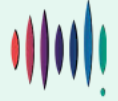


Submission on AusNet Gas Access Arrangement Review 2024-28 Variation Proposal

Submitted by: Alice Gordon

DATE: 29/11/2024



Energy Consumers Australia welcomes the opportunity to provide feedback on AusNet's Variation Proposal to their Gas access arrangement review 2024-28.

AusNet's Variation Proposal, and their request for increased levels of accelerated depreciation, makes clear that gas distribution networks are facing a material risk of stranded assets as a result of declining customer numbers on their networks. In acknowledging the inevitable decline of their network, AusNet should be taking every effort to reduce spending across its entire proposal and lower the overall risk of stranded assets. Any new capital expenditure (capex) will likely become stranded prior to the end of its economic life and therefore must be heavily scrutinised.

The Australian Energy Regulator (AER) must set a clear example to gas distribution networks that, in order for accelerated depreciation to be approved, they must demonstrate a thorough approach to minimising all costs.

We do not believe AusNet's proposal goes far enough in interrogating all possible ways to minimise costs to justify the use of accelerated depreciation. Our submission makes a number of recommendations we believe will help prepare for the decline of gas networks:

- The AER should disallow AusNet's request for increased levels of accelerated depreciation.
- The Variation Proposal should consider the impact of changes in the policy landscape on all cost elements.
- Connecting customers should pay the cost of augmentation associated with connecting.
- Meter replacement costs should be minimised.
- Long-term planning solutions for the future of the gas network should be investigated to avoid mains replacement costs.

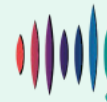
We explain the reasons for our recommendations in greater detail below.

Kind regards,



Alice Gordon

Manager, Consumer Advocacy



The Victorian Government has restricted new buildings from connecting to the gas network and has incentives and policies which aim to support households and small businesses to electrify. The Victorian Government is clearly indicating that efficient electrification is the preferred option for households and small businesses and that gas will have a limited role for these consumers in the approaching decades. The Hon. Lily D'Ambrosio has said: "rapid electrification is the central force propelling Victoria's decarbonisation journey"¹. AusNet is therefore correct in stating that the gas "network must inevitably cease growing and start declining in size"².

Residential and small business gas customers pay more than 93% of gas distribution network costs³. There is an acknowledged risk that, as consumers leave the gas network, those that remain will be left paying an unaffordably high proportion of the costs of operating and maintaining the gas network⁴. We need to take steps now that will minimise this risk.

We are concerned with AusNet's request for an increase in the level of accelerated depreciation approved by the Australian Energy Regulator (AER) in their Final Determination. Accelerated depreciation should be viewed not as a transfer of risk from future customers to today's customers, but as a transfer of risk from AusNet to customers. **Accelerated depreciation should therefore only be considered if it is part of a broader suite of network actions which limit the risk of stranded assets on consumers.**

The AER should disallow AusNet's request for increased levels of accelerated depreciation

We have fundamental concerns with the use of accelerated depreciation. Depreciation is a normal business expense that accrues to and is managed by nearly all businesses. In the context of regulated networks, depreciation plays a larger role, because it defines the timeline over which network businesses recover their costs. Accelerating depreciation for a network business speeds up their cost recovery. Accordingly, it is a payment from today's consumers to network businesses and has been promoted as a way to reduce risks on the network and its long-term consumers.

The AER has argued that accelerated depreciation "can help maintain intergenerational equity"⁵ and has framed accelerated depreciation as a payment from today's consumers to tomorrow's. This framing is wrong. Under a scenario in which most of the network's consumers exit, accelerated depreciation is a payment from today's consumers to network businesses, requiring consumers to pay to mitigate the business's risks of potential financial losses.

To minimise the risk stranded assets pose to consumers, accelerated depreciation should only be considered if there is a broader policy framework in place to protect consumers, and gas networks have robust and long-term asset management plans. We do not believe AusNet's proposed variations adequately consider how their access arrangement proposal could be amended to appropriately plan for a decline in customer numbers.

