Brotherhood of St Laurence
Working for an Australia free of poverty

Submission to Essential Services Commission Gas Distribution System Code of Practice Review

April 2023

Summary

Recent Victorian gas access arrangements have acknowledged the likelihood of falling gas use and declining customer numbers on the Victorian network.

It's important to ensure that the Code of Practice is suitable to protect consumers in these changed circumstances, and in the context of current high rates of energy stress, especially for those experiencing disadvantage.

BSL makes the following recommendations for the upcoming Code review:

1. The AER's decision on accelerated depreciation of Victorian gas network assets, and the acknowledgement of a stranding risk facing the networks, should be an overarching consideration in the review of the Code.
2. Current requirements to connect new customers to the gas network on request should be removed from the Code, given their original rationale no longer applies (gas is no longer a cheap option for new homes), and given that expenditure to accommodate growth adds to the cost and risk borne by existing consumers.
3. The Code should prescribe a clear methodology for the calculation of new customer contributions. This should include all related costs, such as network augmentation. The methodology should also consider competition from electrification, particularly the potential for low uptake to drive high network costs and further electrification, and the impact of these factors on the net present value of new gas connections.
4. Any changes to the Code to accommodate the Australian Energy Regulator (AER)'s impending decision to define 'abolishment' and/or require homes leaving the network to disconnect at the mains, must consider:
   a. the need to minimise migration costs in the context of expected declines in demand, and
   b. equity concerns around the proposal to either add the costs to general tariffs or introduce them as user pays fees.

Introduction

The Brotherhood of St. Laurence (BSL) welcomes the Essential Services Commission's (ESC) review of the Gas Distribution System Code of Practice (the Code). This review is important because it addresses key changes needed to enable a properly managed transition away from gas in a way that limits the impacts for consumers, particularly households on low incomes and facing energy stress. Our submission draws on BSL's work on the gas access arrangements.

BSL's submission is made in line with our objective to ensure energy affordability and equity are maintained throughout the essential transition away from fossil fuels. We work closely with people facing disadvantage and seek to put forward proposals in their interests. Ultimately, these households will benefit from a transition away from fossil fuels; however, many face particular risks during this transition, such as barriers to switching to lower-cost energy sources. They also face greater exposure to energy stress at times of high energy prices.

Recent Victorian gas access arrangements have acknowledged the likelihood of falling gas use and declining customer numbers. It's important to ensure the Code of Practice is suitable to protect consumers in these changed circumstances, and in the context of current high rates of energy stress, especially for those people experiencing disadvantage. Our argument and recommendations are outlined below.

1 Forecast consumption decline, and stranding asset risk, are important overarching context for the review

The March 2023 Gas Statement of Opportunities (GSOO) forecasts a decline in residential gas use over the near to medium term in all future scenarios. The 2023–2027 Gas Distribution Access Arrangement presented evidence of a rapidly growing consumer intention to disconnect from the gas network. In this context, the AER's December draft decision for gas distribution businesses, and final decision for transmission owner APA, has granted the network businesses 'accelerated depreciation' in recognition that their assets are likely to become stranded before the end of their operational life.

These factors indicate the importance of reviewing existing gas network regulatory instruments to ensure they remain fit for purpose in the expected context of falling demand and a potential customer exodus from the shared network. It's essential that energy regulations are adapted (in coordination with policy) to minimise the cost of the transition, and ensure that energy stress is alleviated, rather than exacerbated, particularly for people experiencing disadvantage.

BSL has proposed some relevant considerations in this submission, but an overall review of the detail of the Code that considers these circumstances is also recommended.

2 New gas connections

Current rules requiring new gas connections should be removed

The ESC's discussion paper notes that the Code currently requires gas distributors to connect new customers when requested (given certain conditions), and that while customers could be asked to meet some of the cost where it exceeds expected income from their gas use, this rarely occurs in practice. Given the acknowledged stranding risk, and the AER's decision for accelerated depreciation, it's important that these rules are changed.

Gas no longer represents a cheap energy source for new homes (the original rationale for these rules); and all-electric new homes are more economical to run.[1] Connecting new homes also increases costs for the existing customer base, at a time when they are also being asked to pay higher tariffs.

Any unnecessary network costs pose a high risk for consumers in the context of the acknowledged stranding risk and the decision to award accelerated depreciation. The AER's decision acknowledges that declining consumption will drive higher network prices for remaining consumers, with the risk that a disconnections spiral may develop. It also exacerbates this risk, by raising network tariffs via the transfer of networks' stranding risk to consumers. In these circumstances, avoiding further network investment wherever possible is a critical measure for limiting risk for current consumers.

Recent gas distribution access arrangements included $449m of growth expenditure between the three Victorian networks.[2]

The decision to maintain a choice of gas for new customers is outside the remit of the ESC and the Code. However, it's essential that the Code ensures that the full costs of any new connections, including associated augmentation, are borne by connecting customers, and do not add to the burden for existing customers.

Recommendation 1: The AER's decision on accelerated depreciation of gas network assets, and the acknowledgement of a stranding risk facing the networks, should be an overarching consideration in the review of the Code.

Recommendation 2: Current requirements to connect customers to the gas network on request should be removed from the Code, given their rationale no longer applies (gas is no longer a cheap option for new homes), and given that expenditure to accommodate growth adds to the cost and risk borne by existing consumers.

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[1] Renew 2022, *Limiting energy bills by getting off gas: all-electric homes after the 2022 energy crisi*s, report by R McLeod, <https://renew.org.au/wp-content/uploads/2022/11/Report-Limiting-energy-bills-by-getting-off-gas.pdf > Viewed 23 April 2023

[2] This includes $370m of connections capex (not including customer contributions), and $79.1m of augmentation. (AER 2022a, 2022b, 2022c.)

