Deep Dive

Operational Expenditure (Opex)

Tuesday, 22 March 2022

Australian Gas Networks
AusNet services
Multinet Gas Networks

Competition | Disclaimer

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The Act prohibits anti-competitive and restrictive trade practices. Specific prohibitions include:

- Sharing of information in relation to prices and the mechanisms for setting of prices;
- Agreements not to deal with a particular business or class of business;
- Collective negotiations that have an anti-competitive effect; and
- Attempts to influence competitors or suppliers, or customer behaviour in an anti-competitive way.

Participants in this meeting must take care not to do anything which may result in a breach of the Act.

A breach may lead to financial or criminal penalties for individuals or the organisation they represent.

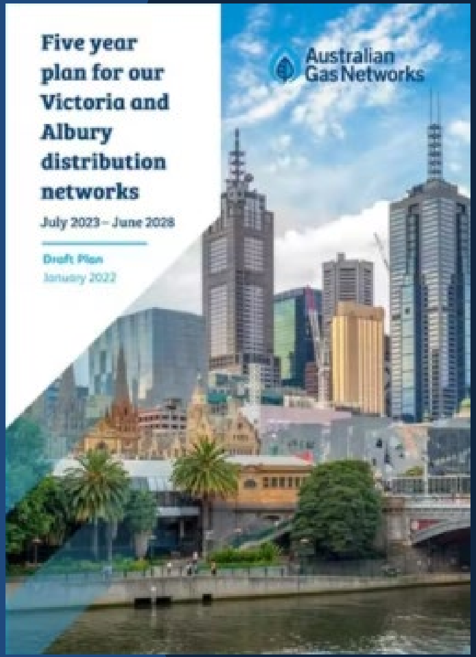
Participants are reminded that matters discussed at the meeting may be sensitive from a *Competition and Consumer Act* 2010 compliance perspective and seek legal advice should they be unsure whether a practice breaches the Act.

Today’s focus

This is the third “deep dive” session on our draft plans. The focus of our session today will be operating expenditure (“opex”).

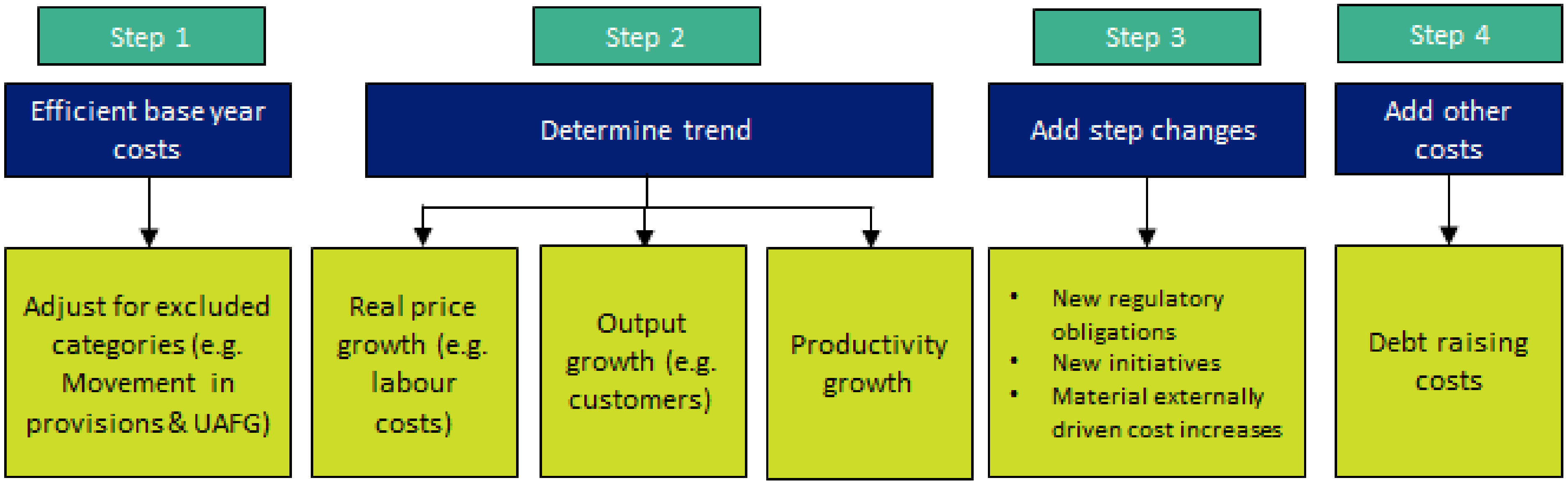
Time	Item
3.30pm (15 min)	Introduction and Overview
3.45pm (40 min)	AGIG’s Opex Forecasts
4.35pm (30 min)	AusNet’s Opex Forecasts
5.05pm (10 min)	Common New Program 1: Priority Service Program
5.15pm (10 min)	Common New Program 2: Gas Network Innovation Scheme
5.25pm (5 min)	Next Steps

Overview | Opex in Our Draft Plans



We use the AER's preferred base-step-trend approach to forecast opex

Opex forecasting methodology



- Work on our opex plans is ongoing
- We are engaging with customers, yourselves and other key stakeholders (such as our safety regulator) on our draft proposals
- We will respond to new information as it becomes available
  - Victorian Government policy
  - Updated historical costs
  - Independent labour and material cost forecasts which inform input cost escalation

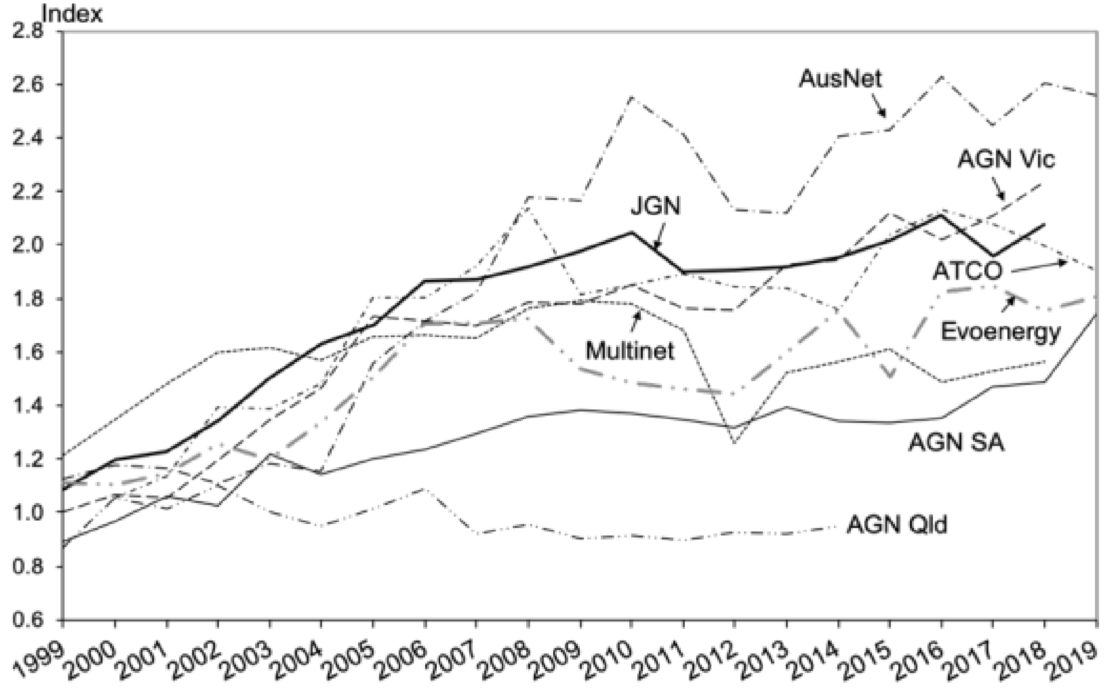
Victorian DNSPs Base Year opex is efficient as demonstrated by the benchmarking results.

Opex performance

Victorian Gas DNSPs have long been considered among the most efficient in Australia

On the Opex Multilateral Total Factor Productivity (MPFP) measure AusNet and AGN (Vic) were found to be the two most efficient DNSPs, with Multinet DNSPs, with Multinet consistent with industry average in the last available benchmarking report from Economic Insights.

Figure A: GDB Opex MPFP indexes, 1999–2018



Source: Economic Insights GDB database

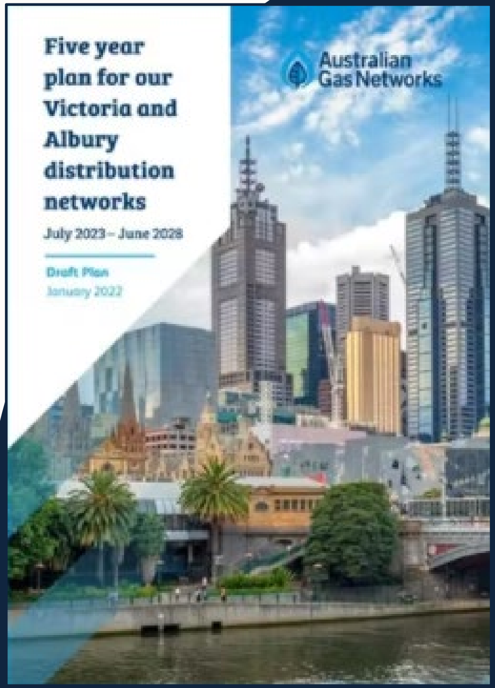
Opex as a Proportion of Each Network’s Plans

	$million, $2022/23	AGN	Multinet	AusNet
OPEX	Base	$354	$336	$280
	Step Changes	$26	$12	$11*
	Ancillary Reference Services	$21	$13	$19
	Base Year Adjustments	$36	$14	$21
	Category Specific Forecast (PSP)	$5	$5	$5
	Escalation/Trend	$14	$3	$19
	Total Opex ex Debt Raising Costs	**$455** **($434 excl. ARS)**	**$383** **($370 excl. ARS)**	**$355**** **($336 excl. ARS)**
	Opex per customer per annum	**$115**	**$104**	**$94**
	Productivity	**0.40%**	**0.40%**	**0.40%**

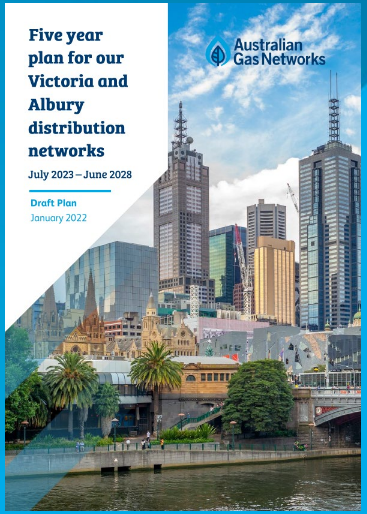
Do you support our approach to forecasting operating expenditure?

