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Director's Certification of key assumptions relating to Opex and Capex Forecasts

SA Final Plan July 2021 – June 2026
June 2020

Director's Certification of key assumptions relating to Opex and Capex Forecast

1. Background

The Australian Energy Regulator (AER) provided '2021 -2026 Access Arrangement Regulatory Information Notice' (RIN) on Australian Gas Networks (AGN) (South Australia) on 28 February 2020 under National Gas Law (NGL). Section 5 "DIRECTOR CERTIFICATION" of Schedule 1 of the RIN requires AGN to provide a director's certification of the reasonableness of the key assumptions relating to the methodology used for developing the AGN SA's operating expenditure and capital expenditure forecasts.

The purpose of this document is to meet the requirements of Section 5 of Schedule 1 of the RIN by identifying the key assumptions that underlay AGN's operating expenditure and capital expenditure forecasts. The certification of the reasonableness of the key assumptions by the directors of AGN is contained within Appendix A to this document.

2. Key Assumptions

We have identified the following key assumptions, which we consider are related to our opex and capex forecasts. See Table 1 below.

Table 1 – Key Assumptions relating to opex and capex forecasts

Key Assumptions	Opex	Capex
<p>Base Year</p> <p>We have proposed using 2019/20 as the base year, being the penultimate year of the current AA period. Use of the penultimate year is consistent with past regulatory decisions, and is the year generally preferred by the AER upon which to base opex forecasts.</p>	✓	
<p>Real cost escalation</p> <p>We have adopted the AER's preferred approach, which is to average the forecasts of BIS Oxford and Deloitte Access Economics forecasts of real input cost escalators to estimate labour costs over the next AA period.</p> <p>For the purposes of both our capex and opex forecasts, we have applied the average of the estimates of labour cost escalation to the labour proportion of costs determined in the AER's benchmarking report for electricity businesses (59.7%). We have applied no real cost escalation to materials costs.</p>	✓	✓

Director's Certification of key assumptions relating to Opex and Capex Forecast**Output Growth**

✓

Output growth is estimated using a weighted average of customer numbers and mains length. The weightings for customer number growth and mains length are assumed to be 49.4% and 50.6% respectively which mirror the AER's Final Decision for Jemena Gas Networks in New South Wales (which was released May 2020).

Growth in customer numbers is taken from our 2021/22 to 2025/26 demand forecast, which forecast was developed by Core Energy and Resources (Core Energy). Core Energy were used by AGN for the prior South Australian review and the most recent Victorian and Albury reviews. Core Energy adopt a methodology that is consistent with approach approved by the AER in these previous reviews.

Growth in mains length reflects the impact of the proposed capex program, mainly driven by the forecast of new connections.

Opex Productivity

✓

The productivity factor included in our opex forecast is 0.40% per annum and is based on work completed by ACIL Allen.

Unaccounted For Gas (UAFG)

✓

UAFG is based on an estimate of the volume and price of UAFG in each year of the next AA period. Asset Integrity Australasia (AIA) provided the estimate of volume and Core Energy produced the price estimate (which will be updated once contractual terms are agreed with Origin Energy for the supply of gas for UAFG).

Inflation forecast

✓

✓

We have based our inflation forecast for 2021/22 – 2025/26 on the AER's preferred method of estimating inflation, which is to use the geometric mean of two years of the RBA's monetary policy estimate and eight years of the RBA's inflation target. This is a placeholder estimate only, which estimate the AER will substitute at the time of the Final Decision following the completion of the industry-wide inflation review that is current underway.

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Capex Cost

✓

Our capex forecast utilises historical costs and unit rates (for mains replacement, meter replacement and new connections) and bottom-up estimates for other projects.

The unit rates reflect a three year average of historical actual cost or most recent tendered unit rates for the materials and labour involved in the work.

Capitalised Overhead

✓

Our capitalised overhead includes the following costs for:

- Operations and maintenance;
- Planning and system design;
- Procurement and fleet;
- Technical assurance;
- Network engineering; and
- Support.

Future overheads are forecast based on the fixed and variable proportion of actual overheads and their proportion relative to total actual capex, for the last three full financial years.

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Appendix A: Director Certification Statement

Certification under Section 5 of Schedule 1 of Regulatory Information Notice

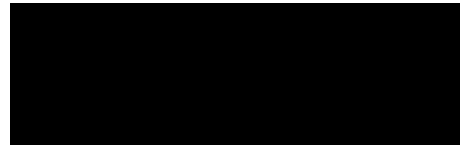
The undersigned director of AGN certifies that, to the best of my knowledge and belief:

- The key assumptions that underlie the operating expenditure forecast as set out in Section 2 of this document are reasonable;
- The key assumptions that underlie the capital expenditure forecast as set out in the Section 2 of this document are reasonable.

Signed in accordance with the resolution of director:



Peter Tulloch (Chairman)



Dated