revenue requirement), where applicable;"

Further on page 48

> "This is accomplished through enhanced retailer insolvency cost pass-through provisions.
>
> The enhanced retailer insolvency cost pass-through provisions provide:

– no materiality threshold is applicable to the retailer insolvency costs that may be claimed through the retailer insolvency cost pass-through process;

– unpaid network charges are clearly to be included in distributors' retailer insolvency costs following a retailer insolvency event; and

– in the NGR, the retailer insolvency cost pass-through provisions take precedence over any inconsistent provisions in a distributor's access arrangement."

[6] AEMC Final Determination, Retailer-Distributor credit support arrangements, Feb 2017, p24

12. Non-tariff components

This section responds to the AER's draft decisions and requested revisions for the non-tariff components of our Access Arrangement for our next access arrangement period.

12.1 AER's draft decisions

AER Decision	MG Position
Terms and conditions	
12.1 Accept MG's proposed non-tariff components [12-5] except for clause 9(j) of the terms and conditions, which relates to informing customers about disruptions caused by MG's own acts or omissions subject to minor typos.	Reject – refer discussion below
Extensions and expansions	
12.2 Accept MG's proposed arrangements for extensions and expansions [12-9]	Accept
Capacity trading, receipt and delivery points	
12.3 Accept MG's minor changes to existing arrangements [12-9]	Accept
Revisions submission and commencement	
12.4 Accept review submission date of 1 January 2022 and a revisions commencement date of 1 January 2023 [12-10] *Note – AGN's proposed review submission date is 1 December 2021 and the AER encourages MG to align with AGN [12-10]*	Accept, but revise to 1 December 2021

12.2 AER revisions [12-11]

AER Revision	MG Position
12.1: 9.1(j) The User is responsible for providing Customers with information relating to any interruption or curtailment or irregularity in the supply of Gas which is caused by the ~~factors upstream of the Distribution System (for example an interruption or curtailment in the supply of Gas by gas producers due to faults or failures of the gas producers'' production facilities) or caused by~~ act or omission of the User (for example supply by the User to the Service Provider of Gas which does not comply with the Specifications).	Reject
12.2: 14.8 Notwithstanding a reference of a dispute to the dispute resolution procedure in this clause ~~0~~ 14: (a) the parties shall, so far as it is reasonably practicable, continue to perform and comply with their respective obligations under this Agreement to the extent that such obligations are not the subject of that dispute; and (b) the parties are not precluded by this clause ~~0~~ 14 from exercising their rights of termination in accordance with clause ~~0~~ 12 (term and termination).	Accept
12.3: 17.3 (a) In the case of a disclosure under clause 17.1(d)(1) or 17.1(e), the party proposing to make the disclosure shall inform the proposed recipient of the confidentiality of the information and the party proposing to disclose shall take all	Accept

AER Revision	MG Position
reasonable precautions to ensure that the proposed recipient keeps the information confidential. (b) If a party is permitted to disclose any confidential information in accordance with this clause ~~16.5(a)~~ 17, the party proposing to disclose shall use reasonable endeavours to limit the disclosure to those matters which reasonably need to be disclosed in order to accomplish that purpose.	

12.3 MG commentary

The AER accepted our proposal in relation to extensions and expansions and capacity trading, receipt and delivery points.

We accept the AER's minor revisions to clause 14.8 and 17.3 of our reference service terms and conditions. However, we do not accept the AER's proposed revision to our terms and conditions and propose a change to our review submission date.

12.3.1 Terms and conditions

We proposed minimal changes to the terms and condition in our current Access Arrangement. The AER accepted our changes with the exception of the following amendment to clause 9.1(j):

The User is responsible for providing Customers with information relating to any interruption or curtailment or irregularity in the supply of Gas which is caused by ~~the~~ factors upstream of the Distribution System (for example an interruption or curtailment in the supply of Gas by gas producers due to faults or failures of the gas producers'' production facilities) or caused by act or omission of the User (for example supply by the User to the Service Provider of Gas which does not comply with the Specifications).

