



Brotherhood
of St Laurence

Working for an Australia free of poverty

Submission to Australian Energy Regulator Gas Tariff Review

May 2023

Summary

The Brotherhood of St. Laurence (BSL) welcomes the Australian Energy Regulator (AER)'s review of gas distribution tariffs in recognition of the circumstances now facing Australian gas users, particularly the expectation that demand for fossil gas will continue to fall.

It's important to ensure that gas regulation is able to manage a transition away from fossil gas that safeguards affordable energy services for consumers, especially those vulnerable to energy stress.

BSL makes the following recommendations for the tariff review:

- *Recommendation 1: The current price cap variation mechanism should be retained*
- *Recommendation 2: Risk allocation should be considered across the entire access arrangement*
- *Recommendation 3: Declining block tariffs should be replaced with single-rate tariffs, where the negative outcomes for impacted consumers who are experiencing or vulnerable to energy stress are satisfactorily addressed. This should be assessed for each jurisdiction.*
- *Recommendation 4: Complementary measures must be in place to satisfactorily address energy stress for those consumers who are experiencing or vulnerable to energy stress who will be negatively impacted by the tariff change. Analysis should be undertaken to assess tariff impact.*

Introduction

Circumstances facing Australian gas users are changing rapidly. Gas is no longer a cheaper or cleaner alternative for household heating, cooking or hot water than electric alternatives, and it's expected that most households will disconnect from the gas network over coming decades.¹

BSL works closely with people facing disadvantage. We have made this submission in the interests of ensuring that energy affordability and equity are maintained through the transition away from fossil fuels.

It's important that the regulation governing our energy system is able to manage the anticipated migration from the shared gas network in a way that minimises its cost and impact, and alleviates energy stress for vulnerable consumers.

The AER's review of distribution tariff variation mechanisms and declining block tariffs is an important element of the regulatory changes that will be needed to best manage this transition.

Given the declining block tariff structure is intended to incentivise higher load, moving away from this may allow further high-risk investment in gas network infrastructure to be avoided, which is an important goal in minimising the cost of the transition.

However, the impact of tariff changes must be considered for vulnerable consumers in each jurisdiction. Low gas users would benefit from abolishing declining block tariffs, and high users would be worse off. High gas users who are experiencing or vulnerable to energy stress must be supported through the transition, through a range of policy measures and targeted direct support. These measures will be an essential component of managing the transition, regardless of the tariff structure applied. The impact of a proposed change to tariff structures on those vulnerable to energy stress must be evaluated before implementation in a given jurisdiction, and the adequacy of complementary measures will be an important part of this evaluation.

1 Tariff variation mechanisms

Moving away from a price cap will increase risk for consumers

As the Issues Paper identifies, moving from a price cap to a revenue cap will transfer the price risk associated with lower-than-expected demand from network businesses to consumers. In the current circumstances of an anticipated migration off the network, the development of lower-than-expected demand is a material risk.

¹ Australian Energy Market Operator, March 2023 *Victorian Gas Planning Report* Viewed 23/05/2022, p28 <https://aemo.com.au/-/media/files/gas/national_planning_and_forecasting/vgpr/2023/2023-victorian-gas-planning-report.pdf?la=en>

Because a disconnections spiral has the potential to propel itself beyond a certain tipping point (which will be hard to predict with accuracy) - managing the risk of lower-than expected demand will be an important element in managing a transition away from gas.

In our opinion, the transfer of risk will be the primary impact of a change to the tariff variation mechanism. For this reason, we oppose this proposal.

The current price cap incentivises networks to avoid overestimating demand. This currently works as an effective check against over-forecasting and unnecessary capex, given that networks might otherwise benefit from high demand estimates where these lead to increased capex. The function of the price cap in mediating forecasts is particularly important in the context of the gas transition – where network businesses might overestimate their future role to the detriment of energy users.

Network initiatives to increase demand should be addressed directly

The Issues Paper proposes that the current price cap variation structure is an incentive for networks to attempt to increase consumption, in a similar way to declining block tariffs.

It's important that networks don't take measures to increase demand. Given the likelihood of declining demand and transition off the shared gas network – it's important that this decline progresses at a rate that avoids projected demand/supply imbalances and avoids associated network investment.

As the Issues Paper acknowledges, network businesses might design tariffs to incentivise higher demand. They may provide incentives to developers to extend gas infrastructure to new estates, or directly to homes, via rebates for new connections or appliances. However, the avenues available to networks to attempt to influence demand are limited, and are generally restricted to these examples.

BSL recommends that the AER must address these specific activities directly through the access arrangement process, and make it clear that these practices are not acceptable.