Do you have any questions so far?

AGIG's Opex Forecasts



Recap | AGN Draft Plan



Australian Gas Networks

Lower prices

↓8%

(after inflation)

We have engaged with customers in Victoria and Albury to develop our Draft Plan for the five year period 2023/24 to 2027/28

In line with what our customers told us was important to them, this plan has 3 key themes:

- **Get the basics right**
- **Focus on the future**
- **Provide affordable and accessible services**

Lower funding costs
Rate of return of 4.21 % down from 5.75 % in the last period

Efficient incentives
- Opex & Capex Efficiency Schemes
- Gas Network Innovation Scheme

Safety focus
Maintain strong leak performance and continue to monitor performance and condition of mains

Future focus
Investing in 'no regrets actions' and renewable gas communications to prepare the network for a decarbonised future

Customer focus
- New digital customer services
- Priority Services Program

Keeping options open
Supports the long term competitiveness of the network to provide energy choice for customers in a net zero carbon future

Key parameters

- 5 yr Revenue $1,106m ($2022/23)
  - Totex in line with current period
  - Down $120m on current period
  - Driven by decline in rate of return to 4.2%
- Capex $544m – down $80m
  - 'No regrets' hydrogen ready expenditure
  - Low pressure MRP concluded this period
  - Capitalisation policy review
- Opex $434m excl. ARS – up $78m
  - Priority services program
  - Renewable gas education
- Future of Gas project
  - Network in a decarbonised future
  - Accelerate depreciation to mitigate risk

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AGN

What we will deliver in the upcoming period

Vision

Delivering for customers

Which means

- Public safety
- Reliability
- Customer service

Our performance targets 2023/24 – 2027/28

- 90 % of emergency calls answered within 10 seconds
- >95 % of public leaks responded to within required timeframes
- 100 % of priority leaks repaired in timeframes set out in our leak management plan
- 100 % of leak surveys completed on time
- Customer satisfaction survey score above 8.2
- Around 69,000 new connections, with more than 98 % completed within the required 20 days
- 80 % of complaints resolved within two days
- Continue to limit gas supply interruptions to 1 in every 30 years or fewer

Vision

A good employer

Which means

- Health & Safety
- Employee Engagement
- Skills Development

Our performance targets 2023/24 – 2027/28

- Total Recordable Injury Frequency Rate (TRIFR): <7
- Top quartile employee engagement scores
- 99 % compliance training completion

Vision

Sustainably cost efficient

Which means

- Working within industry benchmarks
- Delivering profitable growth
- Environmentally and socially responsible

Our performance targets 2023/24 – 2027/28

- Initial price cut of 8 % (after inflation) on 1 July 2023
- Small program of targeted mains replacement to address localised issues
- Deliver efficiency benefits through the EBSS and CESS schemes
- Making sure our network and customers are prepared for hydrogen and renewable gas blending:
  - Deliver renewable gas communications and education program
  - Complete no regrets actions
  - Utilise GNIS funds to innovate

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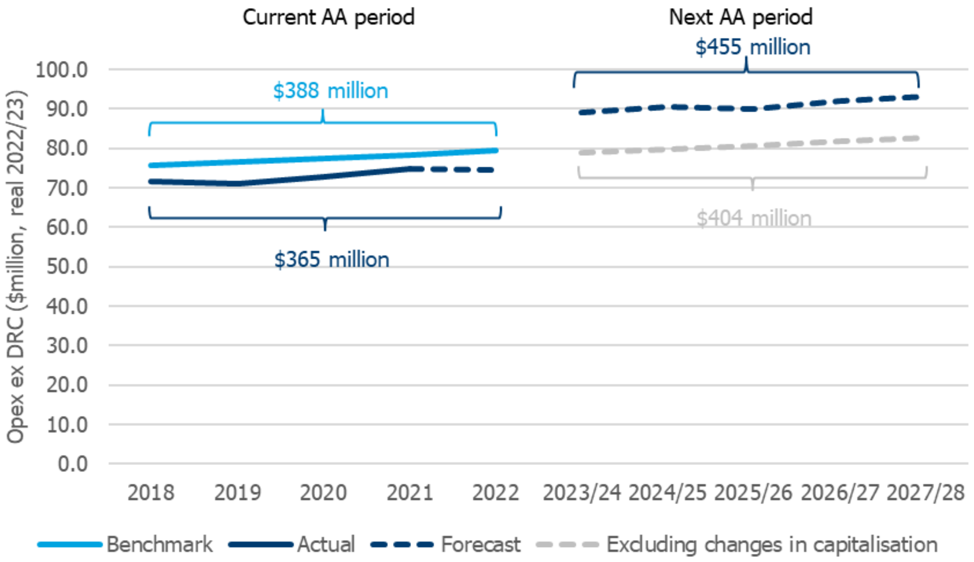
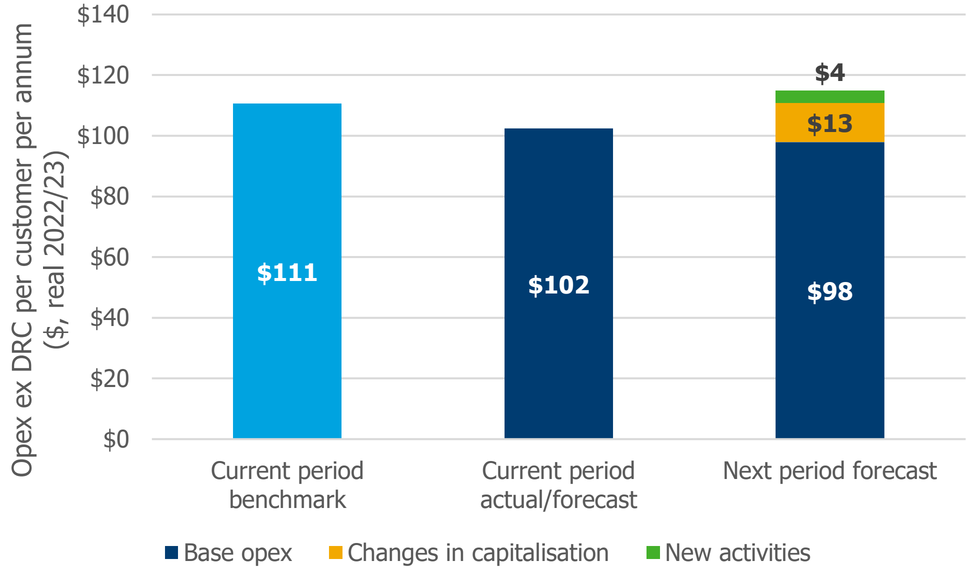
Opex | AGN

Opex will increase in the next AA period related to increasing costs in recent years such as higher safety levies, new activities in the next AA (uplift in cyber, renewable gas communications and priority services), plus a change in capitalisation





+82,000 customers in the current AA period
+69,000 customers forecast for the next AA period

Current period opex $23m (6%) below benchmark
Next period opex $40m (11%) higher than current period, excluding changes in capitalisation

Priority Services Program offering tailored support to customers experiencing vulnerability

Renewable Gas Communications and Education to build awareness around renewable gas and customer confidence in the decarbonisation journey for the gas sector

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Recap | MGN Draft Plan

Multinet Gas Networks

Stable prices

↓1%

(after inflation)

We have engaged with Victorians to develop our Draft Plan for the five year period 2023/24 to 2027/28

In line with what our customers told us was important to them, this plan has 3 key themes:

- **Get the basics right**
- **Focus on the future**
- **Provide affordable and accessible services**

Lower funding costs
Rate of return of 4.14% down from 5.75% in the last period

Efficient incentives
- Opex & Capex Efficiency Schemes
- Gas Network Innovation Scheme

Safety focus
Replacing over 900km of old low pressure and earliest generation polyethylene mains

Future focus
Investing in 'no regrets actions' and renewable gas communications to prepare the network for a decarbonised future

Customer focus
- New digital customer services
- Priority Services Program

Keeping options open
Supports the long term competitiveness of the network to provide energy choice for customers in a net zero carbon future

Key parameters

- 5 yr Revenue $976m ($2022/23)
  - Down $71m on current period
  - Driven by decline in rate of return to 4.2%
- Capex $750m – up $301m
  - Bring forward completion of low pressure MRP replacement from 2036 to 2031 - driven by safety
  - 'No regrets' hydrogen ready expenditure
  - Capitalisation policy review
- Opex $370m excl ARS– up $41m
  - Priority services program
  - Renewable gas education
- Future of Gas project
  - Network in a decarbonised future
  - Accelerate depreciation to mitigate risk

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MGN

What we will deliver in the upcoming period

Vision
Delivering for customers

Which means
- Public safety
- Reliability
- Customer service

Our performance targets 2023/24 – 2027/28
- 90 % of emergency calls answered within 10 seconds
- >95 % of public leaks responded to within required timeframes
- 100 % of priority leaks repaired in timeframes set out in our leak management plan
- 100 % of leak surveys completed on time
- Customer satisfaction survey score above 8.2
- Around 29,000 new connections, with more than 98 % completed within the required 20 days
- 80 % of complaints resolved within two days
- Limit gas supply interruptions to 1 in every 30 years or fewer

Vision
A good employer

Which means
- Health & Safety
- Employee Engagement
- Skills Development

Our performance targets 2023/24 – 2027/28
- Total Recordable Injury Frequency Rate (TRIFR): <7
- Top quartile employee engagement scores
- 99 % compliance training completion

Vision
Sustainably cost efficient

Which means
- Working within industry benchmarks
- Delivering profitable growth
- Environmentally and socially responsible

Our performance targets 2023/24 – 2027/28
- Initial price cut of 1 % (after inflation) on 1 July 2023
- Around 900km of mains replacement including 800km of low pressure mains, 86 km of HDPE 250 and 28km of medium pressure steel
- Deliver efficiency benefits through the EBSS and CESS schemes
- Making sure our network and customers are prepared for hydrogen and renewable gas blending:
  - Deliver renewable gas communications and education program
  - Complete no regrets actions
  - Utilise GNIS funds to innovate

