

The Energy Users' Association of Australia (EUAA) is the peak body representing Australian commercial and industrial energy users. Our membership covers a broad cross section of the Australian economy including significant retail, manufacturing, building materials and food processing industries. Combined our members employ over 1 million Australians, pay billions in energy bills every year and in many cases are exposed to the fluctuations and challenges of international trade.

This submission comments on the Access Proposal. The EUAA is a member of the APA Stakeholder Engagement Group.

We consider the following to be the key issues during the engagement:

- The nature and form of the engagement – where it sits on the IAP2 spectrum
- The 'future of gas' and how the current Victorian Government's Gas Substitution Roadmap decisions might impact on demand
- The demand/supply balance with the rundown of Bass Strait production and the potential role of LNG import terminals, especially that proposed for Port Kembla
- How those factors impact on the requested capex, the level of accelerated depreciation and ultimately tariffs.

Our conclusions in this submission are preliminary given it is being prepared in a background of considerable uncertainty:

On the external influences on APA:

- The Victorian Government has yet to present the policy outcome of its Roadmap considerations; this week stakeholders received a high-level view of the modelling of various scenarios that forecast a significant fall in gas consumption over the period to 2030
- We await the 2022 AEMO GSOO for a view on the demand/supply balance in the next 3/5/10 years and whether they will maintain their view in the 2021 GSOO that the Port Kembla gas import terminal is a 'committed' project

On internal matters of the APA strategy:

Best practice network engagement now involves the co-development of a comprehensive business narrative. This would include the networks business objectives, how it is going to ensure the National Gas Objective is achieved and inform consumers how it is going to help them navigate the 'future of gas'. Neither the 'First Look' Draft Plan nor the Proposal Overview contain what we would call a business narrative section. What narrative that did exist seemed to be more directed at maximising new capex, accelerated depreciation of all assets to 2050 and maximise opex, given the likely restriction on expansion of the gas network in the future of Victorian emission targets.

Conclusions:

- Consumer engagement was a significant improvement on the current period reset when it did not occur; APA still have some way to go to approach best practice; apart from a couple of examples, it is not obvious how the engagement led APA to change what they originally proposed

- We await the AEMO 2022 GSOO demand forecasts to be published in March for an independent view; we are concerned that APA is using the possibility of a few peak demand days each year over the next few years to justify new capex that will result in consumers bearing considerable stranded asset risk; we encourage the AER to consider how a demand response mechanism might be introduced to address issues around peak demand days
- Based on current information,
 - we do not support the proposed 20% increase in capex from the current period
 - we do not support the business case for the South West Pipeline expansion; consumers are likely to bear considerable stranded asset risk with the costs magnified by accelerated depreciation
 - we do not support construction of the WORM; again, consumers are likely to bear considerable stranded asset risk with the costs magnified by accelerated depreciation; we encourage the AER to consider whether the rules allow a re-consideration of their previous approval of this project given the change in demand outlook and future of gas issues
 - we do not support the use of Rule 80 to get pre-approval for projects associated with possible future LNG import terminals
- We do not support the proposal that consumers fund works to assess the ability of the network to transport hydrogen; as far as we are aware there is no a regulatory requirement; if APA is getting a lot of interest from potential hydrogen producers, then they can pay for the testing
- We agree with the an earlier rather than a later start of accelerated depreciation on intergenerational equity grounds
 - we can understand the proposal to reduce standard and operating lives to align with a net zero 2050-time horizon and ask the AER to assess the proposal against the rules
- We support the objective of the so-called 'regulatory contract' where asset owners have the right to recover past approved capital and approved return on that capital
 - the important issue for consumers is how much of that accelerated depreciation should be paid by consumers and how much by Government given the impact of their policy changes
- There was little engagement on opex and none on the step changes; we leave the AER to assess if the base year is efficient and the proposed step changes; given our position on the SWP and WORM projects we do not support the associated opex step changes; we do not support the step change to purchase carbon offsets
- There was little engagement on tariffs and we look forward to more substantive engagement once some of the uncertainties mentioned above are made clearer.