We reject the AER revision which removed the inserted text.

Multinet has inserted the text to clarify that the User is responsible for notifying customers of interruptions which are attributable to the User or matters independent of the distribution system. The clause has two specific requirements:

- To notify customers of interruption or curtailment of supply caused by factors upstream of the distribution system; and
- To notify customers of interruption or curtailment of supply caused by an act or omission of the User.

Where there is an upstream event that may impact the integrity of the transmission and distribution system, whilst it is a matter between the User and AEMO, producers and transmission service providers there may be directions by AEMO to any registered participant to turn off end user/customer gas supply according to agreed curtailment tables.

The gas access regime is a straight line relationship between the Distributor and User and the User and Customer, Multinet does not have a direct customer relationship. This is recognised in the Victorian Gas Distribution Code where a Distributor can request the Retailer, where interruption is required, that the Retailer must use reasonable endeavours to ensure that its Customers comply with a requirement to interrupt supply[7]. It is important given that Retailers manage relationships with large customers and are aware of the customers circumstances that gas turn offs are managed in a manner that minimises adverse impact to customers and maintains the integrity and system security of the gas network to the extent possible. Multinet does not consider this requirement which reflects the Distributor and retailer requirements in the Victorian regulatory framework to be a material change as it reflects that Distributors do not have the customer details/relationships

[7] ESC, Victorian Gas Distribution Code, clause 9.7 (c)

to support such an arrangement, nor do Distributors have substantive call centre arrangements to facilitate a curtailment of supply to distribution points.

We have therefore retained the above change to clause 9.1(j) of our terms and conditions.

We accept the AER's minor revisions to the terms and conditions.

12.3.2 Revision submission and commencement

The AER accepted our proposed review submission date of 1 January 2022 and a revisions commencement date of 1 January 2023.

However, we wish to change our review submission date to 1 December 2021 to align it with that for AGN and AusNet. The AER proposed this change and we are prepared to accept it.

13. Demand

This section responds to the AER's draft decisions and requested revisions for demand for our Access Arrangement for our next access arrangement period.

13.1 AER's draft decisions

AER Decision	MG Position
Tariff V	
13.1 Reject Tariff V demand forecasts because [13-5] • Gross new residential connections are understated and inconsistent with MG's proposed connections capex [13-5, 13-11, 13-12] *Note – AER indicated that MG accepted that NIEIR's forecasts are not accurate [13-13]* • Reject MG's opex step change for a marketing program [13-5]	Modify the AER's calculation of customer numbers – agree with their average usage calculation.
13.2 Accept Tariff V residential and commercial consumption per connection [13-15]	Accept
Tariffs D and L	
13.4 Accept MG's MHQ demand forecast [13-5, 13-11, 13-16]	Accept

13.2 AER revisions [13-17]

AER Revision	MG Position
13.1 Make all necessary revisions to reflect this draft decision, as set out in Section 13.4.3.1.	Modify for customer numbers and consequential effect

13.3 MG commentary

The AER accepted our forecasts of:

- Tariff V residential and commercial consumption per connection; and
- Tariffs D and L MHQ.

The AER however did not accept our overall demand forecast for Tariff V on the basis that the forecast of connections are understated and inconsistent with our proposed connections capex.

The AER has used closing customer numbers to calculate the annual usage and fixed charge. However, we do not have the same customer numbers at the end of the year as we do at the start. As a result, we propose using the average customer numbers to calculate annual usage and annual fixed charges. We have updated the opening 2017 customer number with the closing 2016 customer number provided in our Annual RIN to the AER on 30 April 2016.

We have applied the average connection numbers from Table 13.1.

