

Attachment 5.4

## **Draft Plan Submissions**

**Final Plan 2023/24 – 2027/28**

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July 2022

## Introduction and Summary

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 provides a combined response to the Draft Plans by AGN, Multinet, and AusNet Services gas distribution networks in Victoria for the period 2023-2028. Its focus is on two key themes – consumer engagement and the future of gas. While it does not respond to the specific questions asked, the commentary covers many of the issues referred to in the questions.

At the outset we would like to congratulate all three networks on the quality and comprehensiveness of their Draft Plans. The development of a Draft Plan has been a significant factor in improved consumer engagement on network resets in recent years. It has highlighted the benefits of early engagement to allow consumers to better understand the complexities of a network reset, particularly one involving issues around the future of gas in an energy system transitioning to lower carbon.

These Draft Plans are being prepared at a time of considerable uncertainty. While there is broad stakeholder agreement on the need to reduce carbon emissions and that a reduction in natural gas consumption will be a key part of that, there is not broad agreement on the pace of reduction and who pays the transition costs. The Plans were developed based on the 2021 GSOO but the recently published 2022 GSOO has a significantly lower forecast demand in some scenarios.

The Victorian Government is developing its Gas Substitution Roadmap but the policy outcomes are not expected to be announced until mid-year, around the time the three networks are due to make their Access Arrangement submissions to the AER. All that has been publicly released by the Government is some high level results of the modelling:

- a significant fall in gas consumption for all consumers – residential, small business and C&I - is required to meet the interim 2030 targets
- residential gas consumers will make significant savings by switching from gas to electricity.

No details of the modelling assumptions and methodology has been released to give stakeholders any confidence around the results. No results have been released around the impact on C&I consumers like EUAA members. So the Access Arrangement (AA) Proposals may need to be changed to incorporate the Roadmap policy changes.

Our conclusions in this submission are:

- All three networks still have some way to go on engaging with consumers on 'future of gas' issues to a position where they can have any substantive reliance on the outcome of that engagement to support their AA proposal

- This covers matters including the level of accelerated depreciation, capex for mains replacement and capex/opex to prepare the networks for a low carbon future.

## Consumer Engagement

The EUAA has been directly involved in three engagement streams:

- (i) As a member of the Expert Co-design Panel working with the three networks to:
  - develop a range of scenarios for a 'Future of Gas' model, and
  - to comment on the methodology and outputs of that 'no regrets' customer choice modelling
- (ii) As a member of the Victorian Gas Network Stakeholder Roundtable (VGNSR) we have been involved in all four stages of the engagement so far:



- (iii) helping facilitate, and participate in, large user workshops to engage more deeply with these users.

This has given us a very good perspective on the overall engagement plan. Our summary comments are as follows:

- We welcome the decision of all three networks to undertake combined engagement with one engagement plan
- All three networks have a strong commitment to best practice engagement shown in a number of ways e.g. the combined engagement, co-design of aspects of the engagement plan including key topics for engagement, regular attendance of senior management at engagement sessions, comprehensive slide packs generally distributed ahead of the actual meeting, the building block detail provided early on in the process, the number and structure of various engagement sessions and the comprehensive Draft Plans
- The networks emphasise that consumers have a choice between gas and electricity and understandably they have a strong incentive provide a proposal that retains that choice
- All three networks still have some way to go on engaging with consumers on 'future of gas' issues to a position where they can have any substantive reliance on the outcome of that engagement to support their AA proposals.

Engagement on the future of gas involves consumers coming to a view on very complex issues such as:

- To what extent should consumers pay for accelerated depreciation on past investments?
- Should this cost be shared between consumers, network shareholders and Governments (given it is their policy changes that are driving potentially stranded assets)?
- If consumers are to pay at least a share, should that start in the 2023-28 period or wait until the next AA period when there will be more information on the business case for network delivery of renewable gas/hydrogen?

- Why is it consistent for a network asking consumers to pay for accelerated depreciation for past investment at the same time as proposing augmentation capex that may well add to the accelerated depreciation cost for consumers in future years?
- How should consumers consider intergenerational equity issues? Is it fair that consumers of today, who may not be consumers in the future because they have electrified, pay their share of past investment or leave consumers in the future to pay?
- Why should consumers, rather than equity owners or potential transporters of hydrogen or renewable gas, pay in 2023-28 to help prepare the network for transporting these zero carbon gases in the future when the business case for network delivery of renewable gas/hydrogen has yet to be established?
- Why should consumers, rather than the equity owners, pay for an education programme to tell consumers about the benefits of renewable gas/hydrogen again when the business case for this has yet to be established?

As the AGN Draft Plan notes (p.4):

“Our Draft Plan recognises that the role of gas networks as the economy moves towards net zero emissions is uncertain. We know that gas networks will continue to play a role for the foreseeable future, but the nature of that role can vary significantly depending on technological developments and government policy.”

A key part of consumer engagement is to seek consumer views on how that risk around the future role of the gas networks is allocated between consumers and network owners. The EUAA has been engaged in these debates for some time and is aware of the trade-offs involved. Our membership of the Expert Co-design Panel gave us particular insights into how the broader issues impact on the three networks.

However most other consumer advocates are still coming up to speed with the issues. Our judgement is that more detailed engagement is required on the networks’ future of gas narrative to convince a broader cohort of consumer advocates (let alone consumers more generally) that the AA proposals in July are capable of acceptance. Significant ‘inform’ and ‘involve’ discussion is required before effective ‘consult’ and ‘collaborate’ discussion can be undertaken that would allow any engagement response to support specific expenditure proposals in the AA.

All three networks did provide regular feedback to the VGNSR on the Future of Gas modelling (the EUAA provided one of these briefings as the only party on both the Expert Panel and the VGNSR) and its implications, consistent with the engagement plan e.g. AGN Draft Plan p. 31:

**Our Engagement Activities**

<ul style="list-style-type: none"> <li>• Stakeholders requested details on:             <ul style="list-style-type: none"> <li>• Future of Gas Co-Design, including the process that we had proposed, what topics would be addressed, the format and who will be involved.</li> <li>• Customer workshop specifics, including when they will be held and what groups of customers will be invited to each.</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• We committed to providing regular updates on the Future of Gas co-design work to VGNSR and RRG during our regular meetings. We also held a dedicated session on the Future of Gas with the VGNSR to brief them in more detail.</li> <li>• We are sharing all output from the Future of Gas co-design process with the VGNSR and RRG members and online via Gas Matters.</li> </ul>
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However, this was only ever ‘inform’ given the complexity of the issues and the level of knowledge of many of the VGNSR members. While some consumer advocates might look to the EUAA’s expertise to get some degree of

confidence in the direction the modelling might be heading, there is still the need to bring all VGNSR members along on the journey.

