



Building customer value



Our response to the AER's draft decision

What does our response to the AER mean for our customers?

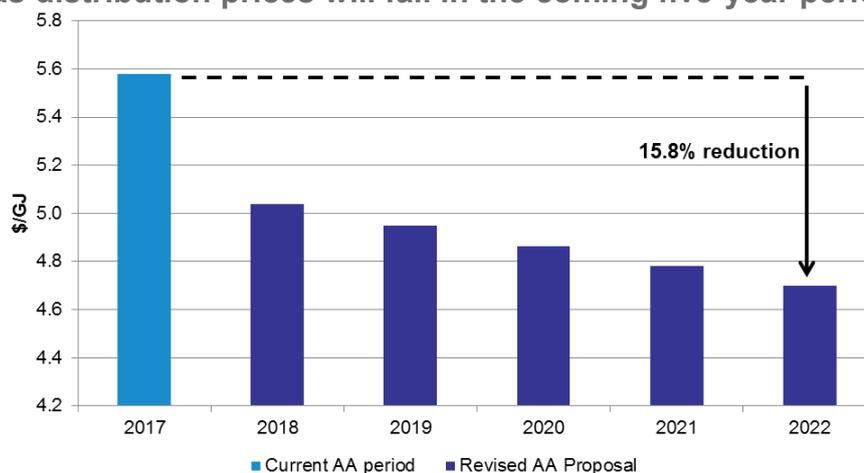
Our response to AER decision	Implications for our customers
We will not challenge the AER's draft decision	The AER determined a total revenue requirement 9.4% lower than our proposed revenue. By accepting this decision, we will simplify and shorten the regulatory review process, which will give customers confidence in the direction of future gas prices.
Our revised plans will deliver price reductions	Our revised proposal provides for a 15.8% real decrease in the distribution component of customer bills across the five-year period. This consists of an initial price decrease of 9.7% in real terms from January 1, 2018, followed by annual price cuts of 1.7%.
We will maintain our focus on providing a safe, reliable gas network	We will continue our program to replace ageing gas mains pipelines to maintain network safety, within the AER's reduced capital expenditure allowance.

How much will you save on your gas bill?

Approx. reduction in average customer bill in 2018, assuming no change to other bill components.

Typical residential customer **\$23** **\$37** Typical small business customer

Gas distribution prices will fall in the coming five-year period



The above graph shows how gas distribution prices will decrease over the coming five year period. This is largely due to:

- i. A lower rate of return allowed by the AER.
- ii. Lower operating costs due to the improved efficiency.

iii. Lower costs per customer, resulting from a growth in customer numbers.

This decrease in our gas distribution costs will soften the impact of higher wholesale prices.



How do we decide how much to charge customers?



About the GAAR process

AusNet Services' gas network charges represent around one-third of a total gas bill for residential customers. But we do not decide how much we charge our customers.

As a regulated monopoly, our prices are determined by a detailed process that we undertake with the Australian Energy Regulator (AER). This process, which includes the views of customers and other stakeholders, is called the Gas Access Arrangement Review (GAAR).

The review process begins with AusNet Services submitting a proposal to the AER.

This proposal includes our expenditure plans, which are designed to maintain the reliability and safety of our network at the cheapest cost.

The AER reviews this proposal and publishes a draft decision. We respond to this decision with a revised proposal, which the AER evaluates before making its final decision. This final decision sets our charges (i.e. the amount our customers pay for gas distribution) for the coming five year period. (Our network charges will remain among Australia's lowest for the next five years). The timeline below shows the stages of the current GAAR.



Our initial proposal and the AER's response

As shown in the table below, the AER approved revenue of \$1,045M (nominal), representing an 8.7 per cent reduction on our original proposal of \$1,145M.

This level of revenue would deliver an average price reduction per customer of 9.7% in 2018, on the distribution component of their gas bill.

For the average residential customer, this equates to a saving of \$23 in 2018.

For the average small business, the saving would be \$37.

AusNet Services ran a comprehensive customer engagement program as part of the GAAR process.

The AER's draft decision acknowledged that this program was well-designed and effective.

The table below summarises our initial proposal and the AER's draft decision.

AusNet Services' Proposed Revenue and AER Draft Decision

<i>(Nominal terms)</i>	Proposed	AER draft decision	Var. %
Total Revenue	\$1,145M	\$1,045M	(8.7)
Total Capital Expenditure	\$521M	\$502M	(3.6)
Total Operating expenditure	\$320M	\$289M	(9.7)
Rate of Return (WACC)	5.63%	5.94%	