Consumer Engagement

The EUAA was not involved in engagement on the current 2018-22 revenue proposal simply because APA did not seek to engage with end users. In their submission on the AER's Draft Decision and APA's Final Proposal, CCP11 noted that their advice on APA's initial proposal concluded:

"...APA had not yet developed an effective consumer engagement (CE) plan to inform its access arrangement proposal, nor undertaken any meaningful steps to enact such a plan."

The only response APA made to this was:

"...that the AER's (and consumer panel's) expectation of public consultation on gas transmission business proposals is unrealistic and would ultimately be a waste of time and resources".

CCP11 challenged this assertion arguing that APA should engage widely reflecting the wide range of its end use customers through the distribution system, not just its direct connection customers.

It has very pleasing to see the different approach APA took to the current revenue proposal. This began with a stakeholder meeting where APA sought suggestions on how to improve engagement. Many of the suggestions were taken on board e.g. topics of engagement, the need to move away from the ‘lower end’ of the IAP2 spectrum and the publication of a Draft Plan - which APA called its ‘First Look’. The EUAA was a member of the Stakeholder Engagement Group that was established and a detailed schedule of ‘roundtable’ sessions on topics was agreed between the Group and APA.

The level of consumer advocate knowledge of the details of gas pipeline regulation is generally less than their knowledge of electricity network regulation. This is particularly the case given the unique nature of the VTA arrangements. It is hard to maintain a continuing expertise in an advocacy organisation when the engagement is only every 5 years. So a particular focus of the Roundtable meetings was to inform members of the regulatory process for APA.

The EUAA attended almost every Roundtable meeting. The Roundtable approach had a good structure that covered almost all of the relevant issues (pricing and opex the notable exceptions) and provided appropriate opportunities for feedback. Here are some specific comments on where engagement could be improved:

Position on IAP2 spectrum was not always clear

APA say (p.12):

“At each roundtable we let stakeholders know where the session sat on the International Association for Public Participation spectrum (IAP2 spectrum). The IAP2 rating varied on the topics we discussed ranging from inform, involve, consult, and involve.”

APA did do this in the summary slide of engagement that was in some, but not all, roundtable slide packs:

Engagement timeline – where we are at



VTS stakeholder engagement key activities and dates				
Phase	Date	Activity	Topics	IAP2 spectrum
Phase 2 - Getting to the detail - revenue requirements, tariffs and access arrangements				
	16/03/2021	Roundtable 4	Introduction to regulatory building block and VTS tariff structures	Inform/ Consult
	14/04/2021	Roundtable 5	Brief overview of AEMO Victorian Gas Planning Report. A first look at the stay-in-business capital program	Inform/ Consult
	14/05/2021	Issues Paper	Capital program	Involve
	19/05/2021	Roundtable 6	AEMO presentation on VGPR. Demand forecasts.	Inform/ Consult
	16/06/2021	Roundtable 7	Further draft of capital program. First look at operating expenditure forecasts, efficiency mechanism and other revenue components.	Involve
	TBC	Workshop	Making changes to the Access Arrangement - expansion requirements and other elements	Involve
	14/07/2021	Roundtable 8	Total revenue, revenue allocation and tariff structures	Involve
	14/07/2021	Information/ Issues Paper	VTS tariff structures	Involve
	18/08/2021	Roundtable 9	Continue discussion on cost allocations and tariff structures.. Making changes to the Access Arrangement	Inform/ Involve
	22/09/2021	Roundtable 10	What we've heard so far, our response. Further opportunity for input.	Involve
Phase 3 - Putting the plans together				
	6/10/2021	Consultation	APA release Consultation draft proposal for comment	Involve
	13/10/2021	Roundtable 11	Early consultation proposal - questions and answers session	Involve
	17/11/2021	Roundtable 12	Our draft proposal and how you shaped our thinking.	Involve

Sometimes it was unclear e.g. the Capital Issues workshop on 29th July and Roundtable 9 said “... inform, consult, involve.” Roundtable 6 specified ‘inform and consult’. It was not made clear which part of the particular session was which position on the spectrum. We cannot remember a comprehensive explanation of how APA interpreted each position on the spectrum. Our experience was mostly ‘informed’ and ‘consult’.