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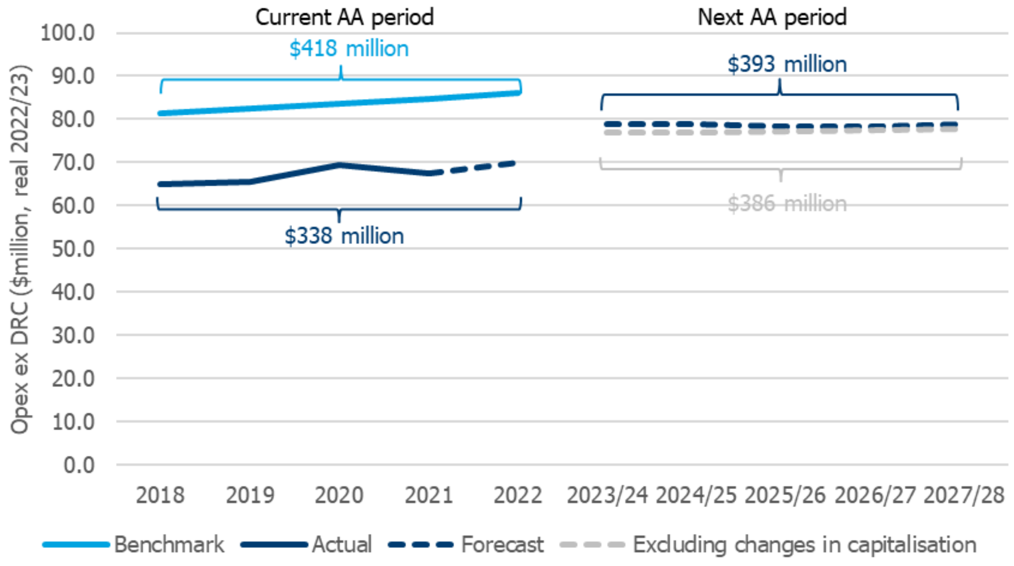
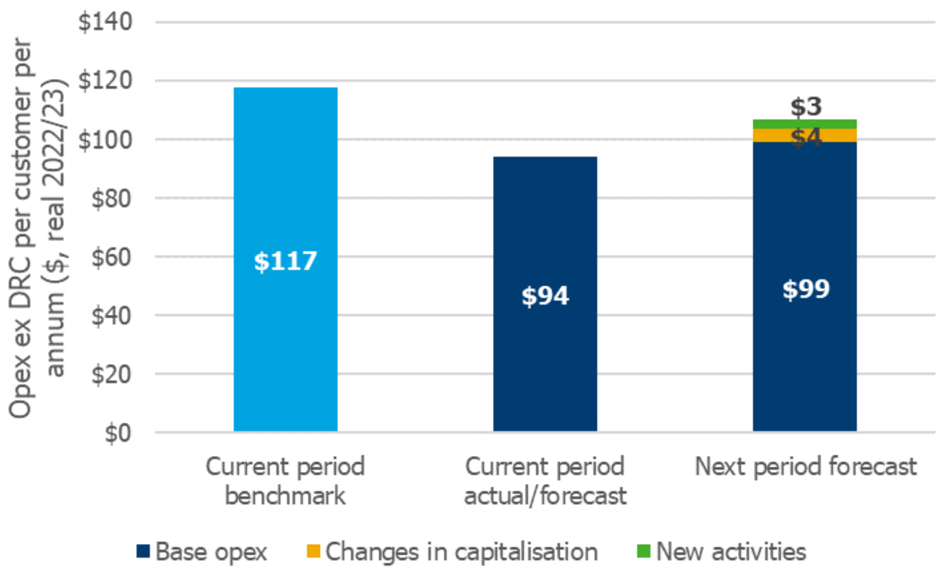
Opex | MGN

Opex will increase in the next AA period related to increasing costs in recent years such as higher safety levies and onshoring our call centre, new activities in the next AA (renewable gas communications and priority services), plus a change in capitalisation





+52,000 customers in the current AA period
+29,000 customers forecast for the next AA period

Current period opex $80m (19%) below benchmark
Next period opex $49m (15%) higher than current period, excluding changes in capitalisation

Priority Services Program offering tailored support to customers experiencing vulnerability

Renewable Gas Communications and Education to build awareness around renewable gas and customer confidence in the decarbonisation journey for the gas sector

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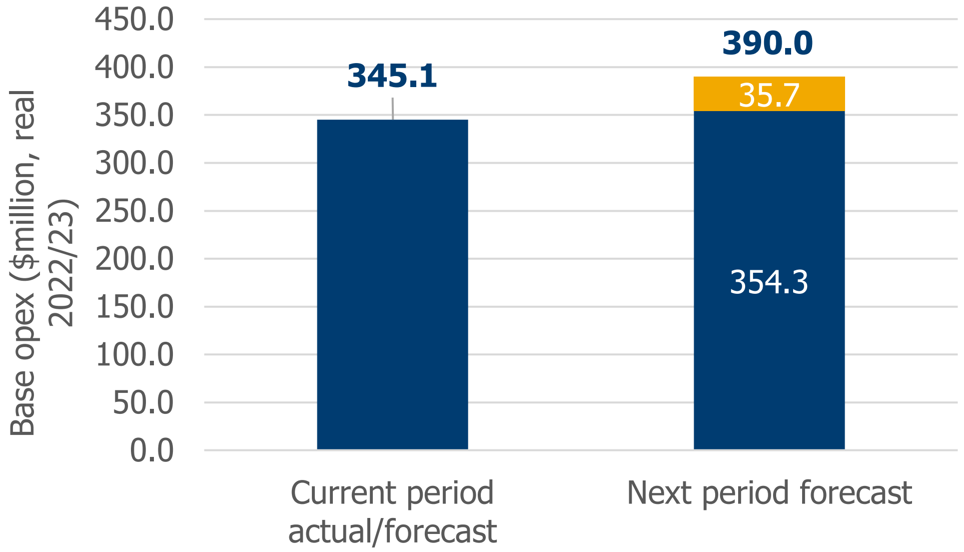
We used an estimate of the 2021 costs for our Draft Plan based on the actual opex incurred to September 2021 and a forecast for the remaining three months of the year.

We will update for a full year of actual costs for our Final Plan. These are currently being finalised.

AGN | Step 1: Establishing base opex

Category	2021 estimate
Total opex	76.0
Minus UAFG and provisions	0.8
Minus category specific forecasts (debt raising costs and ancillary reference services)	4.4
Base year opex	**70.9**
Plus change in capitalisation of overheads	7.1
Base year for forecasting	**78.0**



- ✓ We have adjusted our base year for a change in the capitalisation of some overheads (i.e. have opted not to capitalise some costs, specifically those related to operations & maintenance and support activities, and kept them as opex)
- ✓ This results in a capitalised overhead rate of ~4% (down from ~10% in the current AA period)

Category	2021 estimate
Operations & maintenance	**5.9**
Planning & system design	2.4
Procurement & fleet	0.0
Technical & Compliance Services	1.0
Network engineering	0.9
Support	**1.2**
Total overheads	**11.4**
Change in capitalisation of overheads	**7.1**

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AGN | Step 2: Step changes

Category $m June 2023	Next AA period	Drivers
Plus Capex to opex step activities	14.1	✓ Activities previously treated as capex which do not extend asset lives
Plus cyber security uplift step change	4.1	✓ We are uplifting our cyber security capabilities in line with the Australian Energy Sector Framework and Security of Critical Infrastructure Act requirements
Plus renewable gas communication step change	7.4	✓ We are investing in a renewable gas communications package as while 88% of customers consider decarbonisation as important very few know about the decarbonisation plans for the gas networks
Total step changes	**25.6**	

Capex to opex activities

Activity	$m
HDPE assessment	1.3
Reactive mains replacement	3.5
Pipeline inline inspection	3.7
DCVG survey & coating repairs	5.0
Process safety	0.6
Total Capex to Opex	**14.1**

Cyber security opex

Activity	$m
Base cyber security opex	1.5
Cyber security opex forecast	5.6
Total cyber security uplift	**4.1**

Australian Gas Networks

WE HEARD

"Good to start with school kids as it's for their future

"Community engagement is key

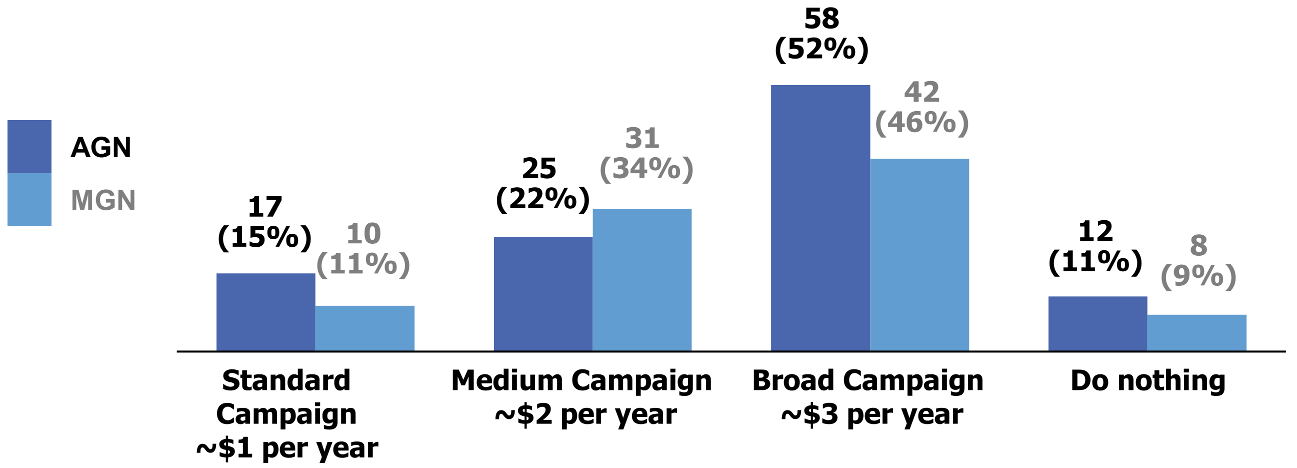
AGN & MGN customers support building awareness around renewable gas through a communications and education program

Customer insights

✓ 87% (AGN) and 90% (MGN) of customers agreed reducing carbon emissions is important, and we should be doing more to communicate our plans

When testing our proposals with customers, we found

- 74% (AGN) and 80% (MGN) of customers supported increased investment ($2 - $3 per annum)



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OUR PLANS

90% (AGN) and 93% (MGN) of customers in our February Draft Plan workshops support our plans for renewable gas communications and education

We want to build awareness around renewable gas to build customer confidence

We plan to deliver:

