VCOSS is the peak body for Victoria's social and community sector, and the state's premier social advocacy body. Please visit vcoss.org.au

We welcome the opportunity to provide this input.

VCOSS Submission to AusNet Services Access Arrangement 2023-28 Variation proposal

Executive summary

The Victorian Council of Social Service (VCOSS) welcomes AusNet Service's access variation proposal, as it demonstrates that energy businesses are starting to think about the removal of fossil gas from Victorian homes.

We recognise that AusNet's proposal has been developed in the context of current regulatory settings in anticipation of the potential draw down of their network.

However, VCOSS urges careful consideration of this proposal by the Australian Energy Regulator (AER).

We argue that:

- AusNet's forecast of the pace of decline in Victorian gas usage is potentially overstated, having been partly based on policies not yet enacted.
- AusNet has a clear financial incentive in this process to overstate that decline in usage.
- Gas networks have historically profited from supernormal profits on a systemic level, which should have a bearing on their ability to recover further costs from consumers.
- This decision will not occur in a vacuum, and the AER must have a view on how this process will influence the decisions of all gas networks in the context of household electrification.
- Ultimately, continued reopening of arrangements in response to every government policy will lead to undue financial risk being transferred to customers.

Summary of recommendations

1. Interrogate the assumptions in AusNet's variation proposal – including the inclusion of Victorian Government policies that have not yet been enacted.
2. Consider historic supernormal profits by gas networks above the recovery of efficient operating costs, and factor this into regulatory decision making on future cost recovery.
3. Protect consumers from unreasonable financial burdens in the context of the transition away from fossil gas.

The AER should carefully consider the accuracy of AusNet's forecasts, and the financial inventive for them to overstate gas usage decline

The electrification of homes in Victoria is becoming increasingly clear as the future direction of residential energy usage. The need to decarbonise our energy supply, the poor economic case for hydrogen or biomethane alternatives, rises in gas prices, and shifting consumer sentiment are driving that change.

In Victoria, a ban on gas connections in new builds requiring planning permission, and the Essential Services Commission's decision to allocate the full upfront costs of new connections to consumers, have further solidified electrification as the objective at least for new homes.

However, the AusNet forecast relies on the *pace* of household electrification in Victoria increasing dramatically. In this, AusNet predictions appear to stem from Victorian Government policy proposals announced in the Gas Substitution Roadmap Update that are not yet locked in, including new minimum energy efficiency standards for rentals, and electrification policies that would require replacing gas appliances with electric alternatives at the end of life.[1]

Final decisions on these policies have not been made, so it is not reasonable for AusNet to rely – in this instance – on the exact timeframes laid out in the Gas Substitution Roadmap Update. Policies for appliance switching have not entered public consultation yet, and a Regulatory Impact Statement has not been published.

It is in the commercial interests of AusNet and other gas networks to overstate the speed of the drawdown of gas networks when they are seeking accelerated depreciation. VCOSS urges

[1] AusNet explicitly refers to these policies in the variation proposal, including stating their anticipation that 2% of gas heating and hot water systems will be removed each year. See: AusNet (2024) *Gas access arrangement review 2023-28: Variation proposal*, p2; 9.

caution and close scrutiny of the AusNet proposal, to ensure that accelerated depreciation is warranted on the scale proposed, given the impact on bills.

Furthermore, the AER must keep in mind that this decision will not occur in a vacuum, and that any pricing arrangement for the future draw down of the AusNet network will inevitably influence other network proposals.

Gas networks have historically benefitted from supernormal profits

When examining this variation proposal, VCOSS urges the AER to consider persistent and significant profits made by gas networks above regulated profit allowances over the past decade.

A recent investigation by the Institute for Energy Economics and Financial Analysis found that between 2014 and 2022, gas networks recovered $1.8 billion in supernormal profits above their regulated profit allowance, primarily from over-recovery of revenue due to actual network demand being consistently higher than forecast levels.[2] Although AusNet received less revenue over-recovery than other distribution networks, these findings do suggest systemic profiting by gas networks above recovery of efficient operating costs.

VCOSS warns against allowing gas network operators who have already profited greatly from earnings above what is expected – not to mention benefitted from past government policy encouraging the proliferation of gas connections – to once again profiteer from Victorian consumers who are simply trying to utilise an essential service.

Protect customers from unreasonable financial risk

Although the short-to-medium policy landscape is in flux, future developments will eventually accelerate the downward trend in gas usage. This is an essential part of the decarbonising of the Australian residential sector. However, continually reopening access arrangements every time there is a new policy announcement, and continually shifting financial risk from businesses to consumers, is no way to manage the draw down of the gas network.

It is VCOSS' position that mechanisms for compensating gas networks funded through energy bills for residential customers will see low-income households disproportionately subsidising large businesses that have already profited, and who have contributed to the very climate crisis that has prompted government action.

[2] Institute for Energy Economics and Financial Analysis (2024) *Gas networks are making persistent and significant supernormal profits*.

AusNet's gas distribution network encompasses Northern and Western Melbourne and Western Victoria. Some of these areas experience pronounced economic disadvantage, and in some communities as many as 20 per cent of people are living in poverty.[3]

Low-income households already pay a larger portion of their income on energy bills. Ultimately, this kind of regressive cost recovery mechanism is unfair. Consumers need policy and regulatory solutions that protect their interests and shield them from unreasonable expenses in the context of the transition away from fossil gas.

Submission authorised by: Juanita Pope, Chief Executive Officer, VCOSS

Supervising director: Deborah Fewster, Director Policy and Advocacy, VCOSS

Submission written by: Rory Anderson, Policy Advisor, VCOSS

Contact for further information: [redacted]

[3] Victorian Council of Social Service (2023) *Mapping poverty in Victoria*, accessed 28/11/24.