The ‘Stakeholder engagement’ section at the beginning of most chapters in the Proposal Overview is a reasonable reflection of the consumer feedback. These show that there were a range of concerns about the demand/supply forecasts which had flow-on impacts on the level and timing of capex in particular e.g. SWP and replacement capex.

The ability to give feedback was constrained

In all or almost all Roundtables the slides were only circulated the morning of the session. This made it difficult to answer the questions APA asked during the sessions. The EUAA response was frequently “We are unable to provide an answer because we have not had enough time to consider/insufficient information has been provided”. It often felt like push polling with leading questions designed to elicit support APA’s views on the issue at hand.

The level of detail provided was sometimes limited

APA did not consult much on opex. The Proposal Overview chapter on opex, unlike other chapters, has no ‘Stakeholder engagement’ section and went for a little over one page. This very short discussion made no mention of opex step changes which are ~\$22m or 9% of total opex. When asked about this the APA response was to send a link to their RIN explanation and say that it was not discussed in the Roundtable because ‘there is nothing really exciting there...and I don’t think a lot hinges on that at the end of the day’.

The APA Proposal Overview is 61 pages. This [AGN SA Proposal](#) document for 2021-26 period was 155 pages. A lot of detail that could have been provided to assist advocates preparing their submission was not there and we should not have to go searching in RIN documents and other parts of the APA proposal to find information useful to preparing our submission.

It was not always clear about how consumer comments were incorporated into the Plan.

The ‘First Look’ section on ‘Key themes from stakeholder engagement’ and ‘How we responded’ showed mostly either process (not content) responses or justifications for why APA took its position. For example:

Discussion topic	What we heard from stakeholders	How we responded
Energy affordability		
We presented preliminary impacts on tariffs of proposed measures to bring forward recovery of investment in VTS.	We heard concerns that while VTS transmission tariff impact may be small, distribution businesses are facing the same issues. Therefore, across the gas supply chain tariff impacts on customers may be significant.	We understand that energy, and in particular gas, affordability is a priority across the economy from business through to residential customers. We are preparing business cases and justifications to demonstrate that the capital expenditure program is prudent, efficient and has a benefit for customers.

As we note elsewhere, in key capex issues e.g. the SWP, we and other Roundtable members expresses concern over many sessions about the stranded asset risk but APA continued to argue that it was required with our views noted. In discussing investment drivers and the risks around the future of gas, APA noted the policy uncertainty investment faces and stakeholder concern that supply security issues are only short term, APA responded that they were (p.7):

“...considering a staged approach to investment decisions on the SWP. Considering the uncertain investment environment, APA is unlikely to risk security holder investment without safeguards...”

The Proposal has the following SWP expenditure profile which spreads expenditure over three years rather than one year:

Table 5 Proposed capital expenditure for SWP570

Security of supply expansion	Unit	2023	2024	2025	2026	2027	Total
SWP570	\$m, \$2022	36.9	53.1	7.3	0.0	0.0	97.2

APA did not provide information on the impact of this staging on tariffs – our guess is quite minimal. In summary, APA should be congratulated on the significant improvement in engagement this reset compared to the last. They have some way to go to meet best practice. What they are doing for 2023-27 might have been reasonable for 2018-23 but is a long way from the current best practice we have seen in the recent AGN South Australia and the current joint AGN/AusNet Services engagement for Victoria distribution networks.

Gas network performance

The EUAA welcomes the AER’s publication of the [Gas Distribution Network Performance](#) report last December and look forward to the equivalent report for gas transmission networks in 2022.

Consumers have very limited data on gas network efficiency vs electricity networks and this limits our ability to comment on whether proposed expenditure is prudent and efficient.

