Feedback on the AER's issues paper on the gas distribution network reference tariff variation mechanism and declining block tariffs

(close for feedback 16 June 2023)

Lighter Footprints is a community-based group that aims to influence Australian local, state and national decision makers to take the action necessary to halt global warming as a matter of urgency. For over a decade, we have educated, advocated and brought people together in Boroondara and surrounding suburbs to inform the community and promote a clean energy future. We have 3,400 people on our mailing list.

Lighter Footprints welcomes the opportunity to provide feedback on the AER's issues paper on the gas distribution network reference tariff variation mechanism and declining block tariffs.

We presented our initial views at the public forum on Thursday 9th June. However, there were a number of compelling arguments presented at that forum and we have undertaken further analysis including risk analysis and have reconsidered our position. Our revised feedback is set out below.

The context

We live in a world which has been slow to react to the changing climate creating a climate emergency that required immediate action. The Intergovernmental Panel on Climate Change (IPCC)[1] has repeatedly called for action and nations have repeatedly failed to respond adequately.

The IPCC has been clear in its messages:

- It's now or never, if we want to limit global warming to 1.5°C (2.7°F). Without immediate and deep emissions reductions across all sectors, it will be impossible.

  The global temperature will stabilise when carbon dioxide emissions reach net zero. For 1.5°C (2.7°F), this means achieving net zero carbon dioxide emissions globally in the early 2050s; for 2°C (3.6°F), it is in the early 2070s.

  This assessment shows that limiting warming to around 2°C (3.6°F) still requires global greenhouse gas emissions to peak before 2025 at the latest, and be reduced by a quarter by 2030.[2]

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[1] The Intergovernmental Panel on Climate Change is the United Nations body for assessing the science related to climate change.
[2] The Summary for Policymakers of the IPCC Working Group III report, Climate Change 2022: Mitigation of climate change.

- Significant reductions are required to all emissions resulting from fossil fuels.

Our interpretation is clear. 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:
    - That delivers a fair share of emissions reduction to meet the Victorian legislated requirement of reductions versus 2005 emissions levels*.
    - That is close to alignment to the imperative from the IPCC.
- The gas industry is acting like this is not important. We believe that the well-being of the population is important;
- The gas industry is talking about increasing demand and is paying households to connect to the network. Increasing demand will require Australia to develop new gas fields to avoid forecast gas shortfalls. This:
  - Ignores the recommendations of the IPCC;
  - Will be environmentally damaging;
  - Is against the wishes of the voters who voted for climate action; and
  - Will result in expensive fuel.

Electricity can provide cheaper and healthier energy to the home and the electricity industry is fast tracking emissions reduction measures.

The existing rules and regulations

The existing rules and regulations were implemented when gas was considered a "clean" fuel and they support gas expansion. They need to be changed. We welcome the AER's initiative in raising this topic for discussion.

Government actions

The State and territory governments and the Federal Government are taking actions primarily focused on emissions reduction and electrification. These include:

- 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 governments providing funds to support electrification.

Actions by the gas industry

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.

Lighter Footprints response

We are pressing for fast emissions reductions and will continue to do so. We believe that we should discontinue the use of fossil gas in our homes because this is the only way to achieve fast emissions reductions.

This can be done by:

- Households and industry transitioning from gas to electricity or possibly to hydrogen for some industries; and
- Achieving a speedy decarbonisation of Australia's electricity generation.

For this to happen:

- Governments must make clear decisions and stop prevaricating; and
- The gas industry should be made to:
    - put forward their blueprint for the future; and
    - stop blocking necessary change.

We also want a transition that does not leave anyone behind. Vulnerable customers and workers in the gas industry should be protected.

Our feedback

We hope that you will read this feedback taking into account the context above.

Following the AER's public forum on 6 June we have reviewed our position, taking into account the information provided in other submissions (in particular in relation to risk).

Gas distribution tariff setting

We have read the AER's issues paper and we have also listened to discussion regarding assignment of risk and we recommend a switch away from the price cap mechanism.

We have looked at the risk argument and out comments are as follows:

- Assignment of volume risk
    - Your issues paper states that:
        - This assignment of volume risk is consistent with a basic tenet of regulatory economics – that risk should be assigned to the party best able to manage the risk. In the case of gas distribution network volumes, distributors are better placed to manage volume risk than individual customers.
    - Distributors have two ways managing volume risk:
        - Firstly, they can use their better understanding of the business to get the volume assumptions for the future 5 year period to be low leading to higher prices for customers. This they have done successfully for a number of years as shown in the issues paper. In effect they turn a risk of higher prices into a certainty;
        - Secondly, they can increase consumption on the network by connecting new customers or by getting existing customers to use more gas. This puts them in a position of taking direct action to increase emissions.
    - It is our view that customer bills will be lower and there will be less pressure for distributors to drive for increased volumes under a revenue cap arrangement.

Issues not being addressed.

There is a major issue that is not being addressed here, possibly because it is outside the control of the AER. That issue is how to manage the interim price shocks as customers electrify.

A switch away from gas will lead to future price increases for the remaining customers and the possibility that current capex will either result in stranded assets or accelerated depreciation further increasing customer costs.

We also have the issue that when a customer leaves the network a large amount of the cost is borne by the remaining customers. It does not seem right that a departing customer should have to pay for the network to make its assets safe or that this should become a burden for the remaining customers. With so many experts available it is to be hoped that the industry can develop safe and cheap ways to disconnect customers.

Declining block tariffs

We have revised our position on declining block tariffs.

- We believe that changing the profile of the block tariffs charged by the distribution businesses will have a negligible impact on consumption because it is the retailers that will set tariffs for customers; and
- Moving to inclining tariffs may adversely impact vulnerable customers with significant gas usage.

We believe that a better focus for our group would be look at ways to make the transition to electricity easier for the vulnerable sectors of our community.

On that basis we do not recommend any change to the profile of tariff blocks although we would like the AER to retain flexibility to reflect the mandates of state and territory governments.

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