

FACT SHEET

Gas Access Arrangement Review (GAAR)

The Regulated Revenue Process

AusNet Services owns and operates the gas distribution network in central and western Victoria. As a regulated monopoly, we are required to submit a proposal outlining the services we will offer, the costs associated with the provision of these services, and the prices we intend to charge customers over the next five year regulatory period. This process, called the Gas Access Arrangement Review (GAAR), determines our revenues over the regulatory period. The purpose of this fact sheet is to explain why the revenue that we derive from our gas network is regulated and how it is determined.

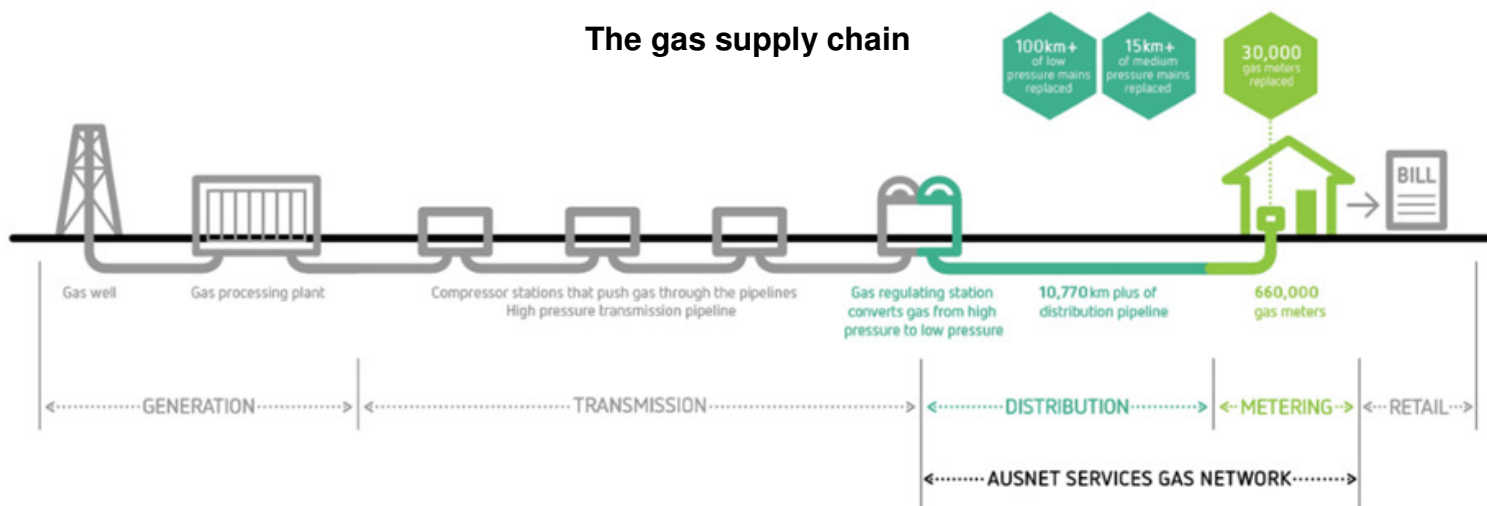
About the gas supply chain

The picture below shows the gas supply chain in Victoria. A number of players are involved in the supply of gas to customers. Generators extract gas from gas wells and process it to remove impurities. Transmission companies transport this gas through high pressure pipelines to gas regulating stations, from where it is transferred to low pressure pipelines, then delivered to homes and businesses by distribution companies. Finally, energy retailers sell gas to customers and provide billing services.

AusNet Services' role in gas supply

We are responsible for distributing gas to customers in central and western Victoria. This means we own and operate the gas pipelines, meters and equipment that deliver gas to homes and businesses in these areas. We are also responsible for the performance, reliability and safety of gas distribution pipelines. In total, we transport gas to more than 660,000 customers. The transmission and distribution network spans over an area of 60,000 square kilometres and comprises of more than 10,770 kilometres of pipelines.

The gas supply chain



Why are we regulated?

The gas distribution services we provide are monopoly services. This means that customers have no choice as to who delivers gas to their home or business. Therefore, we are regulated by the Australian Energy Regulator (AER). The AER ensures that the prices we charge are fair and appropriate in a market that has no viable alternatives. Prices are set by the AER to balance the short and long term interests, as well as the various needs of customers.

For more information, go to:
www.ausnetservices.com.au

Would you like to know more?

Fact sheets and more information on the GAAR process can be found on our website at www.ausnetservices.com.au

For more information, and to get involved, email us at: GAAR2018@ausnetservices.com.au.

Overview of the GAAR process

Our GAAR proposal outlines the planned program of works and revenue that we require to maintain and operate a safe, reliable gas network over a 5-year period. The proposal, which is submitted to the AER, involves a number of steps:

Submission - we lodge our proposal detailing our five year plan to the AER.

Draft decision - after an involved Question and Answer (Q&A) process, the AER releases its preliminary views of the proposal in the form of a draft decision. The AER assess the proposal using evidence such as benchmarking, historic trends, and expert advice.

Submission of revised proposal – we then respond to the AER’s draft decision with revised plans and evidence.

Final decision - the AER issues a decision outlining a binding revenue allowance and service levels that we must comply with. Essentially, this sets out the maximum amount that we can charge customers for our services.

This process can take up to 10 months to complete, and typically begins 13 months before the start of the five year regulatory period.

The components of required revenue

In general, distribution costs represent around 30% of the average Victorian’s gas bill. Our allowed revenue is calculated through the recovery of two types of costs. These costs include (i) past (or sunken) costs, and (ii) future costs.

Past costs. A significant proportion of revenue will repay the past cost of financing our network. That is, we are paying for assets *that have already been bought or built*. As with a home loan, our customers do not pay the entire cost of gas network assets upfront.

Rather, this amount is recovered over the time through financing return on investment (i.e., paying the costs of financing our assets) and return of capital (i.e., depreciation of our assets).

Future costs. The costs of operating our network, paying tax and incentives, and financing replacement assets (i.e., replacing ageing gas pipelines) can be thought of as future costs. *These are things we will do*. These new assets will also involve financing costs (i.e., return on investment and return of capital).

How do we determine how much money is needed?

As a regulated gas transmission and distribution business, our revenue is calculated using a building block approach. Each building block represents a different kind of cost in calculating the total revenue we require. These building blocks include: **Assets:** the total value of the network’s regulated assets (i.e., pipelines) at a given point in time; **Return on Investment:** the ongoing cost of financing these assets; **Depreciation:** the value of the regulated asset that is written down each year; **Opex:** the cost of operating the business; **Tax:** the amount of corporate tax we need to pay, and; **Incentive payments:** the bonus or penalties in the AER’s expenditure efficiency and service performance incentive schemes.

Understanding revenue blocks as past and future costs

The diagram below shows how we use each building block in our total revenue calculation. It can be seen that some of the building blocks represent past costs, such as the financing and depreciation of assets, while some represent future costs such as opex (operating costs), tax and the financing and depreciation of new assets. Our proposal also outlines the level of service quality (i.e., the number of outages) to be provided. Incentives and penalties relating to service and expenditure efficiency levels are also included.

Revenue required, shown as past and future costs with building blocks

