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3 December 2021

Sebastian Roberts
General Manager
Australian Energy Regulator
GPO Box 520
Melbourne Victoria 3001

Dear Sebastian,

Position Paper: Approach to six-month extension of access arrangements

We thank the AER for the opportunity to provide comment on the AER's position paper on the "Approach to six-month extension of access arrangement: Victorian gas distributors" published November 2021. This submission is made on behalf of both Australian Gas Networks (AGN) Victoria and Albury, and Multinet Gas Networks (MGN).

We are generally supportive of the approaches proposed in the position paper as they are pragmatic within the context of the short timeline. We do however raise the following matters:

Capital expenditure

We are comfortable with the proposed approach of using half a year of the final year benchmark capex to determine the applicable revenue for the six-month extension period 1 January to 30 June 2023, particularly as the AER is also proposing not to apply the CESS to that period - which we also support. We do however note that, when determining the tariffs for the next 2023/24 - 2027/28 Access Arrangement (AA) period, an estimate of actual capex for the six-month extension period should be used, not the half year benchmark.

Forecast demand

In respect of the proposal to use the most recent actual 1 January to 30 June demand, we note that the most recent 1 January to 30 June 2021 period was affected by COVID-19 lockdowns. This, in combination with the variability in demand due to weather, suggest that using the most recent actual may not be the best forecast of demand for the first six months of 2023.

A potential option may be to rely on the forecast being developed for the AA proposal being submitted on 1 July 2022. If the AER are to rely on most recent actual demand, then these should be normalised for the impacts of COVID-19 and weather.

Tariffs

We agree with carrying forward the tariffs from 2022 into the six-month extension period, and then applying the true up between building block and forecast tariff revenue for the six-month extension period over the next AA period. We note the position paper also refers to indexing the 2022 tariffs with inflation when determining the tariffs to apply in the six-month extension period. We would support the application of inflation to tariffs for the six-month period.

We also note that we are currently reviewing any potential net cost impact of the need to adjust our hedging portfolio such that it remains in alignment with the adjusted trailing approach to determining cost of debt.

We look forward to discussing these matters with you further.

Yours sincerely,

[redacted]

Roxanne Smith
Executive General Manager Corporate and Regulation