



17 February 2021

Mr Sebastian Roberts  
General Manager  
Australian Energy Regulator  
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Dear Mr Roberts

**RE: AER Draft Decision and Revised Access Arrangement Proposal for AGN (SA) 2021-26**

Origin Energy (Origin) appreciate the opportunity to provide a response to the AER's draft decision and the revised regulatory proposal lodged by Australian Gas Networks (AGN) for its South Australian gas distribution network for the period from 1 July 2021 to 30 June 2026.

Origin is largely supportive of the AER's draft decision and acknowledges the significant progress that the AER and AGN have made in driving the network towards achieving more efficient expenditure levels and the resultant impact on affordability. Origin believes the AER's draft decision contributes positively to affordability and a reduction in consumers' network bills. We are therefore supportive in principle of the AGN revised proposal being largely in line with the AER's draft decision recommendations. Nevertheless, we encourage the AER to rigorously assess the revised elements of the proposal particularly in relation to amended connections and consumption forecasts.

Given the uncertainty associated with the COVID-19 pandemic there is potential for further change to gas demand and expenditure both within the current regulatory period and likely extending into the next. Accordingly, there may need to be further refinement to forecasts prior to the commencement of the 2021-26 regulatory period. We encourage the AER to retain sufficient flexibility during the review process and within the next regulatory period to accommodate revisions to forecasts as more information becomes available.

The AER's draft decision proposed a revenue allowance of \$1,028.5m for the 1 July 2021 to 30 June 2026 access period, \$107.9m (9.5%) less than the \$1,136.4m proposed by AGN. However, the AER provided scope for AGN to increase the revenue allowance via further justification of proposed expenditure (particularly capex).

In response, AGN incorporated further information in the revised proposal. In particular, AGN provided additional information, including independent advice, to support its argument that proposed mains replacement capital expenditure (capex) is required to maintain the safety and integrity of services and cannot be deferred. Whilst we accept the rationale for the mains replacement program, the uncertainty presented by decarbonisation complicates the forecasting process. There is clearly a balance to be struck between maintaining/growing the network and limiting exposure to future asset stranding. AGN appear to have adopted a well-considered approach to capex forecasts and we are encouraged by the progress made in examining the future role of hydrogen in the network.

AGN also provided updated operating expenditure forecasts including revising labour cost escalation forecasts. AGN applied an average of the wage price index growth forecasts for South Australia provided

by BIS Oxford and Deloitte Access Economics to determine labour cost escalations. We note the material difference between the BIS Oxford and Deloitte Access Economics forecasts and request the AER review the forecasts to determine the basis of the variance and whether it remains appropriate to adopt a simple average of the two forecasts. Our initial expectation is that wage growth may be more subdued than forecast by AGN given the continued uncertainty surrounding COVID-19 impacts.

In response to governments moving towards net zero emissions policies, AGN propose not to seek accelerated depreciation for the 2021–26 period. Instead AGN recognise the need to innovate and consider alternatives to natural gas to sustain investments over time and has prioritised a preferred price path for customers. We note that the AER and most submissions to AGN's initial proposal endorsed the AGN approach and we are similarly supportive. We agree that discussion of accelerated depreciation can be deferred to the 2026-33 access arrangement review when the role of the AGN gas network and its adaptability to accommodate hydrogen is better understood.

While AGN explore renewable network options, they also acknowledge the potential for asset stranding both in response to decarbonisation policies and customer uptake of alternative energy options. We note that AGN has provided preliminary thoughts and options regarding the appropriate regulatory framework to accommodate the transition to a net-zero emissions environment for gas networks. We consider that AGN raises a number of pertinent issues and provides a sound foundation for progressing discussion in this area.

Origin agree with the need for a better understanding of the workability and implications of accelerated depreciation in the face of potential asset standing risk. We support the AER's elevation of this issue on its list of strategic priorities. Any review should seek to provide networks and consumers with a better understanding of the risks associated with future gas network investments, the regulatory treatment of these investments, the approach to risk sharing and intergenerational equity, and the implications for networks and consumers. With the prospect of increased asset stranding risk across the gas sector, it is important for the AER to develop a principled approach that can be consistently applied in a variety of circumstances.

### **Reference Service Agreement**

#### *Clause 33.4 Service Indemnity and clause 33.5 Curtailment Indemnity*

In relation to clauses 33.4 and 33.5, AGN proposes that the network user will indemnify AGN against all loss, cost, expense or damage which AGN might suffer in relation to distribution services and any curtailment or interruption of the delivery of gas respectively.

We consider that Origin's liability under indemnities should be capped at a mutually agreed level. Furthermore, the language in the indemnities should better align with what a court would hold Origin liable for under common law. This would help to ensure the indemnities themselves are more balanced.

If you have any questions regarding this submission, please contact 

Yours sincerely



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