AusNet

14 March 2025

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Clare Savage
Chair
Australian Energy Regulator
GPO Box 520
Melbourne VIC 3011

Dear Clare,

Following careful consideration, AusNet will not submit a Revised Proposal for our Gas Access Arrangement (AA) Review for the access arrangement period 1 July 2023 to 30 June 2028. We accept the Draft Decision made by the AER on 31 January 2025. This letter summarises our response to the Draft Decision and sets out our rationale for not submitting a Revised Proposal.

We submitted our Variation Proposal because early action is the best way to protect customers and enable us to manage the network safely and reliably as long as it is needed by Victorians. Separately to this letter, we will share commentary on the implications of the AER's Draft Decision and associated arguments will have on customers and distribution businesses in future AA periods.

Summary

Our Variation Proposal addresses both short-term adjustments for the current AA period and long-term considerations requiring early action, based on material changes in our operating environment.

- **Short-Term Variations**
  We have not submitted a Revised Proposal for demand forecasts or expenditure, in recognition of stakeholder feedback and the AER's regulatory judgment on demand. We accept the AER's Draft Decision to maintain the 2023 final decision's demand and customer forecasts, as well as its determinations on capital and operating expenditure, since they align with these forecasts.

- **Long-Term Considerations**
  While we maintain that our Variation Proposal provided strong evidence to vary our accelerated depreciation decision, we acknowledge the AER's preference to assess these matters in the next full review. We accept the Draft Decision to uphold the $105 million in accelerated depreciation approved in 2023.

Moving forward, we will continue to engage with customers and stakeholders on the broader policy challenges associated with asset stranding risk, price stability, and affordability. We remain committed to working with governments and regulators to support a responsible and equitable energy transition.

1. Short-term variations to the current AA period

1.1. Demand forecasts

The AER's Draft Decision does not accept our proposed demand forecast for the 2023–28 period, stating that the proposed variations do not represent the best possible estimate. The AER has determined that an alternative forecast by consultant Oakley Greenwood is not materially different from the 2023 final decision.

The key difference in the alternative forecast is the removal of the 'consumer sentiment' effect on the number of eligible customers connecting to the gas network. The AER notes that our customer research indicates a shift in sentiment against gas, though this trend has not been entirely one-directional. This is not evidence to disregard it - our findings align with other research, for example from Energy Consumers Australia (ECA), which found that 37% of Victorians plan to cancel their gas supply within the next 10 years. Additionally, operational data supports this sentiment, with service connection requests in the first two months of 2025 over 60% lower than in 2024.

Stakeholders have noted that under the price cap form of regulation, gas distribution networks carry demand risk within an AA period. In light of this and the AER's regulatory judgment on consumer sentiment, we have chosen not to submit a Revised Proposal for our demand forecast. The AER's Draft Decision asserts that the impact of Victorian policy changes on gas demand is likely to accrue more gradually and remains uncertain.

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1.2. Capital and operating expenditure

The AER has not accepted the proposed variations in capex, as the alternative forecast provided by Oakley Greenwood is deemed immaterially different from the Final Decision's demand forecast. Similarly, the AER has not accepted AusNet's revised opex forecast, noting that existing allowances and true-up mechanisms already account for some elements.

Although the approved capex in the AER's final decision exceeds our current expectations, we have not submitted a Revised Proposal for capital and operating expenditure, as the capex forecasts remain consistent with the AER's demand and customer forecasts. We will provide separate commentary on key discussions in the Draft Decision that will influence future AA reviews, particularly regarding potential reductions to our capex program and the need for recovery pathways for future investments.

2. Long-term considerations requiring early action

2.1. Accelerated depreciation due to stranded asset risk

Our Variation Proposal outlined an evidence-based case for varying our AA, citing several material policy changes affecting our long-term operating environment that were not considered in the 2023 final decision. These changes received strong stakeholder recognition regarding their material impact on asset stranding risk.

The AER has determined that AusNet has not sufficiently justified the proposed additional accelerated depreciation based on either short-term or long-term impacts arising from policy changes since the 2023 final decision.

While we maintain that our proposal provided a strong, evidence-based case to vary our AA due to these material policy changes, the AER has stated that 'the issues raised by AusNet's proposal can be better assessed in the context of its 2028–33 access arrangement proposal.' In recognition of this, we have not submitted a Revised Proposal on accelerated depreciation and accept the AER's decision to maintain the $105 million in accelerated depreciation approved in 2023.

We will continue to engage on this issue and provide further commentary on the challenges of increasing stranded asset risk for future AA periods, particularly concerning its impacts on price stability and affordability for future customers under the NGO.

Finally, although additional accelerated depreciation remains an appropriate lever at this point in the transition, we note the AER's conclusion that 'accelerated depreciation does not remove the need to resolve the broader policy question involving consumers, network businesses and governments regarding who should pay for the costs of stranding risk associated with past capital investments, or when and how this will occur.' We remain committed to collaborating with the AER, governments, and industry stakeholders to navigate the evolving energy landscape. Addressing asset stranding risk while supporting an equitable energy transition will require ongoing dialogue and a coordinated approach.

We appreciate the AER's engagement throughout this process and look forward to continuing engagement to achieve the best outcomes for our Victorian gas customers.

Sincerely,

[redacted]

David Smales
Chief Executive Officer
AusNet Services