## **Future of Gas**

### *(a) Introduction*

We commend the three networks in undertaking the Future of Gas modelling and the process they used through the establishment of the Expert Co-design Panel. The EUAA appreciated the opportunity to be a member and participate in the debate to develop the scenarios and more recently to review the results now emerging. This modelling was used, along with judgements around the level of price change consumers are willing to bear, to guide the level of accelerated depreciation the three networks are seeking.

Understandably gas networks want to have a long term future – they have invested in very long life assets. They need to see a future; however uncertain it may be. As the AusNet Draft Plan notes (p.21):

“There is a real possibility that replacing natural gas with renewable hydrogen will deliver a lower-cost, faster decarbonisation pathway than an electrification one. We also know that our customers place a high value on their gas supply and have a preference to continue using gas if there is a net-zero emissions option available. Our customers have indicated they have no immediate plans to disconnect gas from their homes—in fact, we continue to see strong growth in new gas connections.

For these reasons, we are proposing actions that keep the option of a green hydrogen gas supply open for our customers during the 2024-28 regulatory period. However, we are mindful that a transition to a hydrogen network is by no means certain and so we have not proposed significant expenditure to roll out widespread hydrogen blending in the next regulatory period as this is not prudent at this time. In doing this, we will also seek to minimise the long-term risk and cost for both customers and investors in the event that a renewable hydrogen pathway is not practical.”

The key question for all three networks is - why should consumers pay to keep that option open? If yes, why now (2023-28)? Why not wait until the next AA period when the uncertainty is likely to be less? If networks want to start spending now to keep the option open, why shouldn't they (and the promoters of renewable gas/hydrogen) pay the price to keep the option open? Why should consumers take the risk on the future business case for pipeline renewable gas/hydrogen?

### *(b) The limits of the 'no regrets' argument*

All three networks make what they refer to as 'no regrets' expenditure proposals as a key response to their future of gas narrative. There are three separate, but related, aspects:

- (i) The level of accelerated depreciation

Drawing on the Future of Gas modelling results, AusNet notes (p.23):

“Mindful of the potential impact of accelerated depreciation on short term affordability, we have proposed a lower amount of \$130m of accelerated depreciation than the \$200m we modelled. We consider that this amount of accelerated depreciation is a no regrets action because:

- The sooner the action is taken, the more impact it has on keeping future prices low. This helps keep a hydrogen option competitive for the 2030s and beyond.
- It also encourages investment in the network to keep it safe, reliable and ready for future renewable gas options.
- Accelerating capital recovery now also takes advantage of historically low interest rates, keeping the immediate price impact low for customers.
- In a pessimistic scenario for our gas network (i.e. one where the gas load is electrified and our network closed), it protects vulnerable customers who remain on the network from large price rises (noting that the more customers there are to share network charges, the lower the average bill).
- Conversely, if we take this action now and a hydrogen future eventuates, we can simply reverse the action in future and remove accelerated depreciation, leading to lower long-term prices.”

(ii) An additional benefit of mains replacement primarily completed for safety and environmental reasons

Mains replacement is a major component of forecast capex spend.

	Current AA Period (\$m)	Next AA Period (\$m)
AusNet	121	143
AGN	226.9	24.4
MGN	202.5	457.5
Total	550.4	624.9

AusNet argues (p. 21):

“Our ongoing mains replacement program (which is critical for meeting our safety obligations) has the added benefit of replacing pipes that are not hydrogen compatible with pipes that are ready for a hydrogen future. The low pressure mains replacement program will be completed in this next regulatory period and AusNet will then be well placed to rapidly roll out hydrogen blending across our network, if that is shown to be a viable option.”

(iii) Additional capex to prepare the networks for a low carbon future

There is both capex:

AusNet	\$11.2m “In the future, we expect to deliver renewable gases, like biomethane or hydrogen, through our network. We need to replace a variety of network components in order to facilitate the transition. We call this no-regrets investment.” (p. 32)
AGN	\$25m “...to ensure the network is ready for the distribution of hydrogen which includes updating procedures, replacement of incompatible parts, renewable gas compatibility studies and a digital ultrasonic residential meter trial in the Albury/Wodonga region” (pp 10-11)

MGN	\$21m "...to ensure the network is ready for the distribution of hydrogen which includes updating procedures, replacement of incompatible parts and renewable gas compatibility studies (pp10-11)
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and opex step changes:

AGN	\$7.4m "We are investing in a renewable gas communications package, as while 87% of customers consider decarbonisation as important very few know about the decarbonisation plans for the gas networks" (p. 71)
MGN	\$7.4m "... new renewable gas communications and education program" (p.71)
AusNet	No step change

MGN argues (pp 89-90):

"Preparing our network for a decarbonised future is a new initiative for the next AA period, and while it only represents a relatively small proportion of our total investment (around 2.7%) over the next five years, it is a key no regrets step in ensuring our network is compatible with renewable gases to support the transition of the network to a decarbonised future."

AGN/MGN support their Draft Plan expenditure with the following commentary on p.39 of each Draft Plan:

Phase 2 Customer Workshops	
<ul style="list-style-type: none"> <li>We presented our proposed approach and low carbon strategy including network readiness and no regrets investments.</li> <li>We presented current communications, marketing and education activities on renewable gas.</li> <li>Engagement Activity: <ul style="list-style-type: none"> <li>Are you comfortable with our proposed approach to preparing our networks for renewable gas? Do you need more information?</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>✓ 89% of customers support AGN's proposed approach to preparing our networks for renewable gas.</li> <li>✓ Customers were keen for more detail around how customers would be kept updated and informed of the energy transition, particularly in relation to appliances and costs to bills.</li> <li>✓ 74% of customers supported increased investment (\$2-3 per annum) beyond AGN's existing activities on more renewable gas communications and education activities.</li> <li>✓ 52% of customers supported a very broad communications campaign noting the importance of school and community education.</li> </ul>

We respond to each of the three aspects in turn.

The networks do not provide an explicit definition of 'no regrets' as if the term is self-explanatory. We define 'no regrets' as 'regardless of future developments we are happy with the decision we made today assuming we have to make the decision today'. We argue that the networks have yet to make the case that these self-proclaimed 'no regrets' decisions need to be made now for the 2023-28 AA.