- **Customer Communications**
  - Television, radio, digital and social media reaching over 80% of households in Victoria and Albury
  - Supporting online materials as a key source of information on renewable gas
- **Community Activities**
  - Presentations and forums with community groups, including CALD
  - Site tours
  - Attendance at events (i.e., science fairs)
- **Student Learning and Education**
  - Engage with 160,000 Victorian and Albury primary and secondary students via 2,000 schools
  - Combination of online and in person interactive materials and workshops
  - Tailored activities for ESL students

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AGN | Step 3: Trend

We forecast $13.7 million in trend, with an average rate of change of 1.2% pa in AGN

Input growth

- We have taken the average of two independent labour cost forecasts (Deloitte and BIS Oxford) to forecast real labour cost escalation
- We have applied zero real material cost escalation

Output growth

- We have applied a weighted average of change in customer numbers and network length to forecast output growth over the period, consistent with the approach applied in previous AAs and recent decisions

Productivity

- We have applied ongoing productivity of 0.4% pa consistent with the AER's most recent decision for the AGN SA network

We expect there to be some change in the trend as these forecasts are updated through the review period, particularly in light of global events and policy

Australian Gas Networks

AGN | Step 4: Category specific forecasts

Category $m June 2023	Next AA period	Drivers
Plus Ancillary reference services	20.6	✓ Forecast volume of each ARS multiplied by cost of providing each (ARS include special meter reads, meter relocations or disconnection and reconnection that may be required by individual customers from time to time)
Plus Priority Services Program	5.0	✓ Introduction of Priority Services Program (previously VCAP) to recognise and provide tailored support to customers when they need it

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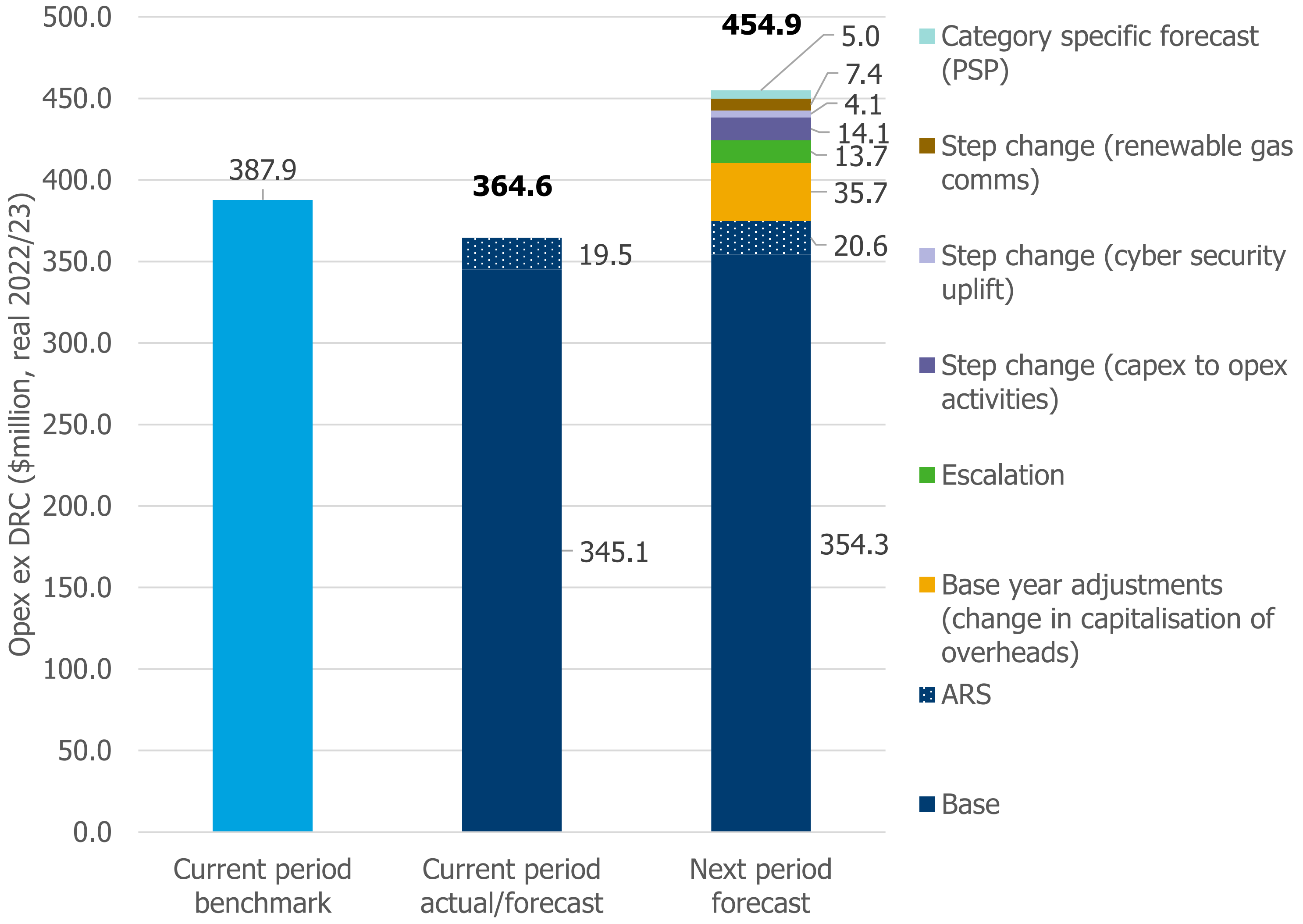
AGN | Summary



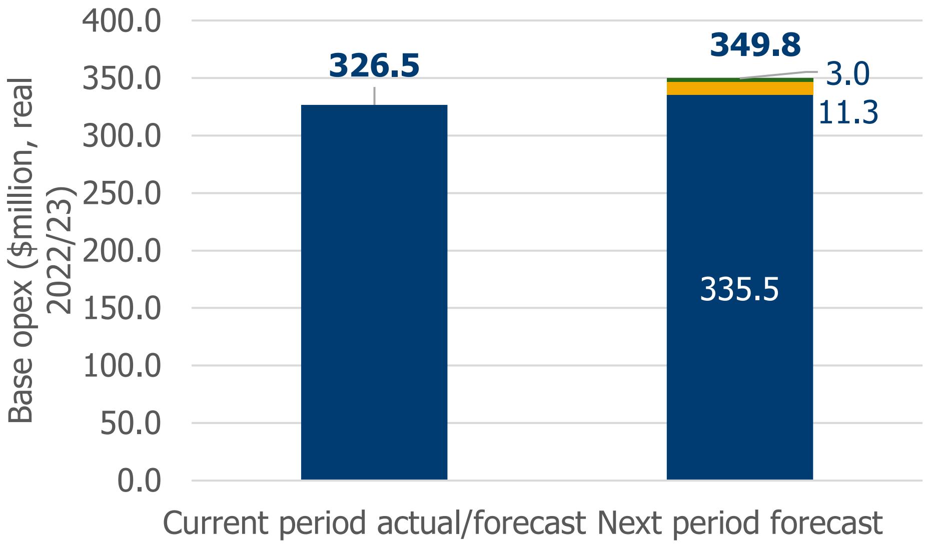
Opex per customer pa	$111	$102	$115

Australian Gas Networks

Multinet
Gas Networks

MGN | Step 1: Establishing base opex

Category	2021 estimate
Total opex	71.6
Minus UAFG and provisions	2.5
Minus category specific forecasts (debt raising costs and ancillary reference services)	3.7
Base year opex	**65.4**
Plus change in capitalisation of overheads	0.6
Plus full year adjustments	2.3
Base year for forecasting	**68.2**



- ✓ We have adjusted our base year for a change in the capitalisation of some overheads (i.e. have opted not to capitalise some costs, specifically those related to support activities, and kept them as opex)
- ✓ This results in a capitalised overhead rate of ~4% (down from ~6% in the current AA period)

Category	2021 estimate
Network engineering	5.1
Support	**0.6**
Total Overheads	**5.7**

- ✓ We have adjusted our base year for full year costs for network development (from Oct) and call centre onshoring (from mid-Oct)

Category	2021 estimate	Full year value	Variance
Network development	0.3	1.0	**0.7**
Call centre	1.1	2.5	**1.4**

Multinet Gas Networks

MGN | Step 2: Summary of step changes

Category $m June 2023	Next AA period		Drivers
Plus Capex to opex step activities	4.4	✓	Activities previously treated as capex which do not extend asset lives
Plus renewable gas communication step change	7.4	✓	We are investing in a renewable gas communications package as while 88% of customers consider decarbonisation as important, very few know about the decarbonisation plans for our gas networks

Capex to opex activities

Activity	$m
HDPE assessment	1.2
Reactive mains replacement	1.6
Pipeline inline inspection	1.5
Marker post replacement	0.2
Total capex to opex	**4.5**

Multinet Gas Networks

MGN | Step 3: Trend

We forecast trend of $3 million with an average trend rate of 0.4% pa in MGN

Input growth

- We have taken the average of two independent labour cost forecasts (Deloitte and BIS Oxford) to forecast real labour cost escalation
- We have applied zero real material cost escalation

Output growth

- We have applied a weighted average of change in customer numbers and network length to forecast output growth over the period, consistent with the approach applied in previous AAs and recent decisions

Productivity

- We have applied ongoing productivity of 0.4% pa consistent with the AER's most recent decision for the AGN SA network

We expect there to be some change in the trend as these forecasts are updated through the review period, particularly in light of global events and policy

