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Sebastian Roberts
General Manager, Transmission and Gas
Australian Energy Regulator
Level 17, Casselden, 2 Lonsdale Street
Melbourne VIC 3000

Energy Networks Australia's submission to Jemena's revised Access Arrangement proposal

Dear Mr Roberts

Energy Networks Australia welcomes the opportunity to provide this submission regarding Jemena Gas Networks' (Jemena) revised Access Arrangement proposal for its gas distribution network for 2020 – 2025.

Energy Networks Australia is the national industry body representing Australia's electricity transmission and distribution and gas distribution networks. Our members provide more than 16 million electricity and gas connections to almost every home and business across Australia.

Asset lives

Energy Networks Australia supports the proposal of Jemena to seek to pro-actively recognise that the future economic lives of a range of new gas network assets will be affected by changes in the market environment.

Reducing the economic asset lives of these new investments where it is likely that circumstances have changed compared to the past assessments is consistent with:

- Jemena's direct customer engagement on their proposal;
- ensuring efficient investment incentives for the 2020-25 regulatory period;
- taking targeted, modest and prudent early action impacting treatment of new investments only to minimise the total cost to current and future customers;
- recognising the potential lower future customer valuation of access to natural gas compared to current customers, and principles of intergenerational equity; and
- the National Gas Law Revenue and Pricing Principles, and guidance in the National Gas Rules on depreciation approaches.

The AER's draft decision appears to effectively propose a 'wait and see' approach to this issue, which Jemena's own corporate risk assessment and ISO compliant risk management framework has assigned the highest rating of 'extreme'.

A critical problem with any approach to defer the treatment of this long-term issue is that it does not address adverse investment incentives that the current approach creates for Jemena in the 2020-25

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regulatory period. These adverse incentives have a range of potential impacts on the long-term interests of current and future customers that have been outlined by Jemena in its revised proposal and materials.

The AER has proposed to defer action on this issue on the basis that asset lives can be reassessed in future reviews, based on the view that assuming potentially reduced lives is 'speculative' and that future hydrogen developments may have a 'substantial positive impact' on the issue of asset lives.

The actual effect of retaining existing approaches, however, is to suggest that new steel trunk pipeline investments made in the next regulatory period will be recoverable until 2105 despite a range of decarbonisation policies which will be implemented over the next century. This position appears highly speculative, especially in circumstances where high pressure steels trunks may be affected by known embrittlement issues that can occur with exposure to hydrogen.

The appropriate decision threshold for AER action in this area should be prudential, based on the magnitude of the measures proposed and what current evidence suggests around the risk of asset stranding and the investment incentives flowing from that. Jemena has provided additional evidence around these issues in its Revised Proposal. There is no basis under the relevant National Gas Rules depreciation provisions for an alternative threshold to be applied of whether or not the AER considers alternative technologies or market developments *might possibly* avoid actual stranding occurring.

Should the AER maintain that the future development of hydrogen technologies represents a substantial factor mitigating risk to the future recoverability of network assets, efficient proposed expenditure to develop this potential should be positively considered by the AER, as it would maintain consistent investment incentives supporting efficient market growth in gas network services.

The Draft Decision, however, incongruously rejects proposed separate expenditure in this area, proposed under speculative investment provisions of the National Gas Rules specially designed for just such projects. This appears to result in the AER Draft Decision simultaneously viewing hydrogen as too speculative to form the basis of efficient forward investment, but sufficiently certain to obviate the need for any prudent adjustments to the asset lives of future investment.

Energy Networks Australia notes that this is not an issue which is specific to gas networks within Australia. For example, Ofgem in its recently released decarbonisation programme action plan has committed to reviewing gas network depreciation during price control reviews[1]. While industry-level consideration of this issue is to be welcomed, that should not be viewed as an alternative to a Final Decision that adequately reflects the expressed views of NSW gas customers, and evidence provided as to the likely market circumstances impacting the risk of stranding of new investments in network assets made by Jemena in the forthcoming regulatory period.

Energy Networks Australia previously published a Research Paper *Future Network Cost Recovery and Depreciation: Regulatory and policy options* [2] which outlines several customer benefits of accelerated depreciation.

[1] Ofgem, *Ofgem decarbonisation programme action* plan (2020) p. 21.

[2] The report was previously provided to the AER, and can be found at ENA – Submission on JGN 2020-25 AA Proposal – Attachment – August 2019.

Disconnection issues

Energy Networks Australia previously outlined that it does not seem appropriate for industry-level customer disconnection issues to be resolved through an individual access arrangement process for one gas network. The broader industry – including networks and retailers – should be engaged to develop an appropriate solution to this issue.

Energy Networks Australia appreciates the Australian Energy Regulator (AER) consultation with Jemena and retailers in attempts to reach consensus on difficult disconnection issues. As this is not an issue limited to Jemena, however, Energy Networks Australia still considers that other gas distribution networks and other national stakeholders should be consulted to reach a whole of industry consensus on how to prudently address disconnection times and the sharing of risk for sites for which it is not possible to disconnect.

As this is a complex issue involving industry and consumer participants in numerous jurisdictions, there may be a risks of adopting approaches that do not take into account other jurisdictional circumstances were the AER determination in relation to Jemena's Access Arrangement proposal to become a new standard approach.

Energy Networks Australia notes that these issues are being discussed in the context of Jemena's Access Arrangement, but not involving other gas distribution networks in the discussion of potential solutions may be risky.

If you have any other queries, please contact Garth Crawford, General Manager, Economic Regulation at gcrawford@energynetworks.com.au or 02 6272 1507.

Yours sincerely,

Andrew Dillon

CEO