(i) The level of accelerated depreciation

The EUAA accepts the principle of the ‘regulatory contract’. We define that as the implicit contract between the network, its consumers, and the regulator that once the regulator has made their decision on the networks’ spending proposal, consumers commit to pay an efficient price cap that provides the network with recovery of its capital plus a rate of return on that capital commensurate with the risk allocation between the network and its consumers. This rate of return is set based on the assumption that consumers accept demand risk i.e. networks have no stranded asset risk. The network expects to get return of and on its capital over the regulated depreciation term.

Consumers can regret a decision to move too quickly or too slowly for accelerated depreciation. This is influenced by the level of risk consumers are willing to take. Is it a high risk that pipeline renewable gas/hydrogen will not prove to be economic so that too slow a move by the AER to accelerated depreciation is regretted? Is it a high risk that the AER agrees to accelerated depreciation too early which increases demand destruction and consumers exit gas earlier than they otherwise would have been the case - which leaves the remaining consumers with much higher costs if pipeline renewable gas/hydrogen does not prove to be economic?

The EUAA believes that the ‘regulatory contract’ concept provides an arguable case on intergenerational equity grounds for accelerated depreciation in the 2023-28. To delay the start of accelerated depreciation to the 2028-33 AA period means that those consumers who reduce their consumption or disconnect from the grid in the 2023-28 period will contribute less to the historical costs of meeting their demand. If those who are least likely to reduce consumption/disconnect are unable to afford electrification (even with the Victorian Government subsidies) it could be considered inequitable if a delay in the start of accelerated depreciation means these ‘rustied on’ consumers have to pay an even higher price in 2028-33 and beyond. Plenty of regret potential.

The networks have used the Future of Gas modelling to inform their decision on the level of accelerated depreciation. They then sought to validate their chosen level through consumer engagement. However, this was always going to be difficult given the knowledge base of those being asked. As noted above, AusNet chose \$130m after the ‘modelled’ level was \$200m. Consumers were asked to select among three options – zero, \$130m or \$200m. It was not surprising that the middle one was selected but it should not be taken as consumers supporting \$130m of accelerated depreciation.

We do not consider that consumer members of the VGNSR have had enough time to fully consider the modelling or its consequences to express an informed opinion on the level of accelerated depreciation in the Draft Plans.

This still leaves the debate around the role of Government – whose policies are, and perhaps increasingly in the future, contribute to the reduction in gas consumption. If the Victorian Government’s Gas Substitution Roadmap leads to policies like a ban on new connections that in turn leads to higher gas network prices, what contribution should the Government make to accelerated depreciation costs? Given the Victorian Government’s policy to subsidise consumers to move out of gas into electricity, should the Government also subsidise the resulting higher gas network costs caused in part by that subsidisation? We realise that this discussion may be strictly outside of the scope of the AA – but it is an issue that deserves discussion during the engagement process and it helps to get a more informed view from consumers on the share of accelerated depreciation they might be prepared to pay.

(ii) An additional benefit of mains replacement primarily completed for safety and environmental reasons

Considerable concern was expressed in the VGNSR Capex Deep Dive sessions that large mains replacement investments will be made and quickly subject to accelerated depreciation. MGN is considerably behind in its replacement programme compared to the other two networks so the proposed \$457.5m expenditure in the next AA period represents 61% of total capex (44% in current period). MGN comments in the Draft Plan (p.91):

“Customers view safety as a non-negotiable.

90% of customers view climate change and reducing carbon emissions as important or very important.”

With the MGN view (p.89):

“...these mains continue to pose a high safety and reliability risk ... The program has delivered considerable safety and customer benefits (through fewer supply outages) and has also reduced carbon emissions at the end of the current AA period by 35,000 tonnes of CO<sub>2</sub>-equivalent per year compared to 2017 levels...”

As well as (p.95):

“... the added benefit of enabling 10% hydrogen by 2030 – a key strategic objective which will put MGN in a better position to play a meaningful role in a low carbon future.”

None of the three networks have provided any detailed quantification of the safety risk. If it was an acute safety risk then it seems reasonable to expect MGN would have done a lot more replacement in the current period, irrespective of the cost given MGN’s claim (p. 9):

“We have delivered against our targets in the current AA period by focussing on safety as our top priority.”

If it was safety driven, then the need to maintain contractor capacity across AGN and MGN (p.95) should be irrelevant. There is no evidence provided that the replacement is something that Energy Safe Victoria has recommended. There was no evidence provided on the value of the carbon emissions reduced in the mains replacement business case. There is no evidence that the three networks would make the same capex proposal (total \$ and timing) as they have in their Draft Plans, if there was no expectation of network renewable gas/hydrogen ever being competitive.

We would suggest that the next round of consultation provides more detail on the safety and environmental case for mains replacement.

(iii) Additional capex/opex to prepare the networks for a low carbon future

These capex/opex expenditures are much harder to justify on a ‘no regrets’ basis. They will only be ‘no regrets’ if there is a robust business case for pipeline renewable gas/hydrogen. We are a long way from that now, despite the many confident forecasts from various proponents. Without that business case it could be a Romulus of regret with customers taking renewable gas/hydrogen development risk.

The networks argue that they are not asking customers to take that risk. Rather it is a matter of giving the network the option of a renewable gas/hydrogen future – an ‘asset’ that gives the network some flexibility to move quicker

to a renewable gas/hydrogen future. We see this narrative as effectively no different to one of consumers bearing development risk. Why should consumers pay to have an option that at this stage of knowledge on the economics of pipeline renewable gas/hydrogen, has an uncertain outcome? We are happy to consider payment when there is much stronger evidence of a potentially strong business case – and this can be assessed in the context of the 2028-33 AA.

Finally, we do not support customers funding an education campaign as proposed by AGN and AGN as an opex step change. We do not think that this meets the AER’s opex criteria. The AER in its recent [Draft Decision on AGN’s SA gas network](#) noted (pp 16-17):

“We expect the business to provide evidence demonstrating the material impact the change of regulatory obligation has on its opex requirements, and robust cost–benefit analysis to demonstrate the proposed step change expenditure is prudent and efficient to meet the change in regulatory obligations.”

By contrast, proposed opex projects designed to improve the operation of the business, which we consider as discretionary in the absence of any legal requirement, should be funded by base opex and trend components, together with any savings or increased revenue that they generate—rather than through a step change.”