Multinet Gas Networks

MGN | Step 4: Category specific forecasts

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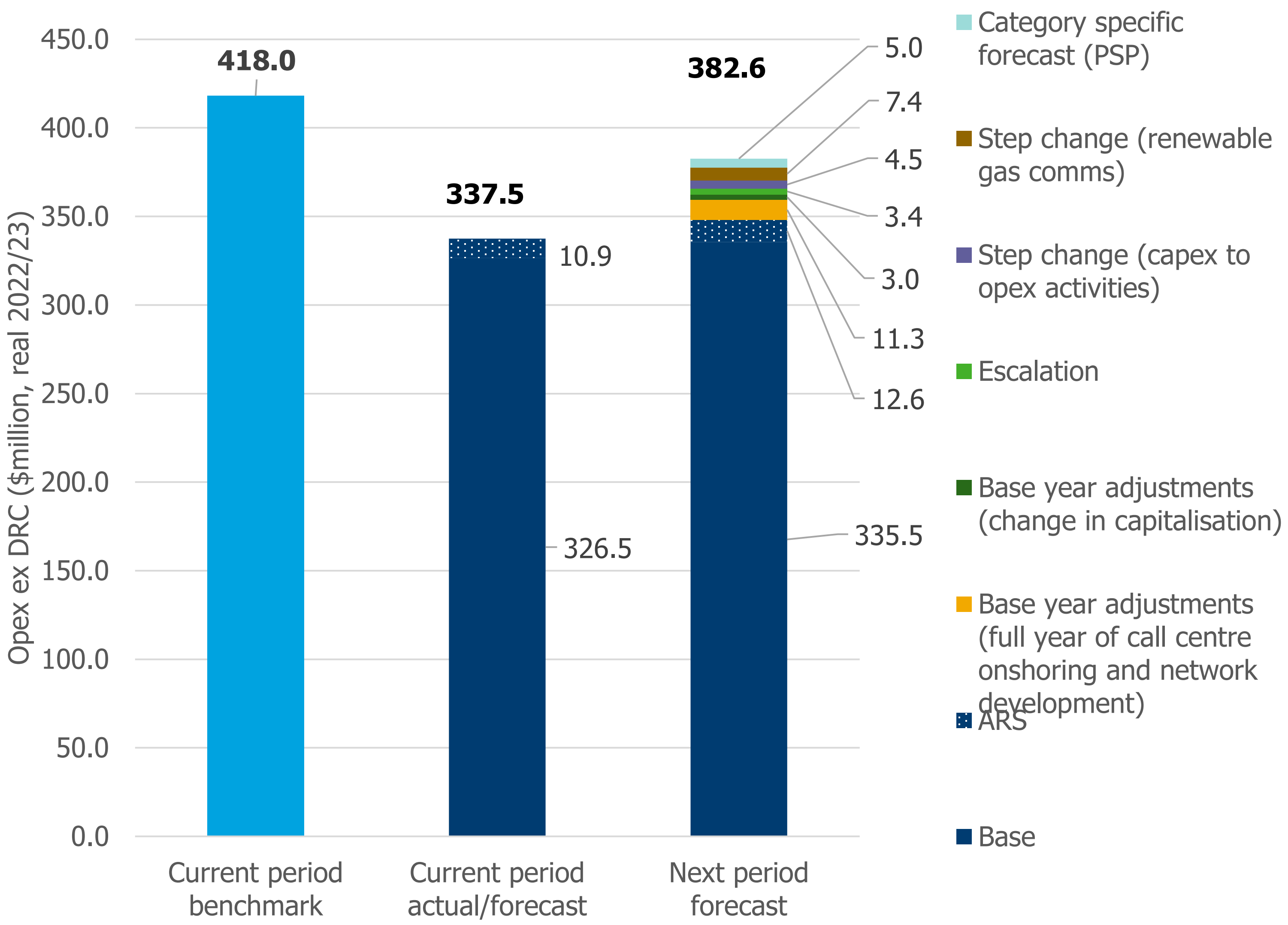
Plus Ancillary reference services	12.6	✓	Forecast volume of each ARS multiplied by cost of providing each (ARS include special meter reads, meter relocations or disconnection and reconnection that may be required by individual customers from time to time)
Plus Priority Services Program	5.0	✓	Introduction of Priority Services Program (previously VCAP) to recognise and provide tailored support to customers when they need it

Multinet Gas Networks

MGN | Summary



Opex per customer pa	$117	$94	$104

Multinet Gas Networks

Is there sufficient information to understand our proposals and the basis of the costs included in our opex forecast?

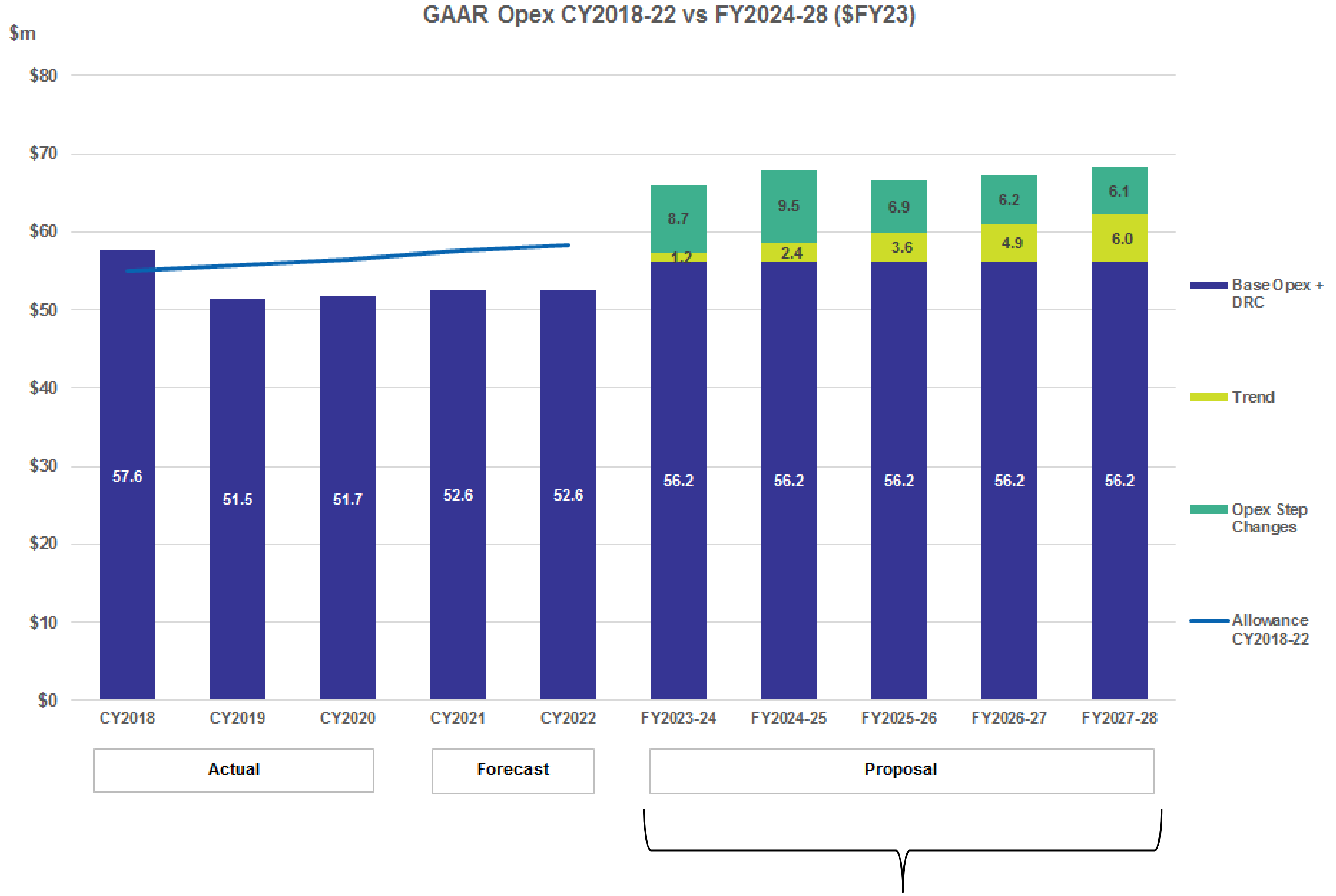
Do you support investment in a renewable gas communications and education program? Do you have any feedback on the activities proposed?

AusNet's Opex Forecasts

Today's topics

- Present the opex forecast from our draft plan
- Compare the draft plan opex to our current opex forecast
- Explain our approach and assumptions underpinning:
  - Base
  - Trend
  - Step changes

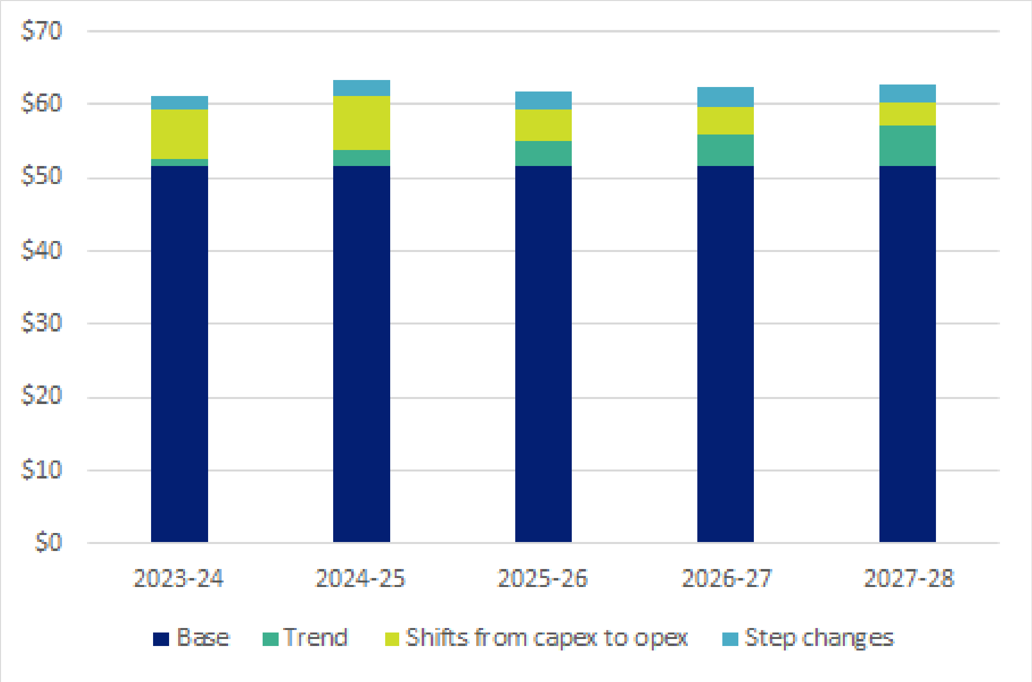
Opex forecast from our draft plan



Total opex forecast of $336 million excluding debt-raising costs (DRC) & excluding ancillary reference services (ARS)

