Submission re Evoenergy 2021–26 gas access arrangement proposal

AUGUST 2020

TO: Australian Energy Regulator, Evoenergy2021@aer.gov.au

The Conservation Council ACT Region works to protect our environment through advocacy, community engagement and campaigning.

We campaign to:

- cut greenhouse emissions
- protect biodiversity in our urban and natural areas
- protect and enhance our waterways
- reduce our waste and improve urban sustainability, and
- promote sustainable transport and planning for our city.

As the peak body, we advocate on behalf of and support our more than 45 member groups which have a combined membership of over 20,000 people. We collaborate with Government, business and the community to advocate for the highest quality environment for Canberra and the ACT region.

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‘Uncertainty’ is not a good reason to delay action

The Conservation Council ACT Region welcomes the opportunity to comment on Evoenergy’s 2021–26 access arrangement proposal (GN21 plan).

At a public forum held on Tuesday 4 August 2020, presentations by the AER and Evoenergy repeatedly mentioned “uncertainty” as a major challenge for future gas network planning, presumably referring to the uncertainty of government policy, the uncertainty of future gas demand over the next 5 years and the uncertainty of the success and cost effectiveness of technologies that are not currently in commercial use.

The Conservation Council is highly concerned that “uncertainty” is being used as a reason to delay taking action to respond to what is an absolute certainty - that Earth’s atmosphere is warming and fossil fuels are the major cause.

The IPCC and global climate scientists have made it clear that humanity must rapidly and urgently reduce greenhouse gas (GHG) emissions to have a reasonable chance of keeping the Earth’s temperature from increasing by more than 1.5°C above pre-industrial levels. Although there is uncertainty about specific effects on regional climates and the potential for complex feedbacks within Earth’s natural systems, the direction of change and the potential for catastrophic impacts is certain. The IPCC also cautions that scientific uncertainty should not be an excuse to delay action – indeed, the uncertainties are even more reason to act.

Becoming ever more certain is the previously understated contribution of gas mining, processing, infrastructure and consumption to global warming. Recent research has found that the vast majority of atmospheric methane originated from modern human use, not from natural Earth processes as previously thought (National Geographic 2020).

It is certain that every single day we continue to extract and burn gas locks in further climate change. Given this, it is morally irresponsible to allow any new customers to connect to the gas network and commence using gas. Maintaining the gas network with the intention of substituting uncertain hydrogen or biomethane technologies is also irresponsible when cheaper, more efficient, zero-emissions electric technologies are available right now for residential and commercial buildings.

We can say with great certainty and simplicity that the most effective way to rapidly decarbonise gas consumption is to stop extracting, making and using it.

Policy settings

And indeed, ACT Government policy has provided certainty: the ACT’s Climate Change Strategy 2019–25 commits to phase out the use of natural gas by 2045, making the ACT the first jurisdiction in Australia to start to address the long-term demand for gas.

The Strategy notes that “from 2020, the use of gas is expected to make up 21% of the ACT's greenhouse gas emissions. Transitioning to 100% renewable electricity presents an opportunity to transition away from gas by electrifying our heating and cooling systems”. The Government has already completed the first gas-related action in its Climate Change Strategy by implementing Draft Variation 373 to the Territory plan, which removed the mandatory requirement to install gas in new suburbs – a first and certain step towards a gas-free ACT. A new amendment to planning legislation has been introduced to the ACT Legislative Assembly which would require all developments to explicitly address greenhouse gas emissions prior to approval, limiting the potential for future gas infrastructure and services in buildings.

An increasing number of international and Australian cities, states, companies and organisations are also committing to zero-emissions targets within the next 5 to 30 years. Even the NSW Government has set a long-term climate target that implies a transition off gas for residents in NSW connected to the Evoenergy network.

Evoenergy's response

Given this increasing policy certainty, and the global environmental context in which we are operating, it would be prudent for Evoenergy to plan for closing the gas network.

To provide both gas and electricity customers certainty, Evoenergy should actively and transparently plan for the closure of the network by 2045 or sooner (the Conservation Council advocates for 2030) rather than pursuing a variety of scenarios that create uncertainty.