Demand and supply assumptions

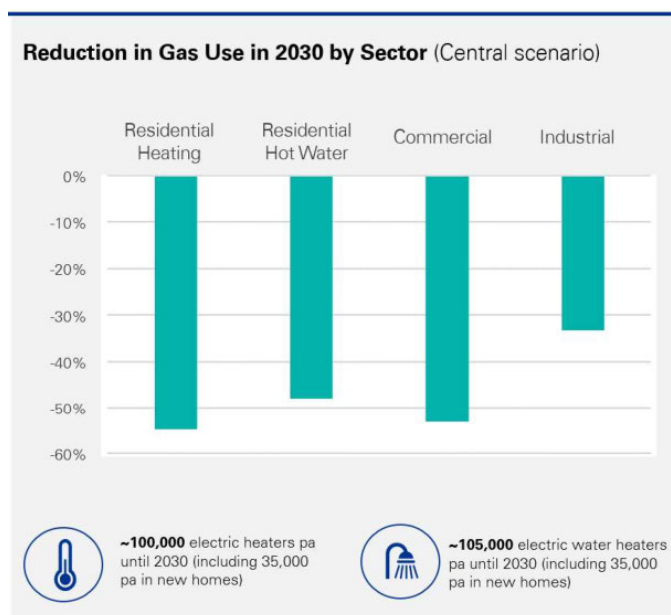
There are short- and long-term demand considerations. In the short term, APA is concerned about their ability to meet peak demand on a small number of winter days in the next few years given the forecast reduction in Bass Strait supply. APA’s view on this issue supports their business case for the proposed \$97m expenditure on the expansion of the South West Pipeline (SWP).

Since APA submitted its proposal, AEMO published the 2022 [Draft ISP](#), with the ‘step change’ scenario considered the most likely, saying (p.45):

“Gas-fired generation will play a crucial role as significant coal generation retires, both to help manage extended periods of low VRE output and to provide power system services to provide grid security and stability (see Section 4.3). The development opportunities for gas-fired generation are forecast to primarily be for peaking gas generators, to provide firming. With the cost of VRE declining rapidly in the ISP assumptions, limited opportunities exist for expansion of mid-merit gas plant, unless VRE is limited by transmission access.”

There is a smaller role for GFG that in the 2020 ISP and 2021 GSOO.

In the long term, there is no doubt that consumption will fall with debate around how much and how soon. The Victorian Government Gas Substitution Roadmap sees the reduction in gas consumption as key to achieving its climate objectives. The Roadmap modelling presented to stakeholder engagement sessions in mid-February forecast a significant reduction in gas use (other than for gas fired generation) under the central scenario.



APA traditionally relies on the AEMO GSOO forecasts but following stakeholder concern on the uncertainty of demand/supply post the 2021 GSOO, APA engaged Oakley Greenwood to examine demand forecasts. A key issue was that APA did not accept AEMO’s view in the [2021 ESOO](#) that the Port Kembla LNG import terminal (PKG) was going to proceed (p.41):

- With the binding development agreement executed between Australian Industrial Energy (AIE) and Jemena in March 2021⁵³, AEMO now considers the Port Kembla Gas Terminal (PKG)⁵⁴ to have obtained all necessary approvals and to be ready to commence implementation. It is therefore classified as a committed project for this GSOO. The PKGT will provide increased flexibility to offset southern domestic production decline, increasing the capacity of the gas systems to support both seasonal and peak supply needs.

APA regularly put the view to stakeholders that PKGT was not ‘committed’ i.e. there had been no public announcement that FID had occurred so there was still a chance that it would not proceed. APA argued that it was not possible to guarantee that PKGT would be completed in time to meet forecast peak demand days in 2023/24.

However there have been numerous announcements about key agreements reached (e.g. with the port authority) and work commencing etc since AEMO gave its view in the 2021 GSOO last March. The [most recent AEMO gas price forecasts](#) published in December are based on the AEMO provided assumption that PKGT will proceed.

We await the publication of the 2022 GSOO in March to see the latest AEMO position. As APA says (p. 17):

“As discussed with stakeholders at Roundtable 12, APA VTS is prepared to review this position at the revised proposal stage if circumstances change.”

