



23 February 2023

Arek Gulbenkolu
General Manager Network Expenditure
Australian Energy Regulator
GPO Box 3131
Canberra ACT 2601

Email: VICGAAR2023@aer.gov.au

Dear Mr Gulbenkolu,

RE: Submission to Victorian gas access arrangement draft decision and revised proposals

Origin Energy (Origin) appreciates the opportunity to provide a response to the Australian Energy Regulator (AER) on the revised regulatory proposals lodged by the Victorian gas distribution networks for the period from 1 July 2023 to 30 June 2028.

This revised gas access arrangement comes at an uncertain period as the Victorian Government sets out long-term plans to decarbonise the gas supply industry. The gas policy environment is evolving and the pace of electrification and how much and how quickly this will impact demand for gas remains highly uncertain. In addition, the economic environment remains unstable with inflation and cost of living pressures at the forefront. These factors present a significant challenge for both gas networks and the AER to balance the interests of networks and consumers.

Given these challenges and policy uncertainty, we support the AER's zero real price change target for the 2023-28 period.

Based on available information, Origin generally supports the AER's Draft Decisions to accept the majority of the networks' proposals, including expenditure and demand forecasts for the 2023-28 period. To ensure forecasts are as accurate as possible, we support further iterations prior to the release of the AER Final Decision, especially to network demand forecasts following the release of the 2023 Gas Statement of Opportunities.

In the circumstances it is important that the regulatory framework is capable of incorporating the evolving policy changes and the impacts this has on networks' operating decisions to promote efficient outcomes for both customers and network businesses. To the extent there are material changes between the AER's regulatory forecasts and actual values, the ability for networks to trigger a within-period variation to vary their 2023–28 access arrangements remain a vital aspect of the regulatory framework.

Origin supports the use of accelerated depreciation as a means of addressing network asset stranding risk arising from application of the Victorian Government's Gas Substitution Roadmap. We consider that determining the profile of accelerated depreciation is largely a matter of judgement, especially where policy and its impacts (particularly on demand) are not yet clear. Given this uncertainty, a focus on the short-term i.e. the 2023-28 access arrangement period, utilising currently available information appears appropriate. Current cost of living pressures also means that any potential increases in gas tariffs are likely to be harder felt by customers. In addition, excessive price increases in the short-term could exacerbate disconnections from the gas networks, leaving remaining customers to carry a higher cost burden to maintain the networks.

We note that the AER has confirmed that the cost of abolishing a connection (as customers exit the gas network) reflects the cost of providing the service and does not incorporate any contribution to shared network cost recovery. In the absence of Government funding, Origin considers that a user-pays approach is preferred to socialising costs; the cross-subsidy associated with socialisation imposes an unreasonable cost burden on remaining network customers. We agree with the networks that there may be instances where direct cost recovery is not possible, for example where a retail customer cannot be identified. In these instances, Origin agrees that a cost pass-through is appropriate. We envisage that details of the cost pass-through process, including defining the circumstances for cost pass-through and the cost recovery process would be set out in the AER's Final Decision.

Origin acknowledges the ongoing customer engagement process undertaken by the Victorian networks in the development of their proposals and the iterations in response to the changing policy environment. We acknowledge the difficulties this has presented to networks and appreciate the effort to ensure stakeholder engagement.

If you have any questions regarding this submission, please contact Gary Davies in the first instance at gary.davies@originenergy.com.au.

Yours sincerely

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