This type of specific guidance from the AER, on expenditure and operational practice, is particularly appropriate where networks are pursuing concessions from consumers, such as accelerated depreciation to limit their exposure to stranding risks. Granting accelerated depreciation should be contingent on a negotiated process between consumers and network businesses to limit stranding total risks and cost – and the examples listed here of practices intended to increase consumption are examples of the types of details that should be agreed upon.

Risk allocation must be considered across the whole proposal

We don't support the proposal to move away from a price cap, because it will transfer the risk associated with lower-than-expected demand from network businesses to consumers, as argued above.

We also note that for each access arrangement, it's important that the allocation of risk between consumers and businesses is considered across the whole proposal, taking account of:

- Expenditure on new connections and/or augmentation; whether this has been minimised, and whether costs are borne by existing consumers
- The inclusion of speculative spending, for example, to pursue 'future gas'
- Capex and opex programs, and whether these have been redesigned to be suitable for the context of falling demand
- Preparedness to identify and respond to unviable levels of demand as it emerges on parts of the network
- Planning in progress to manage the wind-down of the network
- Requests for accelerated depreciation (which also transfers risks associated with low demand from businesses to consumers)

It's important that the risks associated with falling demand – for example, the potential for capex to increase the asset base that may become stranded – are satisfactorily addressed before they are alleviated for network businesses, given that the businesses are best placed to respond.

Recommendation 1: The current price cap variation mechanism should be retained

Recommendation 2: Risk allocation should be considered across the entire access arrangement

2 Declining block tariffs

Declining block tariffs do not suit the current circumstances, and should be changed where consumer impact is managed

Declining block tariffs are intended to encourage gas use and increase network utilisation. This objective does not serve consumer interests in the current context.

Any shift away from declining block tariffs should be assessed for a given jurisdiction, with consideration made of the tariff's impact for consumers who are experiencing or vulnerable to energy stress before making a change. Generally, however, we recommend that tariffs intended to encourage gas use are not best suited for current circumstances, and will not be the best tariff format within a framework established to manage the transition.

Encouraging higher gas use now:

- exacerbates the risk of gas shortfalls forecast for eastern states in the near to medium term
- contributes to the need for further gas infrastructure investment, at a time that stranding risks increase the consumer costs for augmentation
- is incompatible with the imperative to reduce emissions, and legislated state and federal reduction targets

The Australian Energy Market Operator (AEMO)'s 2023 Gas Statement of Opportunities (GSOO) forecast a risk of peak day shortfalls for east coast consumers in the near term and annual shortfalls from 2027, without further gas infrastructure investment. The GSOO notes the importance of policies to reduce consumption in limiting our exposure to these shortfalls.² Tariff structures have a role to play in limiting shortfall risk, and conserving gas for priority applications.

Avoiding gas infrastructure investment, where possible, is also of increased importance in the current context. The 2023-2028 Victorian gas access arrangement decisions acknowledge that gas network infrastructure faces a material stranding risk, given increased competition from electrification. At the same time, the decisions also transferred this stranding risk to consumers, by 'accelerating' the rate at which consumers pay networks back for their investments.

Despite the stranding risk, and expected fall in demand, the 2023-2028 Victorian gas resets included large amounts of augmentation – especially on the transmission network, to boost access to new sources of gas.³ Given the stranding risk, it's essential that demand side measures are developed to avoid further network augmentation. Ensuring that tariffs don't incentivise higher use is an important first step.

We acknowledge that declining block tariffs have in the past been considered 'cost reflective,' in the narrow sense that higher utilisation of existing assets can reduce gas unit prices. However, avoiding further network investment in the context of an acknowledged stranding risk is a more important consideration in the interests of minimising the cost of the transition, and limiting consumer impacts.

Tariff structures impact vulnerable consumers differently

Energy stress is experienced in various ways, including using an adequate amount of energy but having difficulty paying bills, as well as rationing usage (e.g. by restricting or not using heating). As such, it is understood that households experiencing or vulnerable to energy stress include both lower- and higher-than-average energy users.⁴ Moving away from declining block tariffs is likely to benefit some vulnerable consumers, and increase costs for others.

It's important that data is collected on the impact of tariff changes on consumers, to inform the development of complementary measures to mitigate their effects.