Proposed capex expenditure

Replacement capex

APA's initial proposal involved a significant increase in repex to meet their regulatory obligations with a significant front end loading. We questioned the level, particularly given 'future of gas' issues. APA decreased initial replacement capex by 12% to address consumer concerns but that still left proposed expenditure of \$123m, a 45% increase over the current period. APA claims the increase is 'due to greater focus on asset integrity' and the need to address increased risk assets getting older and increased risk from 'encroachment'.

We leave the AER to assess APA's proposal.

Expansion of SW Pipeline

APA claims that it is 'facing pressure from governments to invest in expansion capacity on the SWP to provide greater security of supply' but did not provide any evidence. This is difficult to believe given the intention of the Victorian Government Gas Substitution Roadmap is to substantially reduce gas consumption and the modelling forecasts discussed above.

We do not support the SW pipeline expansion – and consideration of it under Rule 80. As the Proposal notes in the Stakeholder comments section (p. 30):

“Consumer advocates raised concerns about the prospect of investing expansion of the SWP under such uncertain conditions. The concern was raised whether the proposal to invest in SWP was using long-lived assets to solve a short-term problem and whether it would be needed in five years? There was concern that future customers would be left to pay for an asset that may not be required in the longer term and may end up being stranded.”

While many stakeholders were expressing significant concerns in the Roundtables on the SWP, Lochard Energy made a submission supporting it. They are the owner/operator of the Iona gas storage facility. They said in their submission:

“Lochard Energy has a financially committed Victorian gas storage expansion project (to 570 TJ/day) under development. Expansion of the SWP as proposed by the Consortium will support the desired outcomes of this project and help underpin energy security in Victoria as the State transitions to net zero emissions by 2050.”

The submission provided results from a survey of users of the Iona facility and VTS that provides strong support for the SWP. No company names are provided and it was not clear how many of the survey respondents are the end payers of pipeline tariffs. The submission also argues that relying on PKGT is too risky. The submission came with a report from Marsden Jacob arguing the SWF was needed to meet peak demand in 2024 and 2025 and critiquing the Oakley Greenwood demand forecast that was not so favourable to the SWP investment. The Marsden Jacob report sought to throw doubt on the OG demand forecast to raise the spectre of security of supply risk in the next 5 years.

Based on current information we do not support the business case for the SWP. It does not seem to be prudent and efficient to spend \$97m to address a short term peak demand issue with consumers likely to bear considerable stranded asset risk with the costs magnified by accelerated depreciation.

We encourage the AER to consider how a demand response mechanism might be introduced to address issues around peak demand days. This is likely to be a much more prudent and efficient way of meeting peak demand days requirements.

Request for application of Rule 80 for long term supply security

The proposal advanced by APA is an illustration of why we think the Gas Rules may not be fit for purpose for the Victorian Government climate policy. We do not support the use of Rule 80, under the reason of supply security, to get pre-approval for projects associated with possible LNG terminals. It risks repeating the advance approval for the WORM. The AER needs to wait to see how Victorian Government policy changes with the completion of the current Gas Substitution Roadmap review and the AEMO 2022 GSOO review before it make any decision on the Rule 80 application.

APA argue that because they operate on a common carriage model (where they cannot enter bilateral negotiations with shippers and have to do expansion under the access arrangement process) they need to use Rule 80. The argument (p. 20) that this model means projects in Victoria are not subject to a level playing field vs projects outside of Victoria seems to be more an argument for trying to ensure APA maximises its VTS RAB than an argument to give Victorian consumers the lowest tariffs.

WORM

As the Stakeholder engagement comments note, we expressed concern about whether this will still be required – a lot has happened in Government policy since it was approved by the AER in 2017 on the basis of system security. New environmental issues have raised the WORM cost to \$184.5m vs original AER approval for \$126.7m. We encourage the AER to consider whether the rules allow a re-consideration of their previous approval of this project given the change in capex, demand outlook and future of gas issues.

