

## **AUSNET GAS ACCESS ARRANGEMENT REVIEW 2023-28**

### **29 NOVEMBER 2024**

The Energy Users' Association of Australia (EUAA) is the peak body representing Australian commercial and industrial energy users. Our membership covers a broad cross section of the Australian economy including significant retail, manufacturing, building materials and food processing industries. Combined our members employ over 1 million Australians, pay billions in energy bills every year and in many cases are exposed to the fluctuations and challenges of international trade.

We appreciate the opportunity to provide this submission on AusNet Services Variation Proposal to its 2023-28 Access Arrangement (AA) for its Victorian gas distribution network.

The EUAA was deeply involved in all stages of the original AusNet Services access arrangement for 2023-28 – we were a member of the Expert Co-design Panel working with the three Victorian networks to develop a range of scenarios for a 'Future of Gas' models, we were a member of the Victorian Gas Network Stakeholder Roundtable (VGNSR), we engaged on the issues with our members and made submissions on the network proposals at the Draft Plan, Proposal and Revised Proposal stages.

In these submissions we expressed our acceptance of the principle of the 'regulatory contract'. We defined that as the implicit contract between the network, its consumers and the regulator that means once the regulator has made their decision on the network's spending proposal, consumers commit to pay an efficient price cap that provides the network with recovery of its capital plus a rate of return on that capital commensurate with the risk allocation between the network and its consumers. This rate of return is set based on the assumption that consumers accept demand risk i.e. networks have no stranded asset risk. The network expects to get return of and on its capital over the regulated depreciation term.

We believe that where there is the risk of stranded assets then the approval of a level of accelerated depreciation (AD) is an appropriate policy response for the AER. It is an appropriate method of achieving some level of intergenerational equity for all gas network consumers – what AusNet refers to as 'prudence of early action' (p.27).

We were pleased to see the AER's Final Decision in June 2023 for AusNet approving some accelerated depreciation in 2023-28, though at a level below AusNet's request and below that approved for the other Victorian gas networks. These decisions were based on the Victorian Government policy at the time of the decision. We were pleased to see the AER deciding that more recent Government policy changes (see p. 7 of the proposal) have resulted in the AER agreeing that the variation proposal is material.

This has led to AusNet Services undertaking further engagement with stakeholders on the parameters of what a variation in the AA might include to reflect these material changes. The EUAA has been actively involved in all aspects of this engagement process as a member of the AusNet Gas Roundtable and we attended all Roundtable meetings as well as arranging for AusNet to present to the EUAA Gas Committee.

AusNet has conducted a high quality and sincere engagement process that exhibits both breadth and depth and clearly evidenced impact as expected under the Better Resets Handbook. We have had comprehensive presentations and discussions on:

- The Government's policy changes
- What they could mean for new customer connections and existing customer demand – how customers whether small or large will respond
- What that fall in connections and demand mean for previously approved opex and capex
- The appropriate level of AD
- What all that means to tariffs

The changes in Government policy present significant challenges to gas network owners. They have an obligation to provide gas services safely, prudently and efficiently. This must be achieved while balancing the affordability concerns of both customers today who have the option to reduce demand and/or disconnect and customers who will be connected in the long term because they are in hard to abate sectors or do not have the financial means to electrify. We have members in all categories.

Those that can electrify may support lower AD as they have the option to leave the gas network during 2023-28 and they wish to limit their gas network price rise while they are still on the network. Those that are hard to abate may support higher AD because they want those consumers (small and large) who are likely to leave the network in 2023-28 to make some contribution to the historical costs of their supply before they depart the network.

So, the choice of the level of AD is a judgement call – there are 'winners' and 'losers'. On balance we see AusNet's Variation Proposal as an equitable approach and so we support:

- Accelerated depreciation of \$175m is an appropriate balance to recognise intergenerational equity issues
- Lower customer numbers and demand – we leave the AER to assess to proposed reduction in each
- Reduced capex given the lower connections forecast and lower augmentation capex – we leave the AER to assess whether the revised capex is prudent and efficient
- Increased opex – mostly due to higher ESV levies and impact of higher volume of subsidised abolishment
- Resulting tariffs that balance short term price impacts with long term customer protections and maintain competitive pricing.

Do not hesitate to be in contact should you have any questions.



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