An appropriate methodology for calculating new customer contributions should be prescribed

Regulation should prescribe a detailed methodology for calculating customer contributions to connections costs (including augex), to meet the requirements of Rule 79.2.b of the National Gas Rules. To adequately assess the net present value of new connections in the context of an acknowledged stranding risk – and to protect existing consumers from increased exposure to this risk – the methodology should take into account the potential for high network costs (and low consumption) to drive electrification.

Recent Victorian gas access arrangements demonstrate the importance of this.

There was an apparent inconsistency between the approach taken to calculate consumer contributions between Ausnet and AGIG networks.[3] It's important that networks adopt a uniform and optimal method for calculating customer contributions.

It's also important that the method fully takes account of the difference between gas and electricity tariffs as a driver for electrification.

For example Ausnet's own consumer choice model calculated that a retail tariff that is 1.6 times current gas prices would constitute a 'tipping point' that would drive unsustainable rates of gas network exodus (AGIG figures are similar).[4] At the same time, they forecast consumption rates in new estates to be 30% of 'normal' levels by the end of the 2023-2028 period.[5] Given that distribution tariffs make up 33% of consumer bills in the Ausnet network[6], consumption levels as low as 30% would push retail tariffs above Ausnet's calculated tipping point, constituting a net 'burden' on the larger network.

[3] 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, pp. 14-15 discusses the available documentation 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 Viewed 20 April 2023

[4] Ausnet Services 2022, *Gas access arrangement review 2024-28 Addendum to proposal – 2 September 2022 p*. 22 https://www.aer.gov.au/system/files/ASG%20-%20Gas%20Access%20Arrangement%20review%202024-28%20-%20Addendum%20to%20proposal%20-%202%20September%202022%20-%20PUBLIC.pdf Viewed 20 April 2023, p.18,

Ausnet Gas 2022, *ASG – GAAR – Gas Substitution Roadmap – Consumer Choice Model – 2 September 2022 – PUBLIC,* 'Chart for Chapter' F3*,* https://www.aer.gov.au/networks-pipelines/determinations-access-arrangements/ASG-services-access-arrangement-2023%E2%80%9328/proposal Viewed 20 April 2023

[5] This includes a forecast 50% uptake in the 50% of new estates where gas is expected to be available and a 40% reduction in consumption in new homes due to efficiency and appliance choice. (Ausnet 2022a, pp. 23–26.

[6] Australian Energy Regulator 2022d, *AER - Draft decision - MGN Access Arrangement 2023–28 - December 2022*, <https://www.aer.gov.au/system/files/AER%20-%20MGN%202023-28%20-%20Draft%20Decision%20-%20Overview%20-%20December%202022.pdf>Viewed 20 April 2023, p. 11.

The impact of customer exits on the net present value of new assets is a new risk, which has emerged now that electricity has become cost competitive with gas. From our point of view, it is important that the regulatory framework ensures these types of risks are identified and managed (even where uncertainty remains).

Where this risk is possible, new customers should be required to cover the full cost of connection, including augmentation. Given the current high level of uncertainty around gas forecasts, customers would be best served by full connection costs being borne by new consumers in all cases.

Recommendation 3: The Code should prescribe a clear methodology for the calculation of new customer contributions. This should include all related costs, such as augmentation. The methodology should also consider competition from electrification, particularly the potential for low uptake to drive high network costs and further electrification, and the impact of these factors on the net present value of new gas connections.

3 Home gas infrastructure abolishment

Gas networks have proposed a new abolishment charge to cover a new standardised mandatory practice of disconnecting at the mains rather than the meter, for those leaving the network. The ESC has proposed an update to the Code to accommodate this change.

BSL acknowledges that changes to the Code may be needed to ensure consistency with decisions in the access arrangement.

The AER's decision on accelerated depreciation underlines the importance for all regulation to limit consumer risk associated with the likelihood of declining consumption on the gas network, and the possibility of a disconnections spiral (if not adequately managed). The proposal to disconnect at the mains must also be considered through this lens.

Disconnecting at the mains could add as much as $1.7 billion to the cost of the expected transition off the network, if there is no attempt to minimise these costs.[7] These costs could be considerably reduced by coordinating a transition plan with Energy Safe Victoria (ESV), that reassesses the risk of temporarily leaving service lines in place where sections of the network may only be expected to be in use for a limited time. Coordinated network wind-down plans will be needed to minimise costs and manage consumer risks for all expenditure, including abolishment. (We note that ESV's main concern regarding service lines disconnected at the meter rather than the mains is the risk of physical impact to underground lines – which is little changed from the risk

[7] 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> Viewed 20 April 2023

for homes still using gas. Any difference in awareness caused by the absence of a meter signalling the presence of underground lines, could be mitigated with signage).[8]

We also note, as argued in our submission to the access arrangement, that there are significant equity concerns with both of the AER's proposed approaches for allocating the abolishment costs: adding them to general tariffs or introducing user pays charges.[9] BSL prefers that these costs are socialised, but through avenues other than general gas tariffs.

The importance of minimising migration costs, and equity issues around cost allocation, should be considered in relation to any changes to the Code in light of the AER's impending decision on the proposal for abolishment charges.

Recommendation 4: Any changes to the Code to accommodate the Australian Energy Regulator (AER)'s impending decision to define 'abolishment,' and/or require homes leaving the network to disconnect at the mains, must consider:

a. the need to minimise migration costs in the context of expected declines in demand, and
b. equity concerns around both the proposal to add the costs to general tariffs, or to introduce them as ancillary reference fees.

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[8] Energy Safe Victoria 2022, *ESV Response to AER Questions Gas Connections* (not published – available on request from the AER).

[9] 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> Viewed 20 April 2023

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