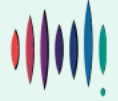
¹ Victoria State Government, Gas Substitution Roadmap Update, December 2023, p. 3, available: <file:///C:/Users/AliceGordon/Downloads/Victorias-Gas-Substitution-Roadmap-Update.pdf>

² AusNet, Gas access arrangement review 2024-28 Variation Proposal, 30 September 2024, p. 2, available: <https://www.aer.gov.au/system/files/2024-10/ASG%20-%20AusNet%20Gas%20Access%20Information%2024-28%20-%2030%20Sep%2024%20-%20PUBLIC.pdf>

³ Australian Energy Regulator, Gas network performance report, 2022, available: https://www.aer.gov.au/system/files/AER%20-%202022%20Gas%20Network%20Performance%20Report%20-%20December%202022_2.pdf

⁴ Energy Consumers Australia, Stepping Up: A smoother pathway to decarbonising homes, August 2023, available: <https://energyconsumersaustralia.com.au/wp-content/uploads/Stepping-Up-Report-Final.pdf>

⁵ Australian Energy Regulator, Regulating gas pipelines under uncertainty (November 2021), p. 31.



The variation proposal should consider the impact of policy changes on all cost elements

There is a clear asymmetry in how Variation Proposals currently function. AusNet's proposal suggests it is gas distribution companies who set the agenda in this process, highlighting only certain sections they deem warrant consideration.

We commissioned Dynamic Analysis to develop a long-term model that provided insight into the direction of network prices for customers in the Jemena Gas Network in New South Wales⁶. It also assessed the effectiveness of different methods of minimising the risk to consumers of stranded assets. Dynamic Analysis found that reducing discretionary capital expenditure more significantly reduced this risk than by accelerating the depreciation of assets as proposed.

Despite its focus on the Jemena Gas Network, these findings remain relevant when considering how to minimise risk for consumers in other gas networks. To justify accelerated depreciation, distribution businesses must demonstrate they have considered the impact of declining customer numbers on *all* the costs that were initially approved by the AER and are actively working to minimise risks to consumers from their stranded assets through reducing these costs.

Any increase in accelerated depreciation must not be accepted unless there is evidence distribution businesses have minimised their costs across all sections of their proposal, not just those they have selected as part of their variation proposal.

AusNet has not sufficiently done so. They have highlighted changes in connections capex and some decreases in augmentation capex, but not examined additional costs.

Brotherhood of St. Laurence raised several suggested changes to AusNet's revised proposal in early 2023 in light of the acknowledged stranding risk. These included, but were not limited to, re-evaluating asset replacement costs, evaluating the stranding risk of new capex before it is accepted, and requests for more, longer-term planning such as investigating voluntary community disconnection⁷. These were largely dismissed by the AER as: "there is no policy in place aimed at the decommissioning of the gas network in the short to medium term⁸." This explanation no longer applies, and suggestions raised during consultation on the original proposal also warrant reconsideration.

Meter replacement costs should be minimised

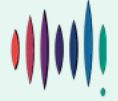
AusNet has proposed to spend \$25.6 million on residential meter replacement. This number is unchanged from the AER's Final Decision.

AusNet's own research finds that roughly 1 in 3 homes or business owners think it is unlikely they will be using gas in the next ten years. Of those, there has been a 7% increase in the number enquiring about

⁶ Dynamic Analysis, Turning down the gas: Reducing consumer risk, September 2024, available: <https://energyconsumersaustralia.com.au/publications/report-turning-down-gas-reducing-consumer-risk>

⁷ Brotherhood of St Laurence, Submission to 2023-28 Victorian Gas Distributors' Access Arrangement, February 2023, available: <https://www.aer.gov.au/system/files/Brotherhood%20of%20St%20Laurence%20-%202023-28%20Victorian%20gas%20distribution%20access%20arrangements%20-%20Draft%20decision%20and%20revised%20proposals%20-%20February%202023.pdf>

⁸ Australian Energy Regulator, Final decision AusNet Gas Services Gas distribution access arrangement 1 July 2023 to 30 June 2028 Attachment 5 – Capital Expenditure, June 2023, p. 9, available: <https://www.aer.gov.au/system/files/AER%20-%20AusNet%202023-28%20-%20Final%20decision%20-%20Attachment%205%20Capital%20expenditure%20-%20June%202023.pdf>



disconnection in the 12 months to Autumn 2024⁹. Given AusNet's findings, and the changing policy landscape in Victoria that has resulted in their Variation Proposal, there is a real possibility that a consumer may choose to disconnect soon after receiving a new meter. With so many consumers expected to electrify or leave the gas network entirely in the near future, the costs of installing meters that could last well in excess of 20 years¹⁰ should be heavily scrutinised.

Connecting customers should pay the costs of augmentation associated with connecting

The Victorian government has mandated that new dwellings, apartment buildings and residential subdivisions requiring a planning permit be all-electric from 1 January 2024. This is accompanied by changes to the Gas Distribution Code of Practice which require those not captured by the ban to pay the upfront cost of connecting to the gas network, including any augmentation costs required to support their additional load¹¹.