Draft plan opex vs. current opex forecast

AusNet



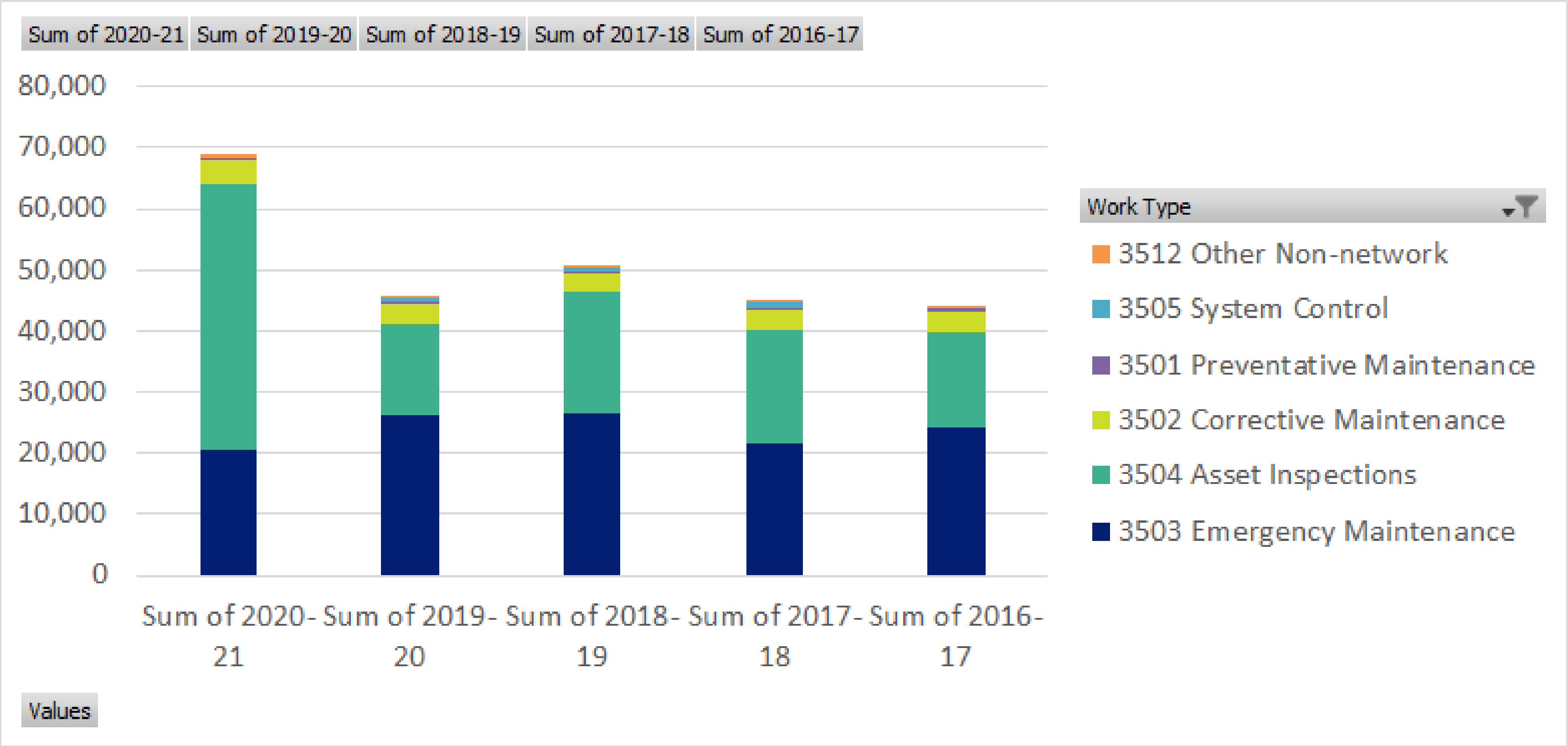
	$m	%
Base	262	83
Trend	16	5
Shifts from capex to opex	25	8
Step changes	12	4
Total	316	100

- Draft plan opex was $336m over five years.
- Since the publication of our draft plan, we have further refined and revised our opex forecast.
- Our current opex forecast is $316m which is $20m (6%) lower than the forecast in our draft plan.
- The reduction is primarily due to a change in the cost recovery mechanism for ESV levies:
  - **Removal of the ESV levies step change** – because cost recovery via the control mechanism is a better approach (discussed later).
  - **Removal of the ESV levy from base year opex** – this reduces our base year opex and prevents double recovery.

Base opex

AusNet

- We have adopted CY2020 as our base year because it is the latest year of audited costs.
- CY2021 RINs are in the process of being audited.
- FY2020 and FY2021 were not adversely affected by COVID-19 because we were able to proceed with most of our BAU operations and maintenance work.



Base opex (con't)

AusNet

The interaction between the AER's base-step-trend approach and the Efficiency Benefit Sharing Scheme (EBSS) means that we are indifferent between the choice of the base year.

$ millions	CY2018	CY2019	CY2020	CY2021
Total opex	56.5	57.0	57.6	55.3
Less: excluded categories	3.8	9.0	8.4	4.7
Base opex	52.7	48.0	49.2	50.6

A shift to CY2021 as the base year will:

- Reduce our total opex from **$316m** to **$312m** (due to adjustments); and
- Increase our EBSS from **$11m** to **$14m**.

Net change of negative $1m

Trend

AusNet

Input growth

- We have adopted the AER's approach of averaging two independent labour cost forecasts (Deloitte and BIS Oxford Economics) to forecast real labour cost escalation
- We have applied a material cost escalation of 0% (in real terms)

Output growth

- We have applied a weighted average of change in customer numbers (CIE's forecast) and network length to forecast output growth over the period

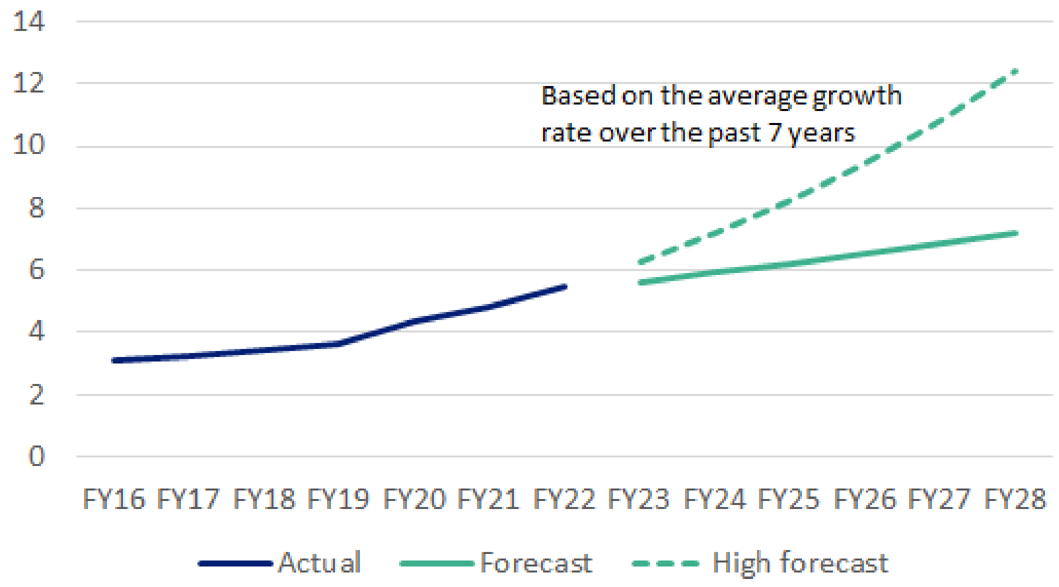
Productivity

- We have applied ongoing productivity of 0.4% pa consistent with the AER’s most recent decision for the AGN SA network

- The resulting 'trend' is a growth of approximately 2% year-on-year.
- Our labour cost escalation and materials cost escalation are subject to change, particularly given the current global events.

No longer a step change – ESV levies

AusNet



Cost recovery via the control mechanism is not new:

- In its Draft Decision on our 2013-2017 Access Arrangement, the AER said we should include an additional ESV adjustment factor in the annual reference tariff variation formula. The ESV levy was eventually approved as a step change, instead of via the control mechanism, due to increased certainty around the magnitude of the levies.
- ESV levies are recovered via the B-factor for electricity distribution.

This approach means we recover the exact amount – no more & no less.

AusNet is required to make annual payments to Energy Safe Victoria (ESV) in respect of its reasonable costs and expenses as determined by the Minister. There have been unexpected and substantial rises in the ESV levy over recent years.

If we recover ESV levies via a step change, then the step change would be **$4.1m**, based on the following assumptions:

- FY22 actual of $5.5m.
- FY23 forecast of 2.8% growth on FY22 actual.
- FY24 to FY28 forecast based on a 5% year-on-year growth.
- A 5% year-on-year growth is the result of averaging the growth rates from the previous 7 years, although we excluded the growth rates from FY20 (20%), FY21 (10%) and FY22 (13%) as they were significant increases that we do not expect to see repeated.

We have sought, but not yet received, the ESV's feedback on our calculation.

Step changes – shifts from capex to opex

AusNet

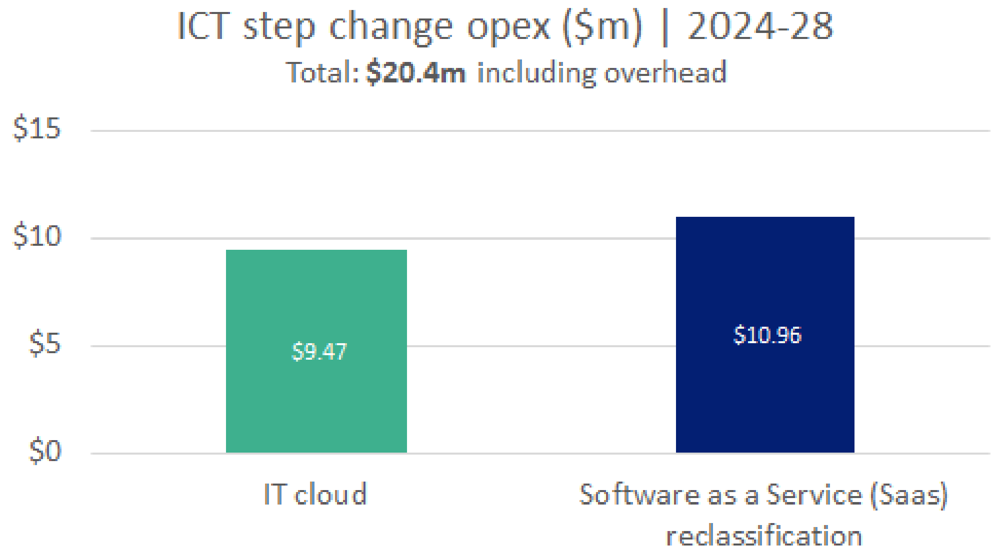
	Description	$m
Capitalised corporate overhead	Currently we capitalise reasonable overhead costs that are related to capital activities. However, due to our position of keeping lower prices in the future, we propose to expense these as opex instead.	$4.9
Service as a Software (Saas)	Previously we capitalised our SaaS's implementation and customisation cost. However, a recent decision by the IASB has clarified and added explicit guidance that all implementation, customisation, and subscription costs must be treated as opex.	$11.0
IT cloud	The requirement for the cloud transition is driven by changes in the way products are provided by our vendors. Where a business is seeking a new functionality, it will often be necessary to adopt cloud solutions as that is increasingly how ICT services are offered – that is, an on-premises solution will not exist.	$9.5

Step changes – IT cloud & SaaS

AusNet

Opex supports the maintenance and effective utilisation of the digital assets and applications. It is categorised as:

- **Base opex** - Ongoing costs of maintaining our technology assets and function including software licensing, hardware maintenance, utilities, staff and other contract costs.
- **Step change opex** – these costs reflect the changing technology landscape to manage and access our applications and the change in accounting of costs relating to cloud projects that have now been re-classified from capex to opex.



