Arena Energy Consulting Pty Ltd

Aeris Capital Pty Ltd

Mr Arek Gulbenkoglu
General Manager
Australian Energy Regulator
GPO Box 3131 Canberra, ACT, 2601

Email: JGN2025@aer.gov.au

13 September 2024

Re: Submission - Jemena Gas Networks' (NSW) access arrangement

Dear Mr Gulbenkoglu,

1. Summary Position of This Submission

Aeris Capital Pty Ltd (**Aeris**) and Arena Energy Consulting Pty Ltd (**Arena**) (together the **Respondents**) strongly encourage the AER to reject Jemena Gas Networks' (**JGN**) proposed abolishment charges and instead adopt the following:

- For single residential gas connections, the AER should require that JGN mirror the Victorian approach of reducing tariffs for gas service abolishment to $220 per residential connection; and
- Where a JGN hot water meter serving a single residential customer is abolished as part of the abolishment of a centralised hot water gas meter, and where an affected residential lot in a residential strata scheme continues to remain connected to the JGN network for cooktop gas or other non-hot water gas consumption needs, that the per hot water meter abolishment charge be capped at the equivalent of the gas "disconnection" charge of $84 and the charge for the abolishment of the single centralised hot water gas meter be set at $0.

The Respondent's assert this is fair and reasonable for JGN and reflects the requirements of the nation's Energy Transition and is essential to facilitate each consumers' Power of Choice.

2. About the Respondents

The Respondents are separate and independent energy services consulting firms.

Aeris and Arena collaborate professionally to service the energy needs of the residential strata sector in respect to improving strata and consumer outcomes within established embedded networks.

Unlike embedded network operators, which work with property developers, Aeris and Arena mainly work with existing strata schemes which have an existing embedded network established by the developer of the strata scheme and the initial embedded network operator.

The Respondents' services commonly include re-structuring existing embedded network agreements, re-tendering expiring embedded network contracts (where the benefits flow through to the residents and the strata) and advising on hot water embedded networks.

3. The Respondents' Experience in Gas & Hot Water

Many of the NSW residential strata schemes to which the Respondents provide energy consulting services, have centralised gas hot water plants which a part of the common property and are owned by the Strata.

In many of these buildings, JGN owns the gas meter at the hot water plant, hot water meters and gas meters for each individual strata lot. These metering arrangements in residential strata buildings, which we will call ***JGN metered centralised hot water plant***, were ubiquitous prior to JGN's 2015-2020 access arrangement at which time it expanded its tariffs to include the Volume Boundary (**VB**) tariff.

Post 2015 to 2020 there were many buildings still developed including JGN metered centralised hot water plant. This was not because JGN's Volume Individual (**VI**) tariffs and connection access arrangements were appealing. On the contrary, Volume Boundary connections simply were not well understood by the NSW market including by design consultants and gas plumbers. Aeris' and Arena's experience was that JGN did not make it easy for prospective gas consumers and their services engineers to understand or access the new Volume Boundary tariffs.

Regardless, over time the residential development industry did adopt VB connections and new, large residential buildings with JGN metered centralised hot water plant have become increasingly rare.

4. The Faded Appeal of Gas for Centralised Hot Water

For most existing residential strata schemes there is limited appeal in renewing an end-of-life centralised gas hot water plant for the following reasons:

- Gas has become comparatively expensive versus electricity; and
- New, commercial scale, electric heat pumps are significantly more cost efficient to operate and have become less expensive to install.

The appeal for a residential strata scheme to move from gas to a centralised electric heat pumps are manifold and include:

- The strata's ability to own and control their hot water plant ***including*** the metering and billing for the hot water produced;
- Eliminating daily gas supply charges for residents on gas as a second and non-essential utility;
- Gas having become uneconomically expensive as a means of producing heat versus high efficiency electric heat pumps;

- The ability of the strata to make hot water using renewable electricity generated on site rather than gas, a non-renewable fossil fuel.

In most cases there is a clear and compelling economic advantage for the strata and the residents of apartment buildings to eliminate gas from the production of centralised hot water.

However, when JGN's gas service abolishment charges are factored into the equation, the economic case for switching away from gas goes from compelling to uneconomic.

JGN's gas service abolishment costs are so high that they could be seen as being a form of economic entrapment.

JGN's abolishment charges are the clearly dominating factor which prevent consumers from making sensible economic choices about their utilities. JGN's abolishment charges prevent the consumers from shutting off gas – a "Hotel California" gas tariff, if you like. To borrow and modify a line from the Eagles song of the same name:

> "*You can connect to Jemena's network any time you like,*
> *But you can never [afford to] leave*".

5. JGN's Role in the Demise of Gas

During the public forum held on 2 September 2024, two things were said which are particularly relevant to this submission:

- JGN observed that its gas network continues to grow; and
- That consumers remaining on the gas network shouldn't bear higher costs because some consumers have chosen to leave (or words to this effect).