In the GN21 plan, Evoenergy mapped at least three potential future pathways for achieving net-zero emissions, including complete transition away from gas to renewable electricity by 2045. Early consideration has already been undertaken of a phase-out option commencing in the next five-year period, and Evoenergy has made the commendable decision, perhaps related to financial viability, to cease rolling out gas infrastructure to new ACT suburbs from 2021.

However, despite the ACT's clear policy direction and intention to phase out gas, it appears that Evoenergy are waiting for the Government's transition timeframes, not due until 2024, and the commercial preference under current policy conditions appears to be retaining the network to supply 'renewable' gas, with some shift to electricity.

The GN21 plan clearly identifies Evoenergy's intention to continue to grow its customer base through market expansion within existing suburbs. This constitutes $34.8m of capital expenditure over the five-year period on "new services, mains, and meters to connect new customers" including "new homes, medium/high density residential developments, and commercial and industrial customers". This will result in more, not less, GHG emissions, and, in particular, locks in long-term gas consumption in multi-unit developments, which will make the transition to electricity more challenging into the future.

The Climate Change Strategy notes that demand for gas is already falling in the ACT as the public becomes more aware of the environmental and climate impacts of the gas industry and the availability of cheaper, cleaner, safer, more efficient and more effective electric technologies. The percentage of households using gas for space heating fell from 60% in 2011 to 45% in 2014, and overall consumption of gas per household fell by 22% from 2010 to 2017. The Strategy aims to achieve "significant reductions in gas use in the residential sector to 2030, and reduction in commercial gas use in later years towards 2045", with 60,000 houses disconnected from the network by 2025 and "**no houses connected to gas by 2045**".

The transition from gas appliances to all-electric homes is already underway with programs and funding to support households to replace gas appliances with electric. **The Strategy wisely advises "avoiding investment in [gas] infrastructure" that would lock in emissions from gas and result in stranded assets and future transition costs.** The Conservation Council contends that this trend away from gas will occur and accelerate in all Australian states as more local councils and state governments implement plans to achieve emissions reductions by mid-century.

Connecting new customers, retaining existing customers and renewing residential meters imposes unnecessary costs on households. The Conservation Council suggests that rather than incurring capital expenditure to replace old, mechanically deteriorating meters with new gas meters, which perpetuate gas costs for households, Evoenergy should collaborate with the ACT Government to support customers to switch their households to all-electric in advance of their meter's end-of-life. Similarly, offering "gas rewards" for customers to replace old gas appliances with new gas appliances so as to save them money is disingenuous. Helping customers go all-electric is the most effective way to help reduce their emissions and bills. People who are struggling to pay utility bills because of covid impacts should also be prioritised and supported to transition off gas.

Continuing to "offer customers choice" is shirking responsibility and another justification for business-as-usual. The average householder does not have the capacity to research all the pros and cons of gas vs electricity. Most people simply do what they know and follow the often-misguided, outdated or simply indifferent advice of retailers, builders and installers who also have little incentive to update their knowledge or change their advice. This is why governments develop policies and set targets to drive necessary change. The energy requirements of all Canberra households can be more than adequately met by electricity alone and those who do have the capacity to research their options are choosing to go gas-free. Canberrans will adopt and adapt to electric technologies if that is what is available. Those households that break free of the sentimentality fostered by gas industry advertising and go all-electric don't regret their choice.

Evoenergy spruiks hydrogen and biogas as a means of decarbonising the gas network. However "green" they may be, gas fuels cannot compete for efficiency with using electricity in buildings. Injecting more than 20% hydrogen into "blended gas" would require significant infrastructure and appliance upgrades. Biogas will never be truly zero emissions compared with solar and wind – it's still methane. Both gases have environmental impacts that are little discussed by the industries, such as high water consumption and questionable sustainability of biomass sources. Independent analysis finds that while biofuels and hydrogen may become useful as fuel for heavy transport, aviation and industrial applications, they are not needed in homes, are financially unviable as reticulated gas alternatives, have uncertain timeframes, and will not result in the required rapid emissions reductions. Given how easy it already is to make our homes and businesses all-electric, powered by zero-emissions energy from solar and wind sources, it is certain that switching now from gas to electricity would result in immediate emissions reductions.

