Submission to the Australian Energy Regulator

Variation Proposal
re AusNet Access Arrangement 2023-2028

28 November 2024

To the Australian Energy Regulator

DCAN thanks you for the opportunity to make a submission on the variation proposed by AusNet to its Access Arrangement. We appreciate the extent to which AusNet has consulted on its proposal. However, this consultation has not addressed several issues that DCAN views as vital. DCAN knows that a fast transition away from gas onto renewables is essential if we are to avoid disastrous runaway climate change, and also believes that this transition must be made with climate justice at front of mind – i.e. vulnerable community members need to be protected from paying the price of the transition.

AusNet has submitted a proposal to vary its recently approved Access Arrangement for 2023-2028. The primary request is for a higher rate of depreciation of its assets. AusNet has done this based on revised estimates of demand for gas, and its studies of consumer sentiment showing growing intention by households to get off fossil gas (AusNet Variation Proposal 2024 pp.17-19). We are pleased to note that AusNet appears to be ruling out the alternative pathway of investing in injecting hydrogen into the grid on a large scale (pp.27-28).

Superficially, accelerated depreciation appears to allow for wider cost sharing in the wind-down of the gas industry. In reality, accelerated depreciation primarily benefits the gas company, by shifting risk onto households, who are mostly tenants and financially stressed households that cannot easily get off gas. Unfortunately, it does not give an incentive to the energy companies to phase out gas. We appreciate that AER has already accepted accelerated depreciation on a case by case basis, and allowed for it in its final decision on the original AusNet Access Arrangement for 2023-2028 (AER 2023). This approach should be reviewed in light of our arguments.

Tying other changes to accelerated depreciation. In our view, AER should only accept a higher rate of depreciation for AusNet if it is tied to other changes:

a) a detailed plan to retire the bulk of the AusNet gas pipeline network by 2035
b) a plan from AusNet to work with retailers to urgently reduce the gas use of the top cohort of household gas users, say the top 20%
c) a reconsideration by AER of the capital base for the 2024-2028 period and adjustment to account for super-profits that the company has made (see below)
d) a mechanism for AER to ensure that ongoing returns to AusNet shareholders do not exceed the rate of return set in the Access Arrangement, with a fail-safe arrangement to claw-back funds should this be breached. Currently AusNet is owned by Brookfield, the global private equity fund manager, and Australian Retirement Trust.
e) subject to the above points, an AER proposal to Energy Ministers for wider cost-sharing across the energy system, such that the costs of maintaining the gas network during an orderly wind-down are borne by all energy users, while protecting the most vulnerable,with some of the costs possibly being borne by government.

Determining super-profits. Before accepting the proposed revision by AusNet, it is vital for AER to determine the monopoly profits, over and above the regulated return on capital that AusNet has accrued over the last two decades. These monopoly profits have been documented by IEEFA. Each unit of super-profit over and above the allowance in the Access Arrangement should be treated as recovery of invested capital. The cumulative benefit to AusNet from reinvesting these super-profits should also be addressed as it is likely to be materially significant. This will in our view necessitate a review by AER into how it calculates the opening capital base as well as return to capital and return to equity. In essence, the value of AusNet's assets should be written down by the super-profits that they have earned.

Creating an orderly wind-down - a proposed AER recommendation to government. AER should strongly recommend to government the need to plan the orderly wind-down of the gas networks while protecting consumers. We note that AER itself recommended changes to the national energy regulatory framework in *Regulating Gas Pipelines under Uncertainty* (AER 2021) so as to fully account for decarbonisation policies or objectives (p.58), more explicitly address electricity-gas interdependencies (p.59), and balance interests of current consumers and future consumers (p.26).

Using incentive schemes. AER has set up several incentive schemes to improve performance of electricity distribution companies. We argue that similar schemes should be introduced to accelerate the orderly wind-down of the gas network, in line with the updated National Energy Objectives.

Anticipating falling demand for gas. We think that it is entirely inappropriate for AusNet in its variation proposal to shift responsibility to the regulators for failing to anticipate demand for gas falling faster than expected.

> "Importantly, the customer number forecast approved by the AER had our residential customer numbers growing throughout the regulatory period. This continued growth is no longer a credible forecast" (Ausnet 2024 p.2)

The writing was on the wall, especially with the release of Victoria's *Gas Substitution Roadmap.*

> "By the time the AER made its Final Decision, the AER appeared to contemplate there would be a limited role for residential gas consumption in the future. However, the Gas networks had not yet been set on an unavoidable path of declining customer numbers at that time. ... The AER's Final Decision was not focussed on the challenges of dealing with a declining network." (AusNet p.28)-

A critique of AusNet on fairness. AusNet justifies accelerated depreciation in terms of fairness to future customerS, especially those unable to transition. Hence it argues for faster cost recovery. Critically, by generating super-profits, AusNet has already recovered a significant proportion of its capital outlay. It is therefore fair that AusNet share in the burden of transition. This is the context for treating arguments such as "Putting off decisions around sunk cost recovery for some future point is no longer tenable" and "Early actions such as faster capital recovery is the best way to protect customers and enable us to continue managing network safely and reliably ...." (AusNet 2024)

About DCAN

DCAN comprises a large group of local residents of diverse ages and backgrounds who meet regularly and work together to seek a safe climate future. We actively interact with all three levels of government, encouraging each of them to adopt the policy changes that are now urgently needed. We have over 5,000 supporters. DCAN networks with other climate groups across Australia.

Yours sincerely [redacted]

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