Together, the principals of Aeris and Arena have been energy consultants and energy sector participants for many decades. Both actively participate in Australia's energy transition and both believe that this will produce winners and losers among today's energy sector participants. JGN, as the owner of a monopoly gas distribution network wants, not only to be rewarded by its new and existing customers but also rewarded for customers choosing to leave its network.

The Victorian example of reducing ancillary reference tariffs for abolishment in Victoria from circa $950 to $220[1] should absolutely be followed in NSW.

While in the VIC example the balance of abolishment service costs is recovered from all Victorian customers, this cost will likely be better managed (and therefore lower) by the VIC gas networks since it is not a pass through to the exiting customer.

It seems to Aeris and Arena, that the AER should encourage circumstances where the remaining consumers of the gas network wear higher gas network costs (or more reasonably, JGN's regulated income is lowered) as a result of existing consumers leaving the gas network. This will accelerate the energy transition away from gas, leaving the remaining gas the upstream sector makes available for domestic uses available to unavoidable industrial purposes.

To the best of the Respondents' knowledge JGN has not been an advocate or an overt supporter of the Australian community's calls for domestic gas reservation. Community in this

[1] Refer to section 3.5.2.3 of the AER's Issues Paper

context separates the vocal and loud corporate interests of the upstream gas sector from the broader definition and use of the word 'community'. The Respondents note that the upstream gas sector has been virulently opposed to domestic gas reservation and has applied all possible contortions of common sense and economic logic in support of its self-interest.

JGN could have played a valuable role in ensuring the longevity of gas usage in Australia had it been an advocate for domestic gas reservation. If domestic gas reservation was in place, gas would have been in abundance for east coast consumers, its price would certainly have been lower and consumers would not be seeking to leave the gas network driven by the simple economics of making lower cost choices.

Aeris and Arena assert that is grossly inequitable that JGN, through absurdly high abolishment charges, would seek to preserve the economic value of its monopoly while at the same time failing to meaningfully advocate for domestic gas reservation and in turn preserve its customers' access to economically viable gas.

A simple question of equity the AER should ask is why Australian consumers should pay for JGN's monopoly when it has not acted in a manner supportive of consumers having economic access to gas.

6. POWER OF CHOICE AND THE "HOTEL CALIFORNIA" GAS TRAP

Aeris and Arena treat the assertion that the abolishment charges advanced by JGN are cost reflective or even cost pass-through with great scepticism.

The scale of the costs proposed for meter abolishment of centralised hot water systems appear usuriously high[2]. Anyone who has worked with plumbing and construction trades may recognise these costs as possibly having the hallmarks of having been incurred without adequate discipline or supervision.

The logic behind Aeris and Arena's cynicism is bullet pointed in the time sequence below:

- At the customer's request, JGN agrees to abolish a gas meter;
- JGN outsources the task or works to another party. Perhaps its ring-fenced group associate, Zinfra;
- Zinfra or other contractor knows that JGN simply passes Zinfra's or the contractor's costs through to the exiting gas customer;
- The exiting gas customer effectively foots Zinfra's or the contractor's cost to JGN on a cost pass-through basis;
- Zinfra's or the contractor's abolishment costs appear to come in very high;
- The high costs may not be scrutinised since they are simply passed through to the exiting customer.

Using the above time sequence, it may be reasonable to infer that there is perhaps no incentive for JGN to adequately manage the abolishment costs. Afterall, why keep abolishment costs low and tight when:

[2] Public data on this is available through Watt Block

- The costs are being paid for by the exiting customer; and
- The higher the cost to exit the fewer number of customers will choose to leave? – a monopoly at work perhaps?

7. Gas Centralised Got Water to Go but Gas for Cooktops to Remain

It is almost universal for a residential strata scheme with a JGN metered centralised hot water system to also have metered gas supply to each residential strata lot.

The non-hot water supply is for cooktop gas, indoor gas bayonets and outdoor gas bayonets.

Where Aeris and Arena have worked with residential strata schemes on gas hot water replacement with electric heat pumps, it is universal that gas supply for cooktops remains connected to the JGN gas network.

In this instance JGN gas network would continue to supply the residences and gas connection to the apartment building remains pressurised, however a single part of the internal gas pipework, being the riser delivering gas to the centralised hot water plant, would be capped off and the meter removed.

In the context where gas remains supplied to the building and a rooftop gas riser is capped off, this should not precipitate substantial abolishment costs. The high costs of ground excavation, etc. which JGN anticipated in its 2020-2025 access arrangement[3] are simply not incurred.

8. Winners and Losers in the Energy Transition

Aeris and Arena think that JGN's requirement to charge very high abolishment charges is antagonistic to:

- Power (and source) of choice for energy consumers; and
- The Australian economy achieving its energy transition goals.

The energy transition discourse in the community refers to gas as a *transition fuel*. Indeed, JGN referenced gas as such during the public forum held on 2 September 2024.

If gas does prove to be a *transitionary fuel*, which based on its East Coast domestic gas pricing appears inevitable, then the natural conclusion is that gas will eventually cease to be used or significantly decline in usage over time.