Depreciation of the network is clearly a major financial issue for Evoenergy. Further capital expenditure on the network only increases the stranded asset potential. It appears clear that the earlier Evoenergy fully depreciates its assets, the more customers there will be to share the cost burden, and that the longer the gas network is perpetuated, the greater the inequity will become for remaining customers who are most likely to be low-income families unable to afford to leave the network earlier. The longer Evoenergy delay announcing a clear timetable for closure of the network, the greater the risk that households will continue to spend their money on gas appliances that will become stranded assets.

Evoenergy needs to draw a line under the sunk cost of gas infrastructure to date, cease spending more than absolutely necessary to maintain safety in the network and plan for decommissioning and recovery of recyclable materials from the network. Just because the network has a good engineering lifespan and is capable of reticulating gas for decades into the future is not justification for doing so in the face of climate change and viable alternative technologies. Previous capital investment does not justify maintaining an asset when there is

a clear case for ceasing to utilise it. Further investment in gas would also incur an opportunity cost that would be better spent transitioning to electricity.

There is opportunity right now to achieve emissions reductions from the gas network

With the AER yet to approve Evoenergy's GN21 plan, there is an opportunity now to revise the plan with a proactive strategy to phase out the network, immediately begin the transition of customers from gas to electricity, and achieve significant emissions reductions over the next six years consistent with the ACT's legislated interim target of 50–60% reduction below 1990 levels by 2025. However, once the network access arrangements are set for the five-year period 2021–26, there will be less scope to redirect short-term capital investment plans, and the opportunity to achieve early emissions reductions will be missed, requiring more dramatic reductions later.

The ACT Government should provide certainty for retailers, developers and the Canberra community by urgently setting and communicating a clear timeline to phase out gas, so they can then make appropriate purchasing decisions when replacing appliances or when constructing new dwellings. Not having a detailed timeline for transition risks creating additional stranded assets, both at a network level and at a personal household level.

But even in the absence of a detailed Government timeline, Evoenergy are clearly aware of the policy direction. If Evoenergy is genuinely committed to the ACT's zero emissions target, **this five-year Access Arrangement plan should at the very least, commit to no market expansion, no new connections and no reconnections.**

Evoenergy has a unique opportunity to take the initiative and become a world-leading clean energy company, by putting in place a long-term strategy across all assets to facilitate zero-emissions energy, particularly clean electricity. This would be an even more remarkable feat given Evoenergy's ownership structure via the ActewAGL Distribution Partnership consisting of 50% ownership by Jemena Ltd (in turn owned by China & Singapore Government corporations) which has a strong commitment to expanding the gas industry in Australia.

The Conservation Council supports a rapid phase-out of gas over the next ten years as a way to support meeting our interim emission reduction targets, and as a meaningful response to the urgency of the climate change crisis. Further discussion can be found in the Council's submissions regarding Evoenergy's gas network 2021–26 access arrangement review (April 2020), the ACT Government's Draft Variation 373 (March 2020) and the ACT Sustainable Energy Policy 2020-25 Discussion Paper (October 2019).

Recommendations

The Conservation Council recommends that Evoenergy:

- Revise the GN21 to strategically phase out the gas network by 2030;
- Immediately cease all new gas infrastructure and all new connections and reconnections in all suburbs, including newly-constructed dwellings and multi-unit buildings;
- Minimise capital expenditure except to maintain safety, and proactively manage depreciation of assets likely to become stranded;

- Reconfigure the electricity network to support a range of dynamic technologies including localised and distributed electricity generation, ‘smart’ metering, demand management, large and small-scale batteries and electric vehicles as well as to accommodate increased demand due to phase-out of the gas network;
- Urgently develop and communicate a clear timeline for transitioning customers off the gas network, with priority given to protection of vulnerable customers;
- Not sustain the gas network with ‘renewable’ gas substitutes or emissions reduction offsets;
- Revise tariffs consistent with ‘polluter pays’ and equity principles so as to reduce gas consumption and support vulnerable customers.