The AER rejected the proposed step change in both the Draft and Final Decisions. Customer support was a necessary, but not sufficient, condition for the proposed expenditure to be supported as a step change. Feedback that customers “were keen for more detail around how customers would be kept updated and informed on the energy transition...” is not a basis for saying consumers support spending \$7m on an education campaign. The [Final Decision](#) (p. 20) noted that it needs to be a “... a genuine step increase in the quality of service provided” rather than just a step change that should be part of general service improvement and captured in the forecast rate of change. Further (p. 20):

“...to include a customer supported initiative in our alternative estimate, we would further need to be satisfied the customer supported initiative has to be prudent and efficient and is not accounted for in base opex or the rate of change.”

We are not satisfied that the step change meets these requirements.

*(c) The benefits of continuing to add new customers*

The table summarises the proposed capex to supply new customers.

	Current AA Period (\$m)	Next AA Period (\$m)	Comments
AusNet	249.3	219.6	
AGN	255.7	309.0	This covers ‘Growth assets’ and ‘Augmentation’ (p. 89); the latter is \$70.4 in the next period vs \$17.6 in the current period and reflect demand growth in Melbourne’s south east and northern suburbs and regional areas including Wodonga, Traralgon and Echuca

MGN	150.7	99.7	Similar comments to AGN
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The Victorian Gas Distribution Code provides a calculation methodology to assess whether new customers are economic to connect and it contains obligations to connect customers under certain conditions. All networks argue that adding new customers lowers the cost to existing customers. AusNet says (p. 37):

“Connecting new customers to the network benefits all existing customers as it spreads the network costs—which are largely fixed—across a wider base and therefore reduces the burden on each individual customer.”

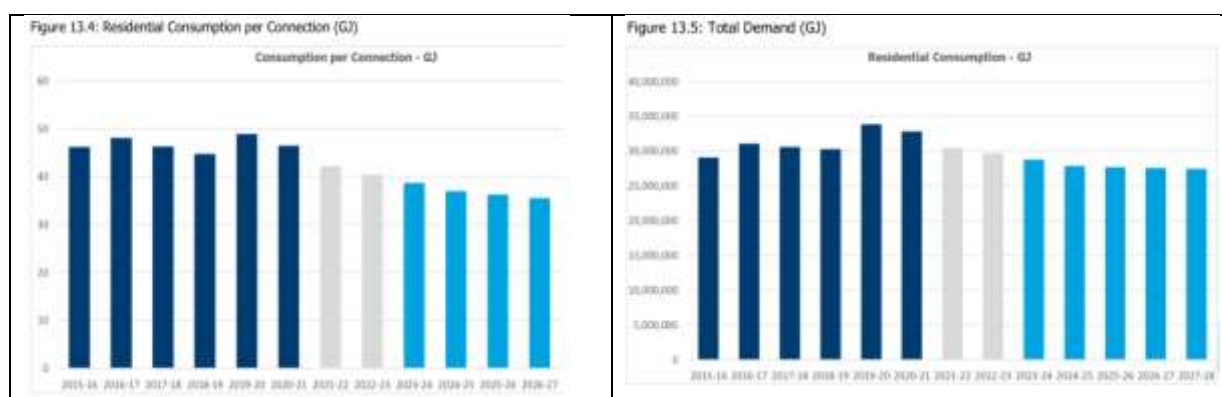
AGN/MGN provided a simple model to justify this argument. Adding new customers means that total network costs are then spread over a larger customer base and this results in lower prices to all – the denominator increase in customer numbers offsets numerator increase in capex/opex.

We are not convinced. We have had a number of discussions with AGN on our concerns about the model which seems to assume:

- ever increasing customer numbers/total consumption which are now not occurring and are not expected to occur in the future, and
- each customer (old and new) consumes the same amount of gas.

While adding customers with infill/expansion capex helps pay off not just new capex but importantly past capex (and hence reduces the RAB and hence stranded asset risk), eventually if the denominator (customers volume) falls fast enough, RAB/customer will go up.

The AGN Draft Plan (Chapter 13) forecast average consumption per customer falling for residential customers and rising for commercial and industrial customers. Total consumption is falling for residential, rising for commercial and falling for industrial customers. Given residential demand dominates total demand, it is trends in residential consumption that are most relevant here.



There is no data provided to support the assumption that old and new customers consume the same amount of gas. Will new residential connections (which have a greater incidence of rooftop solar panels than the existing housing stock) have the same array of gas appliances (heating and cooking) as the existing housing stock? Even if they put in gas heating, the energy efficiency of new housing stock is much higher than the existing housing stock which reduces consumption for new connections. As demand falls over time, it is not clear that existing customers are not cross-subsidising new connections.

We are continuing discussions with AGN/MGN on these matters to see the impact of changed consumption assumptions:

- annual demand for new customers falls over time but existing customers stay the same
- annual demand for existing customers falls in line with annual demand for new customers
- different consumption between existing and new customers

Our proposition is that adding new customers is not always beneficial to existing customers because it can increase the stranded asset risk through two ways - higher costs for new customers e.g. a new gate station is required, and where new customers have lower average consumption than existing customers (irrespective of the assumption that both new and old customers average consumption will continue to fall).

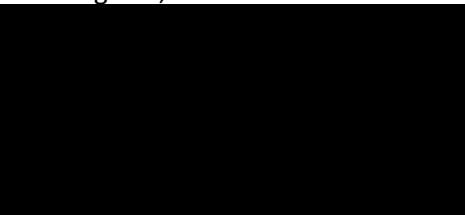
We understand that the methodology under the Victorian gas code to assess whether to connect new customers – is the NPV of expected revenue over the next 20 years greater than the connection costs? – may be a contributing factor to the ability of networks to flexibly respond to stranded asset risk. This Victorian rule provides for networks to charge a connection fee reflecting any difference between revenue and costs. We assume the \$33m AusNet proposes to recover in connection fees (p.32) reflects these costs.

Further, it assumes that new connecting customers are fully informed about the potential future costs of their connection in a world of significant accelerated depreciation. The networks have provided no evidence to believe that this is the case.

However, in the networks defence, it seems the legislation does not allow the network to charge a connection fee that reflects the stranded asset risk some of these new customers will impose on existing customers. This is a matter for consideration in the Victorian Gas Substitution Roadmap. It is incongruous that at the same time as the Victorian Government is seeking to support the switch out of gas into electricity, its gas rules may be doing the opposite and increasing stranded asset risk to existing gas customers, many of whom are likely to be unable to bear that risk in the future. Imagine the Victorian Government paying subsidies to assist existing gas customers who cannot afford to move to electricity even with the government subsidies to do so.