IT cloud Costs: Cost of accessing application capability from a cloud platform

- The delivery of cloud-based technology solutions has made it possible to turn IT operations into an operational expense as opposed to a capital expense, removing the need for any hefty upfront investments and replacing them with predictable monthly fees.
- These opex are the ongoing costs related to day-to-day operations of our applications. These capabilities are accessed through a subscription fee for cloud services and is considered opex as the cloud provider is making the infrastructure investment upfront, and as the client, we only pay for the resources as required.
- Cloud based costs impact all of our programs of work except for Cyber Security.

Accounting reclassification (treatment of SaaS): Cloud costs that were previously capex that is now been classified as opex.

OLD SAAS TREATMENT	NEW SAAS TREATMENT
Can capitalise: ✓ Licence fees during development/project phase ✓ Initial design, config, testing and modification costs ✗ Ongoing licence costs	Can't capitalise: ✗ Licence fees during development/project phase ✗ Initial design, config, testing and modification costs ✗ Ongoing licence costs

Step changes – engineering initiatives

AusNet

	Description	$m
Upgrade Custody Transfer Meters (CTM)	APA recently undertook a review of AusNet's metering facilities as a part of their 5-year CTM metering strategy. The review identified 3 high priority sites (Werribee) requiring upgrades, as the estimated gas demand at the sites exceeds their metering capacity.	$1.5
Transmission pipeline inline inspection	As AusNet's pipelines age, unforeseen integrity issues are becoming more apparent. To maintain the security of supply and public safety, we need to inspect our pipelines using an intelligent tool called Pipeline Inspection Gauges (PIG). We have proposed the "pigging" of 2 pipelines – Licence 57 (in Geelong) and Licence 189 (in Bendigo).	$0.1
Digital meter trial project	In order to understand the benefits and implications of rolling out digital meters across out network, we have proposed a digital metering trial program that will involve the installation of approximately 1,000 digital meters. The trial will help AusNet understand how customers are using gas, the potential interrelation between gas and electricity usage in the home, and the benefits and potential downsides of digital gas meters. This information will be useful for improving our services and finding efficiencies in the near to medium term and helping us prepare for the transition to future fuels or electrification. Additionally, digitising the meter data collection process will enable the collection of more accurate and more frequent consumption data to improve billing, regulatory and internal reporting, network configuration, and network planning.	$0.1

Step changes – others

AusNet

	Description	$m
Priority Services Program	We have proposed a program to fund new activities that better support customers in vulnerable circumstances. See later slides and discussion.	$4.1
Environmental Protection Act	The amendments made to the Environmental Protection Act 2017 (Vic) by the Environment Protection Amendment Act 2018 came into effect on 1 July 2021. The new legislation is a proactive regulatory approach focusing on preventing the future adverse environmental impacts due to historic waste and pollution of sites. This is a departure from the prior regime, which focused on managing impacts after an adverse environmental event occurred from existing assets and, accordingly, alters the way we must manage our environmental obligations going forward.	$1.4
Taxes and levies	**Bushfire insurance premiums:** The background to this is similar to our EDPR and TRR bushfire liability insurance premiums step change, in that the gas network is exposed to the hardening of the insurance market and rapid premium increases – although to a much lesser extent compared to our electricity distribution and transmission networks. **Mental health levy**: The Victorian budget 2021-22 introduced a new Mental Health Levy that is a payroll surcharge of 1% applying to taxable wages, for businesses with national payrolls above $100m. **Increases to land tax:** The Victorian budget 2021-22 announced increases to land tax.	$4.7

Bushfire insurance premiums

AusNet

The AER approved our opex step changes in both our EDPR 2022-26 and TRR 2023-27, where its consultant confirmed (amongst other things):

- Globally, insurers are increasingly **updating their technical rating models to reflect the increase in natural catastrophe claims** arising from climate change, and
- The changes in the market have **greatly reduced the negotiating power of AusNet**. In essence AusNet and other utilities have become price takers in the market, as insurers dictate a minimum rate.

Whilst the changes are largely driven by bushfire risks for AusNet, these pressures affect the liability risks of the gas network as well.

Based on the following assumptions, we have calculated an opex step change of $4.5m for the gas network:

- We purchase insurance at the organisational level;
- Then allocate 6% to the gas network (allocation has fallen from 20% in 2008 to 6% now); and
- Adopted the same calculation approach as EDPR and TRR.

Outlook:

- FY22's actual unit rate per $ of cover was slightly lower than what was approved in the EDPR.
- Increases remain rapid and well above CPI.
- We continue to see pressures in the insurance market.

The Victorian Gas Substitution Roadmap | Background

The Victorian Government is working to reduce emissions by 50% by 2030 and to be net-zero by 2050. They are due to release their Gas Substitution Roadmap mid-year.

VicGov has presented interim modelling of 3 scenarios (plus a baseline "no action" scenario), which were recently presented to industry stakeholders.

All scenarios assume:

- **approx. 50% reduction in residential and commercial usage** by 2030
- just **over 30% reduction in industrial usage** by 2030
- **reductions will come from a combination of electrification, energy efficiency and biomethane** (with some very limited hydrogen pre-2030).
- sees a **viable pathway for hydrogen, but only after 2040.**

***NB** The interim modelling does not reflect policy positions. We are closely engaging with DELWP to ensure the full implications of the pathways presented are considered and that policy is based on robust evidence.*

The Victorian Gas Substitution Roadmap | Implications for Our Opex Proposal

AusNet

However, a 50% demand reduction by 2030 may require a fundamental re-think of AusNet's asset management strategies.

AusNet is still considering the implications of this and is not in a position to provide detailed analysis at this stage.

Implications for the opex proposal could include:

- Undertake less mains replacement and instead repair pipes (increase opex). Repairs are generally more expensive over the long term, so this option only makes sense if the network has a short remaining life.
- Would look to change capitalisation policy where possible to increase the costs allocated to opex. This would reduce future stranding risk, but increase prices in the short term.
- Productivity improvements are unachievable when faced with declining economies of scale. The Trend parameters will need to be re-examined if faced with rapidly declining consumption.
- Base, Step and Trend approach may no longer be appropriate if there is a fundamental change to our operating environment.

Is there sufficient information to understand our proposals and the basis of the costs included in our opex forecast?

Do you support or disagree with any of our proposed step changes?

Priority Service Program

A Step Change proposed by both AusNet, AGN & MGN

Priority Service Program

Recognising the circumstances of our customers and providing support

The lives of our customers can change when they least expect them to. At any point in time, they can face circumstances that affect their use of, or access to essential services. The impacts of COVID-19 and the increasing frequency of severe weather events highlight this.

Gas networks have a role to play as an important part of the energy chain for customers:

"essential service providers can exacerbate harm if they do not respond in an informed, sensitive way to the personal circumstances of their customers."

CPRC report for AER

WHAT WE HAVE HEARD

81% of AusNet customers thought a Priority Service Program was worth looking into further, and seeking expert input on. Only 3% did not support AusNet looking into it.

93% of AGN and MGN customers felt it was important to have dedicated services for vulnerable customers

Priority Service Program

Recognising the circumstances of our customers and providing support

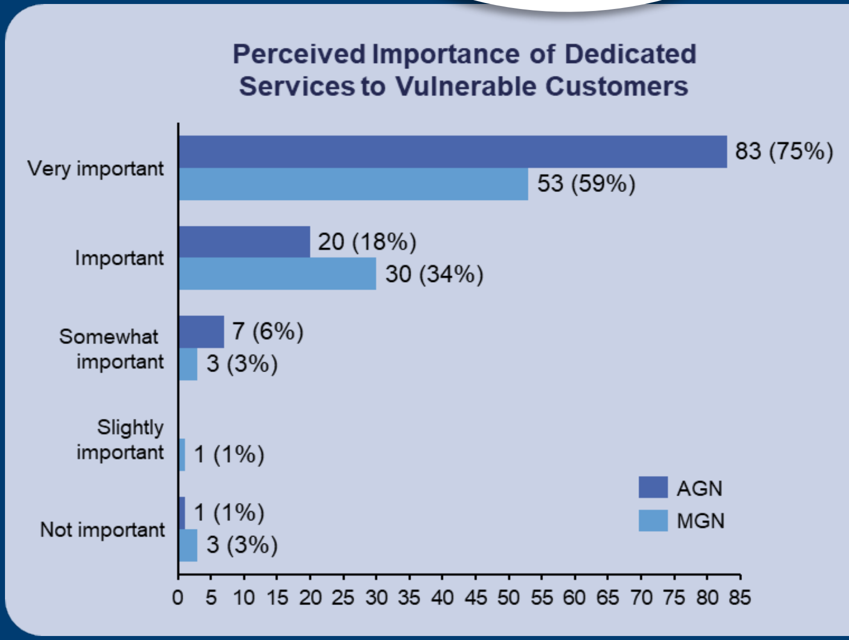
OUR CUSTOMERS SAID

- This program could support the **elderly, special needs customers, those experiencing financial hardship, bushfire communities, Covid-affected families and domestic violence survivors.**
- They emphasised **inclusivity**, **fairness** and **duty of care**
- Ideas for initiatives could include things like:
  - **Minimising the impact of outages** on customers
  - **Financial and energy saving support**
- We should consider:
  - **Direct relationships with experts** who specialise in supporting customers in vulnerable circumstances
  - **The role of the retailer** in ensuring benefits are passed through to customers

"This idea is excellent. Please target extra assistance for the elderly, special needs patrons in our community."

