# SUBMISSION

**VICTORIAN GAS ACCESS ARRANGEMENT PROPOSAL 2023-2018**
**23 FEBRUARY 2023**

Energy Users Association of Australia

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## 1. Introduction and Summary

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.

This submission provides a combined response to the Revised Proposals presented to the AER by AGN, Multinet (MGN), and AusNet Services (AusNet) gas distribution networks in Victoria for the period 2023-2028. Both AGIG and AusNet Services are EUAA Corporate Partners so we have a well-established relationship built over many years of open and respectful dialogue covering a broad range of issues. This has helped all three organisations work through many of the complex issues that influence this proposal.

Regarding the 2023-2028 re-set, the EUAA has been deeply involved in the process to develop these revenue proposals beginning with our membership of the Expert Co-design Panel working with the three networks to develop a range of scenarios for a 'Future of Gas' models and then involvement in a range of engagement activities as part of the Victorian Gas Network Stakeholder Roundtable (VGNSR) and discussions with our members. Overall this engagement has been very high quality in a period of significant uncertainty on 'the future of gas'.

In summary, the three revised proposals substantially accept the AER's Draft Decision. The major area of continuing debate for EUAA members is the AER's approach to accelerated depreciation (AD) to address the risks around future pipeline asset stranding. While accepting the role of AD to address this risk, the AER sought to balance the cost impact to consumers today with that on consumers in the future.

Their general approach is illustrated in their AusNet Draft Decision[1]:

> *"In the context of the anticipated reductions in demand driven by the Roadmap, and subsequent reduced forecasts for investment in new connections and network growth, we consider there is sufficient evidence, backed up by a convincing business narrative, to support some acceleration of that depreciation but not by the full amount proposed by AusNet.*
> *For the purposes of this draft decision, we have reduced AusNet's accelerated depreciation to target a 0% per annum real price change. We consider that consumers need to be further consulted on AusNet's proposed approach to, and the level of, accelerated depreciation included in its proposal and the impact it will have in this and future access arrangement periods. We acknowledge that the final decision outcome on accelerated depreciation may therefore differ from this draft decision."*

All three networks undertook extensive further engagement with residential and small business customers on this issue. The general conclusion from that engagement is that those consumers are willing to pay a higher price (i.e. have real increases in tariffs in 2023-28 to reduce price rises in subsequent periods).

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[1] See Draft Decision p. vii https://www.aer.gov.au/system/files/AER%20-%20AusNet%202023-28%20-%20Draft%20Decision%20-%20Overview%20-%20December%202022.pdf

So AusNet and Multinet's revised proposals involve higher AD that the level in the AER's Draft Decision. All three networks point to the limitations of the AER's zero real price constraint.

There is a placeholder in the demand forecasts of all three networks awaiting the revised forecasts in the AEMO GSOO next month. This will lead to further stakeholder engagement and, potentially, changes to expenditure proposals.

**The EUAA's view on the level of accelerated depreciation**

In our earlier submissions on this AD, 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 once the regulator has made their decision on the networks' 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 are glad to see that the AER has accepted this principle in allowing some AD in 2023-28. The debate is and will continue to be around how much. The three networks presented their cases to the EUAA Gas Committee in February.

At that meeting our members stated they face a range of situations on the future of gas:

- Some have the option of replacing gas with electricity or hydrogen/renewable gases were they to become competitive
- Some are in 'hard to abate' sectors where there is no commercially available technology now (and unlikely in the near future) so they have a continued reliance on gas and the gas network

The former may support lower AD as they may well leave the gas network during 2023-28 and they wish to limit their gas price rise while they are still on the network. The latter 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 the equitable approach is one that supports the revised proposals from the three networks to have a level of AD that provides for a modest real increase in tariffs. Our members who have had to re-contract in the last 12 months and will do so in the 2023-28 period have and will face significant rises in the commodity component of their delivered gas price.

We do note that the increase in the network tariff component from the AusNet and Multinet networks' proposed increase in AD is likely to be relatively small influence on the delivered price.

We also support the comments made by Multinet and AGN on the limitations of the AER's 'zero real price' constraint as a goal seek. It means that as interest rate increases continue following the December 2022 Draft Decision, the level of allowed AD falls. As Multinet argues[2]:

> *"In the short term, if a zero price change constraint is applied and interest rates increase from the draft to final decision this would mean that the amount of accelerated depreciation allowed would be reduced. This would mean that the return of capital is dependent upon the return on capital. This is not logical when the former is based on non-systematic risk and the latter on systematic risk which are, by definition, unrelated.6 In this case the decisions around accelerated depreciation are driven by short-term interest rate movements that are unrelated to the risks being addressed by accelerated depreciation."*

We feel this is not consistent with the long term interests of consumers.

Thank you for the opportunity to make this brief submission.

Kind regards,

Andrew Richards
Chief Executive Officer

[2] See pp 7-8 https://www.aer.gov.au/system/files/MGN%20-%20Revised%20Final%20Plan%202023-28%20-%20Attachment%206.7%20-%20Response%20on%20Future%20of%20Gas%20-%20PUBLIC.pdf