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

Kind regards,



Andrew Richards  
Chief Executive Officer

6 March 2022



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of St Laurence**

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The Brotherhood of St. Laurence (BSL) would like to thank AGIG for the opportunity to make a submission to the draft stage of their consultation on the 2024-2028 Gas Access Arrangement Review.

The decisions made through the access arrangement process have significant implications for low income and vulnerable consumers, for whom high gas prices risk energy stress. BSL advocates for a transition away from fossil fuels in line with climate science, and one that does not leave anyone behind.

For households facing financial stress and other forms of disadvantage, ensuring that energy remains affordable while we transition to a zero-carbon economy is crucial. Regulators must ensure that the risks to households are mitigated while facilitating a transition away from fossil gas in line with Australia's international commitments.

This submission represents our preliminary response to the issues presented by the draft proposals – with the possibility that our position may be refined through the progression of the process.

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## 1 Overview

### 1.1 AGIG's draft proposals gives a high-level overview of the proposal-in-development

AGIG's draft proposals are high-level overviews of their intention for the formal proposals.

In our opinion, circulating high level drafts is a reasonable approach for this reset, given the complicated and unprecedented nature of some of the issues posed by the 'future of gas' considerations.

The complicated nature of this reset means that it is unlikely, in our opinion, that an expedited assessment, (referencing the results of satisfactory customer engagement) should be applied.

BSL's submission in response to the draft is high level in nature, consistent with the lack of detailed evaluation submitted by AGIG at this stage.

### 1.2 Affordability remains critical for Victorian consumers

Energy debts are known to be a strong early indicator of economic hardship, and a driver for further household debt.<sup>1</sup> Energy bills consume a high and growing proportion of the expenditure of low-income households,<sup>2</sup> and for many households, high energy costs restrict access to necessities.<sup>3</sup>

Victorian Council of Social Service's (VCOSS) 2018 Battling On report found that even before the pandemic, high energy costs were causing 3.6% of Victorians to face a temporary inability to heat their home, and 1.8% to face a persistent inability.<sup>4</sup>

There is evidence of growing energy hardship in Victoria, as the withdrawal of COVID-19 government supports such as JobKeeper continues to affect households. Moreover, the impact of the disruptions of COVID-19 has been unequal, with some households and businesses facing disproportionate hardship.

Recent data shows that gas and electricity disconnections increased significantly across the first three weeks of 2022; more residential energy users missed bill payments in December than any time since 2019, and energy debt levels are high.<sup>5</sup>

## 2 Customer and stakeholder engagement

### 2.1 Do you have any feedback on our customer and stakeholder engagement program?

#### 2.1.1 Consumer engagement for this reset should be considered in context

AGIG conducted customer engagement sessions with focus groups from their network.

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<sup>1</sup> Consumer Action Law Centre. 2019. *Energy Assistance Report*, accessed 1 March 2020 [https://consumeraction.org.au/wp-content/uploads/2019/07/190620\\_Energy-Assistance-Report\\_FINAL\\_WEB.pdf](https://consumeraction.org.au/wp-content/uploads/2019/07/190620_Energy-Assistance-Report_FINAL_WEB.pdf)

<sup>2</sup> Australian Council of Social Service & Brotherhood of St Laurence. 2018. *Energy stressed in Australia*, ACOSS, viewed 2 September 2019, [http://library.bsl.org.au/jspui/bitstream/1/10896/4/ACOSS\\_BSL\\_Energy\\_stressed\\_in\\_Australia\\_Oct2018.pdf](http://library.bsl.org.au/jspui/bitstream/1/10896/4/ACOSS_BSL_Energy_stressed_in_Australia_Oct2018.pdf)

<sup>3</sup> Australian Council of Social Service. 2019. *'I regularly don't eat at all': Trying to get by on Newstart*, accessed 1 March 2020, <https://www.acoss.org.au/wp-content/uploads/2019/07/190729-Survey-of-people-on-Newstart-and-Youth-Allowance.pdf>

<sup>4</sup> VCOSS. 2018. *Battling On report*. <https://vcoss.org.au/wp-content/uploads/2018/11/Persistent-Energy-Hardship-FINAL-Web-Single-Page.pdf>

<sup>5</sup> Essential Services Commission. 2022. *Energy customer support during the coronavirus pandemic* <https://www.esc.vic.gov.au/electricity-and-gas/market-performance-and-reporting/energy-customer-support-during-coronavirus-pandemic>

BSL observed an online AGN engagement session with Pakenham and Traralgon (residential/business) on 14 February.

This was the third round of engagement for this group. Customers provided feedback on the complicated issues brought up by this access arrangement like accelerated depreciation and spending on hydrogen compatibility, as well as the proposal for an education fund and a priority services program.

We feel that it is more important for parties involved in this access arrangement to acknowledge first that the complicated nature of the reset requires that customer feedback is unlikely to reflect a full consideration of the implication of all cited preferences, and that the results of customer feedback should be considered with a weight that reflects these limitations. A broad understanding of the context issues like electrification, renewable gas and accelerated depreciation is necessary to inform decision making – therefore, customer input through engagement sessions should inform, rather than determine the AER’s decision making for this reset.

While there were some positives to the design of the engagement – such as engagement with different subgroups, over three sessions each, and participation by senior AGIG staff – there were also limitations. Some of these noted by BSL include a limited time for discussion and consideration of new concepts amongst focus group members, and limited opportunities for participants to ‘opt out’ of answering questions they did not feel they fully understood.

More importantly, we note that contested topics from this access arrangement were presented from the networks’ point of view, without also presenting the point of view of stakeholders opposed to any given proposal. For example, accelerated depreciation was presented as a way to reduce future costs for consumers. The networks did not present other alternative solutions proposed by stakeholders, such as the potential for networks to carry some of the cost should assets become stranded. The networks also failed to present other negative aspects of accelerated depreciation discussed through the roundtable – such as the potential for accelerated depreciation to limit the networks’ access to funds required for essential operations in the future.

### 2.1.2 Stakeholder engagement through the roundtable was open and informative

Engagement with consumer advocates and industry and other stakeholders through the roundtable was open and informative, and this process is ongoing.

Network businesses offered deep dives into areas of concern, which are scheduled for coming months.

### 2.1.3 Future of gas modelling must be released before it can be referenced to support a proposal

Gas distribution businesses have collaborated on a Future of Gas scenario planning project, to support their proposal.

