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5 June 2017

Paul Grimes  
Chair  
Department of Environment, Land, Water and Planning  
8 Nicholson Street  
EAST MELBOURNE VIC 3002

Dear Mr Grimes

## **A Review of Victoria's Electricity and Gas Network Safety Framework**

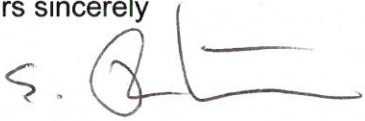
The AER welcomes the opportunity to make this submission in response to the further issues paper on the Victorian gas network safety framework. We have already provided a response on 28 April 2017 to your initial issues paper on the electricity safety framework.

We recognise the importance of safe and resilient distribution and transmission gas networks in Victoria. We are also cognisant that a well-functioning regulatory regime should work to support and align with desired safety outcomes. Our earlier remarks on the electricity safety framework are also relevant to the operation of the gas framework.

In this regard, it is worth also noting the proposal by two Victorian gas distribution businesses, Australian Gas Networks (AGN) and AusNet Services, to include a Capital Efficiency Sharing Scheme (CESS) in the forthcoming access arrangement (2018-22 period). The CESS is intended to provide businesses with incentives to make efficient investment decisions. The CESS provides a financial reward (penalty) for achieving efficiency gains (losses) compared to capital expenditure benchmarks (ex-ante approved levels) set by the AER. As you have noted in your issues paper, the AER has only approved an Efficiency Benefit Sharing Scheme (EBSS) for gas networks, which provides incentives for efficient operating expenditure. At this stage, we are still reviewing the businesses' proposal of a CESS, and are due to publish the draft decisions for each of the gas distribution and transmission businesses' access arrangements on 29 June 2017.

We would be happy discuss our work on this matter. Please contact Sebastian Roberts (03) 9290 1895 or Kim Huynh (03) 9290 1960 if you would like to discuss further.

Yours sincerely

A handwritten signature in black ink, appearing to be 'S. Roberts', with a stylized flourish at the end.

Sebastian Roberts  
General Manager, Networks