Hydrogen safety and integrity assessment

The language APA uses seems to imply that their proposed hydrogen work is required by Energy Ministers (p.34):

“In August 2021, Energy Ministers agreed on an expedited process to amend the National Gas Law, National Energy Retail Law, and subordinate instruments so hydrogen blends, biomethane and other renewable methane gas blends are brought within the national energy regulatory framework.

The Energy Ministers’ agreement will place an obligation on the gas pipelines to accept hydrogen blends in the gas stream. The safety and operational consequences of this potential obligation on the VTS must now be considered.”

Our understanding is that there is no requirement. We understand that the changes to the NGL/NGR will just set out what will apply if a jurisdiction amends the pipeline licence to allow them to carry the product. There is no obligation to assess if the pipes can safely carry hydrogen. Even if it was required by Energy Ministers that does not mean it should be paid for by consumers. We suggest the AER check whether there is an actual requirement.

APA also seek to imply it is 'safety' driven. If so then it is a safety issue for the transport of hydrogen, not natural gas.

APA quotes (p.35) from the AEMO submission in a way that seems to try to suggest that AEMO supports consumer paying the costs. AEMO's submission simply says doing the work is appropriate and they do not suggest consumers should pay. Further it is irrelevant that the bill impact is small – in the past networks have often used the 'cup of coffee' equivalent. Lots of cups end up being a significant cost. And we focus on the principle of what customer should or should not pay for.

APA notes (p.35):

"APA has received numerous unsolicited approaches by several developers seeking to produce hydrogen in Victoria. These developers view blending hydrogen into the gas network as a critical base offtake that will support the future of a hydrogen emerging industry. This demonstrates the growing need to assess the viability of the VTS to transport hydrogen blends, and the urgency to commence the process."

Consumers should not have to pay to help build a business case for hydrogen producers. If they are so keen to build a business they can pay the assessment cost.

A similar study was recently done by AGN for the Dampier to Bunbury pipeline. It was paid for by the WA Government.

Other capital costs

We leave the AER to consider whether the other categories of proposed capex are prudent and efficient.

Decarbonisation and depreciation

We support an earlier rather than a later start of accelerated depreciation on intergenerational equity grounds. It is a fairer sharing of historical supply costs as unit costs are lower with higher consumption. I agree with APA's contention that these historical costs need to be recovered from consumers as part of the 'regulatory contract'.

APA discussed two approaches to stakeholders – reducing asset life and removing RAB indexation. We support their decision to not pursue the latter as it seems very complex under the rules. The question then is - how quickly? Too quickly might lead to a death spiral, too slow and it is inequitable to future consumers (large and small) who are more likely to not have the choice to switch to electricity. APA propose to 'start small, start early and monitor' and align asset lives with the Net Zero 2050 time horizon. We understand that approach and ask the AER to assess the proposal against the rules.

APA do note (p. 47):

"The proposal to reduce the standard asset lives does have an impact on the depreciable life of the Western Outer Ring Main (WORM) and the proposed SWP570 expansion."

APA did not provide any estimates of the increase in tariffs with a 25 year asset life for these two projects.

Opex

The engagement on opex was very limited. The lack of performance data means that it is difficult to have an informed discussion around base year efficiency. So we leave it to the AER to assess base year efficiency.

This leaves discussion to step changes but as I noted above that did not occur because Scott did not think \$21.3m in step changes (9% of proposed opex) was important. This is shown in their proposal where we have to go the RIN docs to find the explanation.

Tariffs

There was little Roundtable discussion on tariffs. APA say (p.13):

“Early on, we had proposed to prepare an issues paper on tariff structures. There was interest from stakeholders in better understanding tariff structures but to give this topic proper consideration, we decided to defer engagement on tariff structures.”

We look forward to more consultation on tariffs when external issues – AEMO GSOO and Victorian Roadmap details announced mid-year – are clearer.

Do not hesitate to be in contact should you have any questions.

Kind regards,



Andrew Richards
Chief Executive Officer