Assumptions and methodology for this project will need to be made public, before the results of the exercise can be meaningfully referenced through the access arrangement. Stakeholders should be given an opportunity to interrogate the assumptions made.

## 2.2 Have we considered customer and stakeholder feedback and responded appropriately in this Draft Plan?

### 2.2.1 The draft plan does not adequately address all concerns raised by BSL

The future of gas considerations raised by this access arrangement mean that this is a complicated and important reset. The draft plan doesn't adequately address the concerns of BSL on behalf of residential, and particularly vulnerable consumers, for this access arrangement, as noted in this document.

The short and long-term interests of different customer segments should be considered carefully in the AER's decision regarding revenue for this access arrangement – within the broader context of the energy sector and its transition.

The results of customer engagement should be considered as one input into the design of this proposal, and its evaluation.

### 2.2.2 BSL does not endorse all responses to stakeholder feedback summarised in Table 5.11

Table 5.11 summarises AGIG's response to stakeholder feedback.

BSL does not endorse all responses in this table, as outlined our responses through this submission.

## 3 Future of gas

### 3.1 Do you support the no regrets actions we have proposed?

#### 3.1.1 Hydrogen readiness expenditure should not be funded

AGN has proposed \$25m for a hydrogen readiness program, and Multinet (MGN) \$21m. The expedition of MGN's mains replacement program is also justified on the basis of hydrogen readiness.

AGIG has said this is to:

*'replace incompatible parts such as axial flow regulators and some valves which use particular incompatible stainless steels (\$8 million);*

*bring sites up to a higher hazardous area classification standard (\$6 million);*

*implement revised in service welding procedures and reinforce existing welds where required and undertake hardness testing for a random sample of welds in each pipeline to show compliance with the hardness limits (\$4 million);*

*modify billing systems to cater for midstream injection of renewable gases with different energy densities (\$3 million); and*

*a further \$0.6 million for capacity review of network regulating stations, transmission pipeline compatibility assessments, review of hazardous areas in our network and updates to a number of processes, procedures and work plans.'*

Or in summary, to:

*‘Make sure our **network is ready for hydrogen blending**; and*

*Identify **no regrets actions** which may also assist the transition.’*

They have stated that their goal for introducing hydrogen (or other alternative gas) is 2030 – with a ‘stretch target’ for the network to accommodate 100% alternative gas by 2040.

We do not believe there is sufficient evidence that it is prudent or efficient for the expenditure associated with the hydrogen readiness program to be passed on to consumers as part of the total revenue calculation, for the following reasons:

1. We are unsure that it has been adequately demonstrated that Introducing a 10% blend is an efficient step towards decarbonising residential gas loads, or that it will benefit consumers,
2. We are unsure that it is conformant with requisites for spending under National Gas Law (neither the NGO, nor Rule 79),
3. We are unsure that there is sufficient certainty yet established regarding the proposal to reticulate 100% green hydrogen in future to meet residential heating, cooking and hot water loads (in terms of future costs for green hydrogen, the timeline for its development, solutions to a range of current technical challenges) to warrant spending consumer money on investing in the infrastructure to support this decarbonisation pathway,
4. Electrification of current consumer gas loads may provide a more competitive decarbonisation pathway than the reticulation of green hydrogen. If this pathway is adopted, investment in gas network hydrogen compatibility will be wasted, and will add to the size of the RAB at risk of stranding. AGIG states in both draft plans<sup>6</sup> that “decarbonising by way of full electrification to meet the ambitious policy targets set by Governments will prove more costly for customers in the long run, requiring very significant investment in electricity infrastructure to meet the increased demand.” Yet, AGIG has not yet released modelling to support this. Any modelling, and the assumptions underpinning it, that supports AGIG’s contention needs to be fully scrutinised.

The Victorian Government’s Gas Substitution Roadmap will be released in the first half of 2022. This process may provide useful direction regarding Victoria’s decarbonisation pathway, which may inform the prudence of the proposed spending.

### 3.2 Do you consider the accelerated depreciation approach we have proposed to be a reasonable response to the uncertainty we face?

#### 3.2.1 We are opposed to the use of accelerated depreciation as proposed, as a measure to manage uncertainty

BSL and Renew submitted a joint response to the AER’s information paper on regulating gas networks under uncertainty outlining our position on accelerated depreciation, as part of our response to the VTS access arrangement initial proposal.

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<sup>6</sup> See section 6.4 of AGN Victoria’s Draft Plan

We oppose the proposal to use accelerated depreciation as a measure to address uncertainty, because we do not accept that it addresses the consumer risks associated with an unmanaged consumer exit from the gas network. We have argued, that in an unmanaged gas-exit scenario, accelerated depreciation might increase the risks for consumers by:

a. allowing networks to continue to pursue high-risk investments to augment the network at risk of stranding, and pursue speculative investment in technologies such as hydrogen, while passing those risks to consumers and,

b. raise prices further, if consumers were to leave the network – with the potential to accelerate the emergence of an unmanaged exit scenario.

Accelerated depreciation may also threaten access to adequate funds to maintain the operation of the asset base, if the RAB becomes sufficiently under-valued in future.

Because of these risks, we don't support the proposal to use accelerated depreciation to manage the networks' stranding risk. We argue that there is a need for a much more comprehensive framework to effectively and fairly manage (minimise and allocate between consumers, network businesses and other stakeholders) the potential risks of a transition.

This is further explored in our longer submission in response to the AER's information paper.<sup>7</sup>

### 3.3 Are there any other factors or information you think we should be considering in regard to the future of gas and the energy transition more broadly?

We don't believe it is useful to overstate the extent to which state or federal government policy has caused the stranding risk facing the networks. We also don't think it is reasonable to cite changes in state and federal climate policy as a determining factor that would justify a claim to mitigate their risk.

## 4 Pipeline and reference services

### 4.1 Do you think the pipeline and reference services we have proposed are appropriate?

We question the allocation of the services 'no access (gas meter)' and 'Reconnect service in street after payment' as non reference services.

These services should be expected to disproportionately effect vulnerable consumers, and would be better allocated as 'Ancillary Reference Services.'

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<sup>7</sup> APA 2022 2023-2027 VTS Access Arrangement Proposal <https://www.aer.gov.au/networks-pipelines/determinations-access-arrangements/apa-victorian-transmission-system-access-arrangement-2023%E2%80%9327/proposal#step-79753>

## 5 Opex

### 5.1 Do you support our approach to forecasting operating expenditure? Is there sufficient information to understand our proposals and the basis of the costs included?