Table 13.1 – Tariff V (Metro) connection forecasts

MG Version	2017	2018	2019	2020	2021	2022
Opening	669,453	674,555	679,623	684,253	688,472	692,815
Connections	8,039	8,026	7,603	7,208	7,347	7,607
Abolishments	2,937	2,958	2,973	2,990	3,004	3,016
Closing	**674,555**	**679,623**	**684,253**	**688,472**	**692,815**	**697,407**
Average	**672,004**	**677,089**	**681,938**	**686,363**	**690,644**	**695,111**

14. Other incentive schemes

This section responds to the AER's draft decisions for our proposed other incentive schems for our Access Arrangement for our next access arrangement period.

14.1 AER's draft decisions

AER Decision	MG Position
14.1 Reject introduction of gas Network Innovation Competition [14-5, 14-7]	Accept

14.2 AER revisions

None

14.3 MG commentary

We proposed introducing a new Gas Network Innovation Competition (NIC) in the forthcoming Access Arrangement period, like Ofgem's arrangement for gas distributors in Great Britain. Ofgem describes its Gas NIC as follows:

> *The Gas NIC is an annual opportunity for Gas network companies to compete for funding for the development and demonstration of new technologies, operating and commercial arrangements. Funding will be provided for the best innovation projects which help all network operators understand what they need to do to provide environmental benefits, cost reductions and security of supply as Great Britain (GB) moves to a low carbon economy. Up to £18m per annum is available through the Gas NIC.*[8]

We consider that introducing a NIC would be valuable to reduce costs or improve performance outcomes, to enable us to continue to deliver on the National Gas Objective. Stakeholders supported the introduction of the NIC.

However, the AER did not support introducing a NIC because it did not believe it will encourage efficiency in the provision of services in the long-term interests of consumers.

We are disappointed that the AER is not prepared to support innovation, which we see as being particularly important given:

- gas is a fuel of choice and we need to be able to differentiate our offering, in terms of both price and service, from our competitors;
- our operating environment will continue to change and we need to be able to respond accordingly; and
- Economic Insights' recent benchmarking indicates that we are currently operating close to, or at, the efficient performance frontier. We need to improve continually in order to provide cost efficient and customer-focussed services in the future.

We reluctantly accept the AER's decision but will seek to continue to engage with it during the next access arrangement period about how innovation can most effectively be promoted in the gas industry in the future, for the benefit of gas customers.

[8] See - https://www.ofgem.gov.uk/network-regulation-riio-model/network-innovation/gas-network-innovation-competition

Given that the AER has rejected our proposal to introduce a Network Innovation Scheme we have reviewed the draft decision in relation to the Capital Expenditure Sharing Scheme (CESS) the AER has approved for both Ausnet and AGN.

Multinet is a supporter of incentive based regulation. It is important that any new incentives are carefully considered by all stakeholders before their introduction. In that regard, we note that Multinet participated in the joint industry stakeholder engagement program on appropriate incentives for gas distributors. We also note the broad stakeholder support described by the AER in its Draft Decision for a CESS with a counterbalancing network service performance – the Contingent CESS.

The extensive consultation undertaken in respect of development of the Contingent CESS positively influenced the AER's decision to accept the scheme for Ausnet and AGN. We also note, and are encouraged by, the AER's intention to continue to consult on its operation, monitor the outcomes and address any issues that may arise at the time of the next access arrangement review.

On this basis and all the other reasons provided for in the draft decision, Multinet is now formally requesting the same Contingent CESS set out in the AER Draft Decisions for both AusNet and AGN (adjusted to reflect Multinet data and network service performance) be applied to it for the forthcoming access arrangement period. We have provided the necessary data as part of this Revised AAI as well as making the necessary changes to our Access Arrangements. Also, given the significant stakeholder consultation that has been undertaken on the Contingent CESS, we are not proposing further consultation in respect of Multinet exclusively.

15. Total revenue, X-factors and indicative bill impacts

This section summarises our revised building block proposal and X factor for the next Access Arrangement period, as well as our revised indicative prices and bill impacts for our customers.