"[The priority service program is] a good idea but needs be managed properly"

This is very important as our most vulnerable are the ones that need the most protection.



Methodology | Our Advisory Panel

To help us design a **fit-for-purpose priority service program**

we **set up an Advisory Panel** of experts from community organisations

and worked with them over a series of **3 workshops.**

We also gathered input, ideas and feedback from end-use customers in our resi./small bus. customer workshops.

Workshop 1	Workshop 2	Workshop 3
Nov '21	Dec '21	Mar '22
Exploring stakeholder views on a Priority Service Program	Refine our plans with stakeholders ahead of publishing our Draft Proposals	Review stakeholder and AER feedback on our plans for further refinement with stakeholders

Priority Service Program

Our plans

AusNet, AGN and MGN are all proposing a **Priority Service Program (PSP)** as part of our FY 2024-28 plans, to better support Victorian gas customers facing vulnerable circumstances.

This program represents a step-change cost of:

AGN	MGN	AusNet
$5m over 5 years	$5m over 5 years	~$4.1m over 5 years
$1.26 per customer per year	$1.36 per customer per year	~$1.09 per customer per year

Our customers said:

"$1.30 is a small investment. Seems like good value."

"This is an exciting initiative. Even on a pension I am happy to pay this."

"$1.30 is reasonable, but the [impact of the] program should be measured."

Priority Service Program initiatives	Customer benefits
Dedicated customer support team	Specialist team trained to support PSP customers
Check-ins and additional support during outages	Additional care and consideration during extended gas outages e.g. heating, cooking
CALD communications	Tailored, digital and easy English comms
Gas appliance safety checks	Direct financial benefits to customers and peace of mind at home
Emergency appliance repairs	
Meter self-reads*	Reduce estimated bills, no strangers at the home

Priority Service Program

Comparison of programs

Priority Service Program initiatives	AGN & MGN	AusNet
Dedicated customer support team	✓	✓
Check-ins and additional support during outages	✓	✓
CALD communications	✓	✓
Gas appliance safety check	✓	✓
Emergency appliance repair	✓	✓
Meter self reads	BAU	✓
Additional training for front line staff	BAU	BAU
Translation services	BAU	BAU
Advice on efficient usage of gas	BAU	BAU
Fee waivers	×	×
Efficient appliance funding	×	×
Priority restoration and connections	×	×
Pay it forward	×	×

Key

✓ = included in PSP program and opex step change

BAU = *initiatives incorporated into existing operations, at* ***no extra cost to customers***

× = explored, but not included in program (low customer benefit or support provided elsewhere)

Do you support investment in a priority services program?

Do you have any feedback on the initiatives we have proposed?

Gas Network Innovation Scheme

Insights from recent customer engagement across gas distribution businesses support more innovation

- ✓ Customers expect businesses to innovate and plan for the future, whilst balancing affordability
- ✓ Customers are particularly supportive of innovation where it meets their key needs of gas networks, including affordability, decarbonisation, safety and reliability

Recent engagement insights:

- AusNet (2023-2028) – Customer support for innovation projects that help AusNet deliver to their core needs. An expectation that gas networks work collaboratively with the private sector and other networks on innovation initiatives.
- AGN Vic/Alb & MGN (2023 – 2028) – Customers see innovation as an enabler to transition towards cleaner energy, and more affordable and safe gas supply.
- AGN SA (2021 – 2026) – Strong customer support and scheme proposal included. Stakeholders identified the need for further engagement on scheme design.
- Jemena Gas Networks (2020 – 2025) – Customers expect JGN, along with other parts of the energy industry, to innovate and plan for the future so that they can continue to use gas in the longer term, as we move to a low-carbon future.

GNIS | Our joint engagement program

Over a period of 12+ months, AGIG, AusNet and Jemena engaged extensively with a range of stakeholders to explore and co-design a potential Gas Network Innovation Scheme (GNIS)

- **2 phases of engagement**
  - **Phase 1** – understand level of support for a scheme to promote innovation in the gas sector
  - **Phase 2** – co-design a potential scheme with stakeholders that is in the long-term interests of consumers
- **Supported and independently facilitated by KPMG**
- **Participants**
  - **Stakeholder Reference Group** – AER, ENA, ECA, ATCO, Evoenergy, APA
  - **Customers and their advocates** – around 20 participants representing over 15 businesses and consumer organisations
  - **Retailers** – AGL, Energy Australia, AEC, Momentum, Red and Lumo Energy, Origin Energy

GNIS | The challenge

We spent time with stakeholders to develop a shared understanding of the challenge, mapping out a logic for a GNIS

$ **Regulatory processes means that costs and benefits need to be forecast well in advance limiting our ability to innovate and respond quickly**

We cannot provide the level of assurance and evidence we usually do given the nature of innovation making it difficult for the AER to assess – e.g. MGN digital gas metering pilot study 2018-22 AA proposal

Benefits flow directly to consumers which makes it hard for businesses cases to stack up (GDB's incur the costs but don't directly share in the benefits)

GNIS | The scheme

We developed a GNIS which could be included in our plans

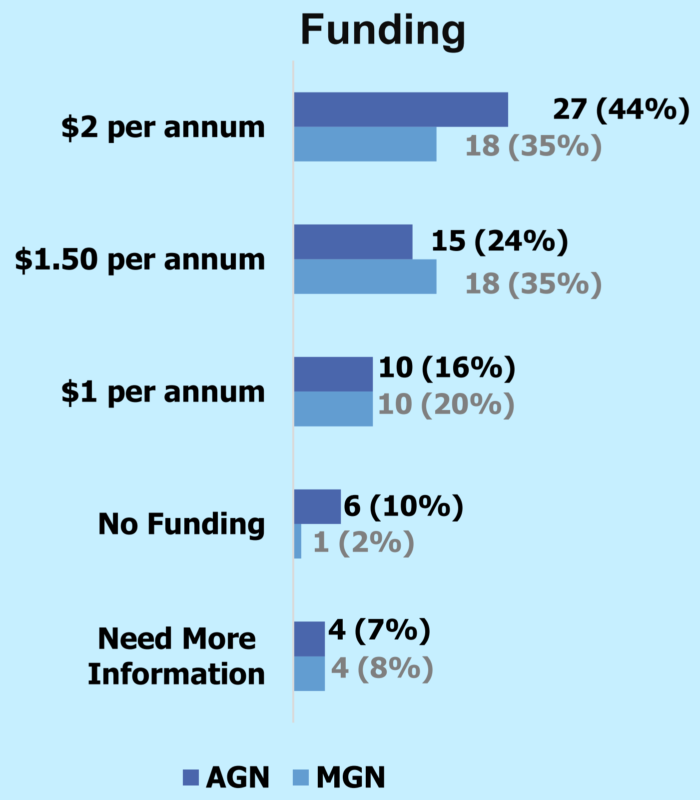
- **The GNIS is a broad framework on how a scheme could apply and operate – designed to operate uniformly across businesses, which:**
  - Prioritises customer benefits
  - Is 'use it or lose it', with set eligibility criteria
  - Includes an independent Advisory Group that helps with decision making on innovation projects
- **Before proposing a GNIS as part of its plans, each business will engage with customers to determine:**
  - Whether they support the adoption of a GNIS as part of the broader price review
  - Innovation focus, including priority areas, and funding levels (expected to be in the order of $1-2 per customer per year)

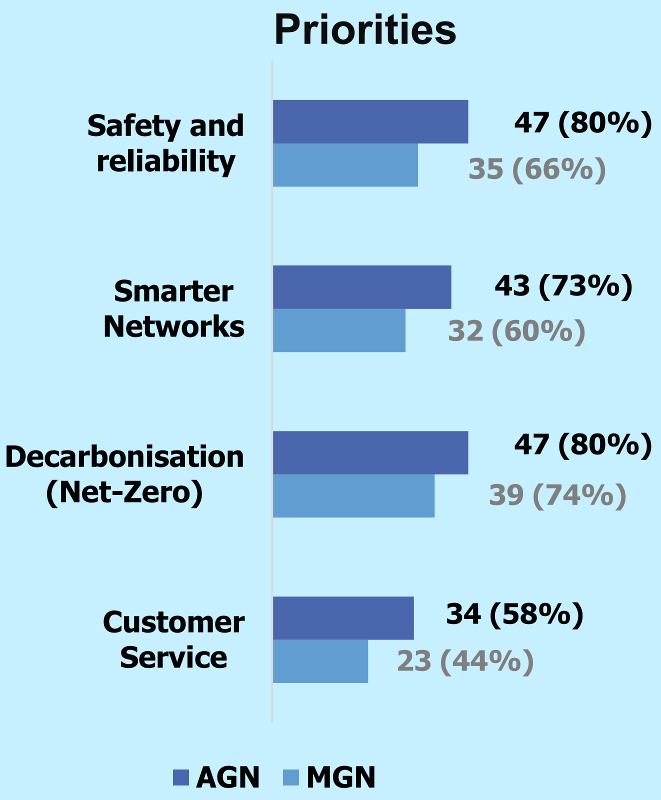
All materials from our joint engagement on the Gas Network Innovation Scheme can be found on gasmatters.agig.com.au

GNIS | Customer feedback

The Gas Network Innovation Scheme was well-supported with residential and small business customers during workshops

AGN and MGN tested support for dedicated innovation funding and asked what types of innovation projects should be prioritised





AusNet customers named innovation, unprompted, as one of their top 7 needs of our gas network. They like innovation and think we should leverage shared existing and shared research programs wherever possible.

The vast majority of customers (89%) indicated that they thought establishing a joint innovation fund was a good idea. Only 2.4% thought it was not. We discussed who should pay for innovation spending, and some customers suggested that the government and/or AusNet shareholders also have a role to play in innovation spending.

Excellent idea

Good sharing of resources proposed

I don't mind putting into a fund as long as there is a limit

Who will oversee the fund?

What a great idea. Only Vic or Australia wide?

The other gas companies would need to be fair (also contribute money)

Do you support the introduction of the GNIS which we have co-designed with customers, stakeholders and other network businesses?

Do you have any feedback on the level of funding that should be allowed under the GNIS?

Do you have any feedback on what types of projects should be in scope of the GNIS?

Next Steps

Close & Next Steps

If you have any further feedback on our Opex program or would like any additional detail, please let us know.

We also strongly encourage you to attend our remaining Deep Dive session

4

Future of Gas (B)

2.30 to 4.30pm Thu 31 March

(Joint AusNet / AGIG)

Australian Gas Networks

AusNet services

Multinet Gas Networks