

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 short submission comments on the AER's Draft Decision and APA's Revised Proposal. The EUAA is a member of the APA Stakeholder Engagement Group.

The major issues for our members are highlighted in the Draft Decision and summarised by APA's 'balancing competing objectives' narrative:

- demand is going to fall, but by how much and how fast following the policy announcements in the Gas Substitution Roadmap plus the very large rises in spot and contract gas commodity prices?
- how do you reconcile a large increase in capex with an argument for accelerated depreciation?
- how do you balance the need to meet peak demand that may only occur for a few days in the next few years when the only option (in the absence of a demand management mechanism) to meet that peak is assets that have a life of >40 years and APA then wants to accelerate their depreciation?

What our members do know is that those seeking to re-contract their supply are facing significant price rises and difficulty in getting any meaningful competition in supply. While the VTS component of the final delivered price is relatively small, that is not an excuse for thinking that rising VTA tariffs should not be a concern to members.

Consumer engagement

We agree with the AER's comments in the Draft Decision. Consumer engagement was a lot better than what was undertaken for reset prior to the current period reset (where it was virtually non-existent) but (p.7):

"...these efforts nonetheless fall short of expectations in the Better Resets Handbook for consumer partnership. The impact of engagement with consumers on what has actually been proposed and the extent to which the proposal can be said to have been driven by or reflect consumer preferences is not evident. APA's efforts appear to have been successful in gathering and reflecting feedback on its preferred capex solutions from other declared wholesale market participants. It is less evident that it has addressed concerns with its overall proposal from the end users and consumers who will ultimately pay for its services."

Prime examples of this in the revised proposal are:

- Two specific proposals - \$37.9 million for the hydrogen safety and integrity study and charging consumers for carbon offsets - despite clear feedback from consumer advocates that they did not support either, and
- the reduced but still large capex programme at the same time as seeking accelerated depreciation.

APA has engaged with the Stakeholder Engagement Group a number of times since their submission as they have prepared their revised proposal and response to the Draft Decision. But the evidence of what the AER is seeking in consumer engagement set out in the Draft Decision (p.7):

“Consumers should be partners in forming proposals rather than simply being asked for feedback on, or support for, the proposal a business thinks should be made. This increased level of control, challenge and collaboration delivers stronger and more considered proposals that better reflect the long term interests of consumers, as seen and valued by consumers.”

was limited. We have been involved in other network engagements where strong opposition to a particular part of the proposal has led the network to remove it, not, as is the case with the hydrogen study, still propose it with a longer period to recover the costs. Just because APA estimates that the carbon offsets will only cost \$0.09/customer/yr is not a reason to keep proposing it when consumers are saying they oppose it in principle.

Demand forecasts

We are all in furious agreement about the high level of uncertainty in forecasting gas demand. It will go down, the only issue is when and by how much. While APA has accepted AEMO’s Step Change scenario, they have effectively delayed its impact by ~5 years. We can understand the reason why APA has taken this approach. The Gas Substitution Roadmap clearly showed how much Victorians like their gas for heating and cooking and, even with incentives to electrify, change may be slow. For larger C&I users, their demand will depend on a range of factors eg how long before they have to renew their contract at much higher prices than their current contract and their ability to substitute electricity for gas in their industrial processes.

We leave it up to the AER to make a judgement on this matter. APA is taking some market risk in a price cap world with its higher demand forecast from the delay in the impact of the Step Change scenario.

Capex

We agree with the Draft Decision regarding all aspects of capex spend and note that APA’s revised capex proposal provides additional information requested by the AER. There has been a significant increase in costs for the WORM – original AER approval of \$126.7m, initial proposal cost of \$184.5m, revised proposal cost of \$216m. We look forward to the AER having a particular focus on the cost of this project.

We leave it to the AER to assess whether that additional information justifies an increase in allowed capex from the Draft Decision in a falling demand world where accelerated depreciation is sought.

Accelerated depreciation

In our submission on the APA’s initial proposal, we supported the principle of an earlier rather than a later start of accelerated depreciation on intergenerational equity grounds. We supported the so-called ‘regulatory contract’ where asset owners have the right to recover past approved capital and approved return on that capital with the important issue for consumers being how much of that accelerated depreciation should be paid by consumers and how much by Government given it is caused by their policy changes.

We were presented with details on the ACIL Allen modelling under different scenarios as part of APA's recent consumer engagement. We understand the reason for the Draft Decision rejecting any accelerated depreciation and leave it up to the AER to decide whether:

- the additional modelling, and
- the Gas Substitution Roadmap policy announcements provides sufficient clarity on the State Government's objectives

to support any level of accelerated depreciation.

Hydrogen safety and integrity study

In our earlier submission, we did not support this proposed expenditure on the basis that if there were lots of potential hydrogen producers approaching APA about using their pipeline system to transport hydrogen then they are the parties that should pay these costs, not consumers. APA sought to frame this expenditure as one that is required by Energy Ministers, when that was not the case.

The Draft Decision did not accept the expenditure on the basis of insufficient information provided by APA. Additional information has now been provided by APA as well as proposing a more extended recovery of these costs from consumers. APA are now seeking to justify the expenditure on the basis of a combination of the Victorian Government 'considering' a renewable gas scheme and Energy Safe Victoria saying there is a need for a safety assessment prior to allowing hydrogen to be injected into a pipeline.

We do not support APA's revised proposal. Energy Safe Victoria said nothing about who pays for the safety inspection. The Government does not have a specific legislative policy on renewable gas. These costs should be paid either by APA or by potential hydrogen producers. Gas consumers should not subsidise a new product business case development.

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

Kind regards,

Andrew Richards
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