15.1 Annual building block revenue requirements

Table 15.1 below summarises the composition of the unsmoothed building block revenue requirements for our next Access Arrangement period for our Haulage Reference Services. In developing this table we have allocated our total revenue between reference and other services in accordance with Rule 93 of the NGR.

Table 15.1: Total revenue requirement ($M, Real 2017)

	2018	2019	2020	2021	2022	Total
Return on Capital	65.1	66.9	67.6	68.8	69.5	337.8
Depreciation	35.3	36.4	38.7	39.2	41.1	190.7
Opex (incl. Debt Raising)	75.0	75.9	76.9	78.0	79.2	385.1
Efficiency Benefit Sharing Scheme	(2.1)	4.6	(2.2)	(5.4)	-	(5.1)
Cost of corporate income tax	10.8	10.5	10.9	12.4	12.1	56.6
Total Revenue Requirement (unsmoothed)	**184.0**	**194.3**	**191.9**	**193.0**	**201.9**	**965.2**
Price change	**2.93%**	**-1.70%**	**-1.70%**	**-1.70%**	**-1.70%**	**n/a**

The annual revenue requirements shown in Table 15.1 have been calculated using the AER's Post-Tax Revenue Model.

15.2 X Factor

We propose a revised P^0 of 2.93 per cent in 2018 and an X factor of -1.70 (the same as the AER's draft decision) per cent in each of the four years between 2019 and 2022 as this ensures that our allowed revenues and building blocks costs will be closely aligned in 2022 and provides a relatively stable price path over the forthcoming Access Arrangement period.

The lower price reduction of 2.93 per cent relative to 5.56 per cent in the AER Draft Decision is driven by the higher volumes of mains replacement proposed in this Revised AAI. This matter is explained further section 6 of this Revised AAI.

15.3 Indicative residential bill impact

Table 15.2 provides an indication of the pricing outcomes under the proposed Access Arrangement for a typical residential customer, based on the Total Revenues, P^0 and X factors detailed above.

Table 15.2: Analysis of 'typical' residential bill ($, Nominal)

Tariff type	Estimate invoice (2017)	Estimated invoice (2018)	% Change 2018/2017
Cost of Gas (including Retail)	985.0	1,004.7	2.0%
Transmission	18.0	18.4	2.0%
Distribution	281.0	278.4	-0.0%
Total Gas Invoice	**1,284.0**	**1,301.5**	**1.4%**

NB: We have assumed 2 per cent for inflation.

16. Glossary

Abbreviations	
ACIF	Australian Construction Industry Forum
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
Bp	basis points
bppa	basis points per annum
BST	Base-Step-Trend
BVAL	Bloomberg Valuation
C&I	Commercial and Industrial
Capex	Capital expenditure
CAPM	Capital Asset Pricing Model
CPI	Consumer price index
DNSP	Distribution network service provider
DRP	Debt risk premium
DUOS	Distribution use of system
ESCV	Essential Services Commission of Victoria
ESV	Energy Safe Victoria
GAAR	Gas Access Arrangement Review
GJ	Gigajoule
ICT	Information and Communications Technology
LP	Low Pressure
LPDZ	Low Pressure Designated Zone
M	Millions
MHQ	Maximum Hourly Quantity
MP	Medium Pressure
MRP	Market risk premium
NGL	National Gas Law
NGO	National Gas Objective
NGR (Rules)	National Gas Rules
NIC	Network Innovation Competition
NIEIR	National Institute of Economic and Industry Research
Opex	Operating expenditure

Abbreviations	
PTRM	The AER's Post-Tax Revenue Model
RAB	Regulatory Asset Base
RFM	The AER's Roll-forward Model
RIN	Regulatory Information Notice
ROE	Return on equity
RPP	Revenue and Pricing Principles
SCADA	Supervisory Control and Data Acquisition
SL-CAPM	Sharpe-Lintner Capital Asset Pricing Model
TJ	Terajoule
Tribunal	Australian Competition Tribunal
WACC	Weighted average cost of capital