2 AEMO, March 2023, *Gas Statement of Opportunities*, Viewed 23/05/2023 https://aemo.com.au/-/media/files/gas/national_planning_and_forecasting/gsoo/2023/2023-gas-statement-of-opportunities.pdf?la=en

3 BSL and Renew, Feb 2022, *Joint submission to the Australian Energy Regulator (AER) from Victorian community organisations 2023–2027 APA Victorian Gas Transmission System Access Arrangement*, Viewed 23/05/2023 <<https://www.aer.gov.au/system/files/Victorian%20Community%20Organisations%20-%20Submission%20VTS%20Access%20Arrangement%202023-27%20-%2018%20February%202022.pdf>>

4 Bryant et al, 2022, *Power Pain* viewed 23/05/2023

<https://library.bsl.org.au/bsljspui/bitstream/1/13115/1/Bryant_etal_Power_pain_energy_stress_in_Australia_2022.pdf>

The impact for consumers who are experiencing or vulnerable to energy stress must be analysed and addressed, and this must be considered in a decision to move away from declining block tariffs

High gas users will see higher network prices from a move away from declining block tariffs. This will include certain types of vulnerable consumers – especially those with a high heating demand due to special requirements (such as medical conditions), or inefficient appliances or inefficient home thermal performance. Renters, given their lack of capacity to respond to high costs, are of particular concern.

This group – high gas users who are experiencing or vulnerable to energy stress – are already impacted by gas price rises. They are also particularly exposed to increasing network prices that are likely to be driven by the ongoing migration away from gas.

Preserving affordability for this group must be a priority in managing the gas transition.

Given the high risk associated with potential for demand-driven price rises facing this group, there is a clear need to preserve affordability through direct measures. This should include targeted support for low-income households (such as bill relief and support to electrify), and policy, such as rental standards, to ensure that renters are included in the transition away from gas.

Policy settings, and sufficient support for high gas users who are experiencing or vulnerable to energy stress, should be considered as factors in determining where it is suitable to move away from declining block tariffs in a given jurisdiction. The AER has a role to play in coordinating with other stakeholders, including state governments, to ensure there are coherent measures in place to manage the transition.

Recommendation 3: Declining block tariffs should be replaced with single-rate tariffs, where the negative outcomes for impacted consumers who are experiencing or vulnerable to energy stress are satisfactorily addressed. This should be assessed for each jurisdiction.

Recommendation 4: Complementary measures must be in place to satisfactorily address energy stress for those consumers who are experiencing or vulnerable to energy stress who will be negatively impacted by the tariff change. Analysis should be undertaken to assess tariff impact.

For further information or to discuss this submission, please contact:

Emma Chessell	Damian Sullivan
Project Manager	Principal, Climate Change and Energy
Email: [REDACTED]	Email: [REDACTED]

Brotherhood of St. Laurence

67 Brunswick Street
Fitzroy Vic. 3065

ABN 24 603 467 024
ARBN 100 042 822

Ph. (03) 9483 1183
www.bsl.org.au

References

AEMO, March 2023, *Gas Statement of Opportunities*, Viewed 23/05/2023 https://aemo.com.au/-/media/files/gas/national_planning_and_forecasting/gsoo/2023/2023-gas-statement-of-opportunities.pdf?la=en

AEMO, March 2023 *Victorian Gas Planning Report* Viewed 23/05/2022, <https://aemo.com.au/-/media/files/gas/national_planning_and_forecasting/vgpr/2023/2023-victorian-gas-planning-report.pdf?la=en>

AER, May 2023, *Review of gas distribution network reference tariff variation mechanism and declining block tariffs*, Viewed 23/05/2023
<<https://www.aer.gov.au/system/files/Review%20of%20gas%20distribution%20network%20reference%20tariff%20variation%20mechanism%20and%20declining%20block%20tariffs.pdf>>

Bryant et al, 2022, *Power Pain* Viewed 23/05/2023
<https://library.bsl.org.au/bsljspui/bitstream/1/13115/1/Bryant_et_al_Power_pain_energy_stress_in_Australia_2022.pdf>

Department of Energy Water Land and Planning, October 2022. *Victoria's Gas Substitution Roadmap*, Viewed 23/05/2022, <<https://www.energy.vic.gov.au/renewable-energy/victorias-gas-substitution-roadmap>>

Brotherhood of St. Laurence, 2023, *2023-2028 Victorian Gas Distributors' Access Arrangement draft decision and revised proposals - submission from Brotherhood of St. Laurence*, viewed 18 April 2023, https://library.bsl.org.au/bsljspui/bitstream/1/13318/1/BSL_subm_AER_re_2023-28_Vic_Gas_Distributors_Draft_Decision_and_revised_proposals_Feb2023.pdf

BSL and Renew, Feb 2022, *Joint submission to the Australian Energy Regulator (AER) from Victorian community organisations 2023–2027 APA Victorian Gas Transmission System Access Arrangement*, Viewed 23/05/2023 <<https://www.aer.gov.au/system/files/Victorian%20Community%20Organisations%20Submission%20VTS%20Access%20Arrangement%202023-27%20-%2018%20February%202022.pdf>>