#### 5.1.1 Evidence will be required to demonstrate that the opex base year is efficient

AGIG has proposed to use 2021 as the base year for the formal proposal. The formal proposal must present sufficient evidence that this is an efficient base year, including analysis to demonstrate efficiency benefits realised by the addition of MGN and DBP to the AGN business in the current period (2017.)

The formal proposal should clarify the treatment of debt raising costs in determining the base year opex, ie whether debt raising costs have been removed as a non-recurrent item.

#### 5.1.2 Opex step changes will need further evidence of their qualification as step changes, and their prudence

MGN has proposed \$16.8m of step changes, and AGN \$30.6m (with the biggest difference being due to AGN's larger capex to opex changes.)

- Capex to opex (AGN \$14.1m, MGN \$4.4m)
- Cyber security (AGN only \$4.1m)
- Renewable gas communication (\$7.4m)
- Priority services (\$5m)

A proportion is also due to proposed augmentation.

More detail will be needed to establish the qualification of all proposed increases as step changes.

The formal proposal should provide information on:

- The changes to capitalisation of overheads, specifically the approach and the methodology taken
- IT and cyber security spending
  - A cyber security business case should be submitted to the AER
  - A detailed business case for the proposed IT platform spending from a customer point of view.

#### 5.1.3 Opex trends require supporting evidence

##### 5.1.3.1 It is important that opex returns ongoing productivity gains

AGIG has proposed a productivity increase of 0.4%. While this is consistent with the rate set by the AER in the AGN SA re-set, it is lower than the minimum 0.5% recommended by the AER for electricity networks.<sup>8</sup>

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<sup>8</sup> Headberry, David. 2021 *Report to the Sponsoring Organisations, Brotherhood of St Laurence, Victorian Council of Social Service, Renew to the Victorian EDPR*  
<https://www.aer.gov.au/system/files/Victorian%20Community%20Organisations%20->

To inform our feedback to the formal proposal, we are keen to better understand the AER's perspective on a reasonable level to establish for gas network businesses, to mirror the imperative for competitive commercial businesses for continual improvement.

We encourage the network businesses to apply ambitious productivity improvement targets.

#### 5.1.3.2 Trend rate changes will need to be released to support the Initial Proposal

AGIG notes that they are still having work conducted by experts to finalise the trend rate change.

These reports should be released with the initial proposal.

#### 5.1.3.3 Calculating opex output growth with respect to mains length should be carefully scrutinised

AGIG is proposing to calculate output growth with respect to customer number growth and kilometre growth of pipeline length. It is not clear whether this is a departure from the methodology used in previous resets – this should be confirmed.

## 5.2 Do you support investment in a priority services program? Do you have any feedback on the activities we have proposed?

### 5.2.1.1 While we welcome the work done to date to explore this proposal, we don't think there is a case to fund a priority services program

Victorian distributors ran a useful consultation process with stakeholders from the community energy advocacy sector, to explore the best focus for the design of a program to support vulnerable gas consumers.

The areas of focus identified through this process are summarised in AGIG's draft proposal:

*'The proposed Priority Service Program is a new program for the next AA period, with the objectives of:*

- *Doing more to financially support our customers and improve affordability;*
- *Improving how we communicate with our priority services customers, especially CALD customers; and*
- *Simplifying our processes to ensure that they are easily accessed by all.*

*To meet these objectives, we have identified the following potential initiatives, which were identified as having considerable customer benefit by members of our Priority Service Advisory Panel:*

- *The establishment of a dedicated Customer Support role within AGN, which will be responsible for*

- *resolving complaints involving our priority service customers, liaising with community organisations, developing referral programs for our customer service teams and implementing the new services included in the program.*
- *Train front line staff to engage with empathy and sensitivity and refer priority service customers to:*
  - *our program and other initiatives available from AGN to support them;*
  - *dedicated support services where available and required;*
  - *energy efficiency advice available through trusted organisations; and*
  - *Retailer programs that enable customers to 'selfread' their meter.*
- *Improve our communications with priority service and CALD customers by improving the accessibility of our communications, including by making information available in multiple languages using, easy English and using visuals where possible.*
- *Ensuring optionality around communication channels to ensure that priority service customers are able to choose how they receive our communications.*
- *Provide funding for:*
  - *Gas appliance safety checks;*
  - *Emergency appliance repairs; and*
- *Emergency heating and cooking appliances during extended outages.*
- *The development of a Priority Service Register using an upgraded Customer Relationship Management System – this register will form the basis of a range of services to our priority customers. The development of this register would also mean that customers do not need to self-identify as vulnerable, which reduces the burden of providing proof and potential stigma associated with asking for support.'*

BSL has consulted with other Victorian community organisations about this proposal. The measures identified are important, however, we do not support the proposed funding model.

The priority activities, identified through the distributors' consultation, should be incorporated within existing operational procedures without the need to establish a new fund, significant addition spending or the introduction of an opex step change.

We encourage AGIG to use the coming period to incorporate aspects of the program outlined in the draft proposal as part of their operations without spending additional funds.

Avoiding expanding the distributors operations is an appropriate economy given the networks' identification of a stranding risk.

### 5.3 Do you support investment in a renewable gas communications and education program? Do you have any feedback on the activities we have proposed?

#### 5.3.1.1 We don't support the establishment of a 'future of gas' educational fund

AGN and MGN have both proposed an opex step change of \$7.4m (AGIG total \$14.8m) for a renewable gas communications and education program. We oppose this proposal.

The questions surrounding alternative options for Victoria's decarbonisation – chiefly electrification vs future gas – are complicated – both with respect to the decisions facing individual consumers, and those facing our shared infrastructure. It should be expected that the interests of network businesses will not always align with those of consumers with respect to these issues.

Given the complexity of these issues, and the potential for a difference between consumer and network interests – it is best for public communication regarding decarbonisation options to be conducted by an independent third party, not by the networks.

Consumers should not pay for this program.

## 6 Capex

### 6.1 Do you support our approach to forecasting capital expenditure?

#### 6.1.1 Any new customer connections should be carefully scrutinised, given the identification of a stranding risk for the network

AGIG has indicated that their network may face a stranding risk, given the need for a transition away from fossil gas.

New customer connections drive a significant amount of capex, though direct costs, and by driving proposed augmentation (\$238.6m for AGN and \$80m for MGN). They have also been included in demand forecasts that have led to significant new augmentation proposed for APA's transmission network in the current reset.

