The gas distribution network reference tariff mechanism and declining block tariffs

We are reviewing our recommendations on slide 7

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The context – from the point of view of an environmental group

- Speedy emissions reduction is a priority
  - Fossil gas is a major pollutant and gas in the home causes significant health issues
    - Emissions from burning gas
    - Emissions from gas leakage (= 84 times CO2 over 20 years)
  - The gas industry has not presented a credible plan for their fair share of emissions reduction to meet the Victorian legislated requirement of reductions versus 2005 emissions levels*.
- Developing new gas fields to avoid forecast gas shortfalls is expensive and environmentally damaging;
- Existing rules and regulations support gas expansion and need to change;
- Electricity can provide cheaper and healthier energy to the home and the electricity industry is fast tracking emissions reduction measures.

* https://www.climatechange.vic.gov.au/climate-action-targets

Industry and government response

- Government
  - Multiple actions primarily focused on emissions reduction and electrification
    - State and Federal legislated emissions reduction targets
    - Australia joined the Global Methane Pledge in Oct 2023 to reduce global methane emissions across all sectors by at least 30% below 2020 levels by 2030.
    - Federal and state funding to support electrification.
- Gas distributors and the gas industry are:
  - Incentivising increased gas usage;
  - Falsely promoting fossil gas as a clean fuel;
  - Not articulating their plans for the future of gas.

What the environmental groups want

- Fast emissions reductions
  - Only current viable way is a transition from gas to electricity coupled with a speedy decarbonisation of Australia's electricity generation;
- Governments to make decisions and stop prevaricating;
- The gas industry to:
  - put forward their blueprint for the future; and
  - stop blocking necessary change;
- A transition that does not leave anyone behind:
  - Vulnerable customers and workers in the gas industry should be protected.

Our response

- The network tariff mechanism and the declining block tariff structure reflect past government and societal directions.

- We recommend aligning both with the current directions by moving away from Price Cap regulation and prescribing inclining tariff structures.

- We see this a just one of the changes needed to the rules and regulations governing gas distribution Businesses.

Moving to a revenue cap

- We cannot support the continued use of a price cap mechanism that:
  - Delivers windfall profits to distribution businesses;
  - Drives an increase in fossil gas usage;
  - Drivers further gas exploration and development.

- We believe that under a revenue cap the distribution businesses:
  - will be fairly remunerated (without the opportunity to gain windfall profits);
  - Will have reduced revenue risk; and
  - will have fewer incentives to act against the public interest.

* Gas distribution businesses are currently paying households to connect to gas networks

Inclining block tariffs

We recommend a move to inclining block tariffs with the level of incline being determined by the AER taking into account:

- Government directions;
- The views of:
  - the distribution businesses and their customers; and
  - Environmental groups and other interested parties; and
- How retailers are passing on tariffs to customers*.

- We believe that Distribution Businesses are adequately skilled in tariff design to manage the transition.

* Note: We believe that a small inclining distribution may still result in a reducing tariff to customers give the retailer incentive to increase volume.