

30 September 2024

Clare Savage
Chair
Australian Energy Regulator
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Dear Clare

Please find attached AusNet's Variation Proposal for our Gas Access Arrangement Review for the access arrangement period 1 July 2023 to 30 June 2028 in accordance with the National Gas Rules. All supporting information has been submitted to AER staff.

On 2 June 2023, the AER made a Final Decision on our Access Arrangement (AA) Proposal for the 1 July 2023 to 30 June 2028 AA period. Since that time, the transformation of the energy sector has continued apace with the Victorian government introducing material policy changes affecting the outlook for gas and setting out a clear path to electrification including:

- From 1 January 2024, the Victorian government has banned new gas connections for dwellings, apartments, residential subdivisions where planning permits required.
- From 1 January 2025, the updated gas distribution code of practice requires gas distributors to impose full upfront charging for new connections.
- Consulting on a Regulatory Impact Statement (RIS) on an appliance ban for rental properties to be introduced during 2025.
- Consulting on a RIS in late 2024, that would look at electrifying commercial buildings and introducing an end-of-life appliance replacement ban for all residential customers.

This is a material change to our operating environment, such that the assumptions that underpinned the Final Decision for our AA no longer reasonably represent the expected future circumstances of our network. Importantly, the customer number forecast approved by the AER had our residential customer numbers growing strongly throughout the regulatory period. This continued growth is no longer a credible forecast. We are already seeing these policy changes impact our network with the projected rate of gas reticulation declining significantly, a rapid take up of electrification incentives and increasing abolishments and dormant connections. We reasonably expect the new policies will further accelerate customers' transition away from gas.

As a result, we are proposing to increase our accelerated depreciation from the \$105m approved by the AER to \$175m. As has been recognised by the AER and several other stakeholders, accelerated depreciation is the appropriate economic tool to address the stranding risks we are facing. While the AER's Final Decision recognised this, in the materially changed environment, the AER's judgement call on the balance between cost recovery and short-term price impact when setting our accelerated depreciation allowance no longer reaches the right trade-off between short- and long-term price paths or addresses the increased stranding risk on our investment.

The proposed \$175m is consistent with the amount approved by the AER for AGN and remains less than the \$200m that AusNet proposed in its revised regulatory proposal for the current AA. We maintain that given long term network decline is now inevitable, that an accelerated depreciation well above \$200m is justified on purely economic grounds. However, we agree with the AER that the short-term impact on customer bills remains a relevant consideration. As such, our proposal of \$175m is moderate and reasonable as it constrains the short-term

bill impact to a reasonable degree and matches the level previously approved in the regulatory precedent for AGN.

Our Variation Proposal will result in real price rises of 8.87% per annum (which is 6.46% above the previous decision) for the last three years of the regulatory period, which is an additional \$76 increase to the average residential customers bill, relative to the current Decision, or an average of \$49 per year for the last three years. An average residential bill in AusNet's area is \$2100 component of that bill, around \$300, which is just 15% of a residential customer's bill.¹ This means residential customers total retail bill increases by approximately 5% per annum for the remainder of the regulatory period.

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

Sincerely,



David Smales
Chief Executive Officer
AusNet Services

¹ St Vincent De Paul, Victoria Energy Prices January 2024. See [2024-january-victorian-energy-report.pdf \(vinnies.org.au\)](https://vinnies.org.au/2024-january-victorian-energy-report.pdf) (accessed 22/08/2024)