The Respondents estimate that JGN knows (or ought to have known) that gas as a transition fuel implies its declining use and indeed JGN should have anticipated as much decades earlier. The shareholders of JGN acquired a monopoly asset which is subject to regulation. The consumers, taxpayers and residents of NSW at the time of JGN's privatisation did not expect that the sale of the JGN monopoly would also include an economic obligation being placed upon NSW consumers to continue to pay for JGN's acquired monopoly long after its used by date will have passed.

[3] See page 14, section 3.2.2 of JGN's AER approved 2020-2025 Access Arrangement Proposal

An example of gas transition in practice is the VIC government's banning of gas in new residential apartment developments from 1 Jan 2024[4]. The Respondent's believe this to be a very sensible policy choice in the context of JGN's proposed Hotel California abolishment charges.

9. Centralised Hot Water Gas Assets Fully Depreciated

It is almost universal for JGN to have enjoyed a decade or decades of regulated income from its hot water meters and gas meter assets associated with centralised hot water before any decision is taken to remove them.

JGN's metering assets are well and truly depreciated, in particular, where JGN adopts accelerated depreciation.

JGN's lost asset value in circumstances of a gas abolishment for centralised hot water will be very close to zero.

JGN's lost revenue will however be substantial but that is a function of the delivered cost of gas being excessively expensive.

Energy consumers and residential strata schemes should be at liberty to remove the hot water meters and request JGN to remove the single gas meter and cap the gas supply at the hot water plant room.

It is worth observing that the value of JGN's proposed abolishment charges is many multiples of the annual regulated income (on a VI tariff) which JGN would have received from each abolished connection. And the proposed abolishment charges are an even greater multiple of JGN's net income from the same – an outrageous transfer of economic value which gas consumers and the community more generally should not have to bear.

10. The Choice to Disconnect Gas for Centralised Hot Water

JGN's proposed abolishment tariffs apply to the residential consumer.

In many apartment buildings the resident is the consumer, and in the vast majority of cases, is a rental tenant, not an owner occupier.

The decision to remove gas from a centralised hot water plant does not in any way belong to the resident consumer.

Rather that decision, rightfully, belongs to the strata scheme or strata executive committee who control the common property of the relevant apartment building. The centralised hot water plant and any meter cupboards, risers or pipework inside the building, are common property.

The residential strata scheme is not the gas consumer. Gas for centralised hot water is consumed by each resident and the consumption at the centralised gas meter is apportioned by JGN based on individual water meter readings.

As such, a strata committee may decide to replace a centralised gas hot water plant with a centralised electric heat pump plant and yet the resident consumer, who played no role in

[4] https://www.planning.vic.gov.au/guides-and-resources/strategies-and-initiatives/victorias-gas-substitution-roadmap

decision to abolish a gas connection, gets slugged with the abolishment charges. This reallocation of cost is deeply inequitable.

Despite the inequity, JGN should not be able to impose such large charges for a single gas meter abolishment while gas remains connected to the building, albeit while continuing to be supplied at lower volumes.

11. SUBSTANTIATION OF "SAFETY" CONCERNS

JGN cites safety concerns in setting its proposed abolishment tariffs. The Respondents have not sourced any detail or substantiation for JGN's safety concerns.

While safety is naturally a reasonable consideration, the Respondents are unaware of any safety measures JGN presently takes to inspect (for safety) or maintain existing gas connection assets that are installed within the common property of residential strata buildings.

A cynic may possibly conclude that safety, in respect to these assets, becomes a concern which needs to be costed only when the customer chooses to leave the gas network.

As stated at section 7 above in the vast majority of cases gas will continue to be supplied to the building for gas cooktops and so the safety concern would be limited to ensuring one of two gas risers inside of a residential apartment building is safely capped off where it would have previously connected to a pressure regulator and gas meter.

12. CONCLUSION AND RECOMMENDATION

The Respondents assert that there can be no reasonable economic argument for JGN's proposed abolishment charges. In particular in circumstances where Victorian gas consumers have genuine and accessible choice to exit the gas network, it would be grossly unreasonable to impose JGN's proposed costs of NSW gas consumers which are so high that NSW consumers will be denied their choice to exit on the basis of it being acutely economically unviable.

The Respondents recommend the following to the AER in respect to JGN's abolishment charges:

- For single residential gas connections, the AER should require that JGN mirror the Victorian approach of reducing tariffs for gas service abolishment to $220 per residential connection; and
- Where a JGN hot water meter serving a single residential customer is abolished as part of the abolishment of a centralised hot water gas meter, and where an affected residential lot in a residential strata scheme continues to remain connected to the JGN network for cooktop gas or other non-hot water gas consumption needs, that the per hot water meter abolishment charge be capped at the equivalent of the gas "disconnection" charge of $84 and the charge for the abolishment of the single centralised hot water gas meter be set at $0.

If the AER adopts JGN's proposed abolishment tariffs it will absolutely ensure that gas customers are denied the economic choice to leave the gas network - an entirely inappropriate and inequitable outcome for NSW.