AusNet have proposed three options for recovering the augmentation costs associated with new connections. We agree with AusNet's Option 2, that new connecting customers should pay for augmentation costs required for the distribution system to support their cumulative additional load as this is most closely aligned with their obligations under the Gas Distribution Code of Practice. It also goes further to ensure additional costs are not added to AusNet's risk of stranded assets.

Option 1 (which does not make changes to how augmentation costs are recovered) does not go far enough to meet the obligations in the Gas Distribution Code of Practice, or to avoid unnecessary costs added to AusNet's assets. However, requiring new customers pay costs that are not associated with their connection (as suggested in Option 3) is in excess of what is required and would treat consumers differently without sufficient justification.

These additional augmentation costs, however, should be kept to a minimum (as discussed below).

Investigating long-term planning solutions for the future of the gas network to avoid future mains replacement costs and augmentation works

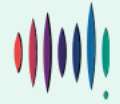
AusNet has noted there are some augmentation costs that are not related to connecting new customers and has suggested these continue to be shared among the existing customer base. These costs should be kept to an absolute minimum and alternatives which seek to avoid these costs altogether should be actively pursued.

The Variation Proposal includes delaying some planned augmentation works in some regions due to the expected reduction in demand and customer numbers. AusNet is already working with the State Electricity Commission on a trial program in Ballan which uses appliance switching as an alternative to augmentation. This trial is a positive example of how augmentation costs can be avoided while planning for the long-term future of the gas network. We expect lessons from the trial will be used to inform further programs, particularly where AusNet has said there are already expected reductions in demand and delays to augmentation.

⁹ AusNet, Gas access arrangement review 2024-28 Variation Proposal, 30 September 2024, p. 18, available: <https://www.aer.gov.au/system/files/2024-10/ASG%20-%20AusNet%20Gas%20Access%20Information%202024-28%20-%2030%20Sep%2024%20-%20PUBLIC.pdf>

¹⁰ Jemena Gas Networks, Draft 2025 Plan, p. 55, available: https://hdp-au-prod-app-jemena-yoursay-files.s3.ap-southeast-2.amazonaws.com/5017/0743/8738/JGN_Draft_2025_Plan_-_Medium.pdf

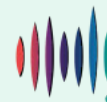
¹¹ Essential Services Commission, Gas Distribution Code of Practice, p. 25, available: <https://www.esc.vic.gov.au/sites/default/files/documents/Gas%20Distribution%20Code%20of%20Practice%20-%20FINAL%20%28PDF%29.pdf>



Despite recognising the need to re-evaluate augmentation costs, AusNet's Variation Proposal considers there are no changes needed to the mains replacement program as they are a key safety and reliability program. Nevertheless, maintaining safety and reliability does not preclude AusNet from also considering how these costs can be minimised in the context of declining customer numbers. Network safety is critical, but it must not be able to be used as an otherwise uninterrogable excuse for avoiding investigating ways to minimise costs. Ausnet's proposal requires greater explanation of their safety and reliability issues in order to justify no variation in their mains replacement program. As Brotherhood of St Laurence have said in their submission on AusNet's revised proposal: "there are areas in the [AusNet] network that are scheduled for mains replacement, that also have committed, ambitious local emissions reductions targets¹²." These areas may be suitable sites to consider pilot programs to support decommissioning rather than sinking further costs into expensive replacement programs.

AusNet has acknowledged, and there is ample evidence to support, the fact that Victoria is "accelerating towards rapid electrification" and consumers will increasingly leave the gas network. In arguing for the use of accelerated depreciation, AusNet has said in its Proposal that early actions are the "best way to protect consumers". However, accelerated depreciation cannot be the only "early action" on the cards, and is arguably more likely to protect shareholders than consumers. The AER, distribution businesses and the wider industry must actively plan for the winding down of gas networks and take steps now to ensure consumers are not left paying unaffordable prices in the future. Please reach out to Alice Gordon, Manager Consumer Advocacy, at [REDACTED] with any further questions.

¹² Brotherhood of St Laurence, Submission to 2023-28 Victorian Gas Distributors' Access Arrangement, February 2023, p. 9, available: <https://www.aer.gov.au/system/files/Brotherhood%20of%20St%20Laurence%20-%20%202023-28%20Victorian%20gas%20distribution%20access%20arrangements%20-%20Draft%20decision%20and%20revised%20proposals%20-%20February%202023.pdf>



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