Recent interim modelling presented by DELWP's Gas Substitution Roadmap team has shown that households in new homes will have significantly lower energy costs by operating all-electric appliances, rather than gas appliances, even when the cost of augmenting the electricity network to accommodate a growing winter peak, is considered.

Given that there is evidence that establishing new homes to be electric only will benefit both the households in those new homes, and also existing gas customers (by avoiding further stranding risk) – then the prudence of connecting new gas customers should be carefully interrogated in this reset.

Where new connections are not in consumers' interest, it is important that decision makers collaborate to revise any regulatory barriers that would prevent an optimal development pathway (including requirements to connect.)

(Consumers will also benefit from an evaluation of the extent to which avoiding new gas connections will contribute to a demand-side reduction to avoid the construction of new transmission assets that have been identified to be at risk of stranding.)

#### 6.1.2 Conventional augmentation (including gates) should be avoided, where possible

As discussed in Section 6.1.1, consumers would like to see an evaluation of the potential to avoid the proposed conventional augmentation program, by avoiding new gas connections.

#### 6.1.3 Evidence will be required for the significant capex classed as 'other'

The 'other' category of capex totals a substantial \$58.3m for ANG and \$43.8m for MGN.

This includes the future gas investment, as well as alterations of transmission pipelines to allow for inline inspection.

Projects within this category will need to demonstrate adequate evidence as conforming expenditure, in the formal proposal, to determine acceptance.

Ausnet's identification of a stranding risk warrants a higher-than-BAU level of evidence for augmentation.

#### 6.1.4 We don't support the proposal for an innovation fund

AGIG has proposed the introduction of an innovation fund.

This has been described as funding activities that are:

- *'Innovative – which means based on new or original concepts or involves technology or a technique not previously implemented in the distribution of gas and in the form of a trial, development or demonstration;*
- *Likely to result in customer benefits through price, quality or reliability;*
- *Have an expected payback period of 6-15 years; and*
- *Not be eligible for funding under other state or federal government schemes.'*

We don't support the proposal for a network innovation fund.

- We believe there are already better mechanisms in place to fund innovation expenditure for the gas networks that are more appropriate in a regulated environment – such as speculative investment, or externally-managed government funding through programs such as ARENA
- The fact that networks have identified a stranding risk, reflected in their request for accelerated depreciation, is inconsistent with a request for consumers to fund research (which is by nature, high-risk speculative investment aimed at improving future services)
- Some areas in which gas networks may be likely to spend innovation funds should be expected to include 'future gas' development programs. Future gas development is a highly uncertain proposition, and one for which consumer and network business interests may not be aligned. Expenditure is best allocated by independent experts, to optimise expenditure on developing renewable gas from a

customer perspective (which may not include spending on reticulation infrastructure at this early stage of green hydrogen development).

#### 6.1.5 MGN mains pipe replacement should be demonstrated as necessary on safety grounds

MGN has proposed \$457.5m to accelerate a low-pressure mains renewal program that has been conducted through the current period. AGN has largely completed a similar project, and is proposing \$24m.

The expedition of these works has been justified as a measure to support hydrogen readiness. Our perspective on infrastructure spending to support hydrogen is outlined in Section 3.1.1, and this applies to the proposal to the expedition of these works.

Detailed evidence for this expenditure will need to be included in the formal proposal. This should be revised to reflect the current changes in circumstance for the upcoming period – including the identified risk of asset stranding. We would expect that, if mains replacement is required from a safety perspective, that this is supported by evidence from the safety regulator.

Particular care should be given by all parties to consider the logic of simultaneously accelerating the capex expenditure to replace mains, in part to accommodate hydrogen, and also accelerating depreciation to guard against stranding risk.

#### 6.1.6 IT improvements \$76.1m should be demonstrated as necessary from a consumer perspective

MGN has proposed \$76.5m and AGN \$89.5 for IT spending

For AGN this includes:

- Uplift in cyber security, digital customer service and information management
- Transition and bring in-house a number of core IT systems toward the end of the period

For MGN this includes:

- Maintaining existing systems and infrastructure
- Major upgrade of our Enterprise Resource Planning (ERP) system
- New investment in digital customer experience

The need for these programs must be demonstrated in the formal proposal in much greater detail, and from a customer perspective.

### 6.2 Is there sufficient information to understand our proposals and the basis of the costs included in our capex forecast? Is there any other specific information that would assist in the assessment of our proposal?

#### 6.2.1 Capex proposals should be accompanied by evidence that they are needed

All capex proposals should be accompanied by evidence of their requirement in the initial proposal.

## 7 Incentives

### 7.1 Do you support our proposed changes to the contingent capital expenditure efficiency scheme (CESS) to align it with the schemes recently implemented in NSW and SA?

#### 7.1.1 BSL has concerns that the CESS may not function as designed to deliver efficiency to consumers

BSL has some concerns around the CESS, and its effectiveness in delivering efficient spending to consumers.

We intend to raise these concerns separately in a submission to the AER's current review on incentive schemes.

### 7.2 Do you support our proposed introduction of a gas network innovation scheme (GNIS) which we have codesigned with customers, stakeholders and other network businesses?

#### 7.2.1 BSL does not support a GNIS

We don't support the proposal for a GNIS, as detailed in Section 6.1.4.

## 8 Demand

### 8.1 Do you support our approach to forecasting demand?

#### 8.1.1 Forecast customer numbers should be revisited after the Victorian Gas substitution roadmap (and the 2022 GSOO)

Network and Customer growth accounts for a growth of 0.4% per year for MGN over the next access arrangement, and 1.4% per year for AGN.

We acknowledge that the unusual circumstances of the pandemic and its aftermath have made forecasting particularly difficult.

However, it is also important that customer number forecasts are adjusted to accommodate the impact of the Victorian Gas Substitution Roadmap, in the first half of 2022 and any revised GSOO that is released by AEMO.

We also note that it may be important, in the context of the identified stranding risk, that gas networks are not extended to some new housing developments (noting that there may be current regulatory barriers that would require revision to avoid new connections.) Augmenting the network to accommodate new connections, where new homes are known to be cheaper to run on electricity only, and where a stranding risk has been identified – is a disservice to new and existing customers.

#### 8.1.2 Some aspects of the forecasting approach presented may lead to an overestimation of customer number and demand growth

BSL notes that there are many factors making forecasting particularly difficult in the current reset, including:

- Ongoing disruption from COVID-19 and its aftermath

- Declining competitiveness of gas, and emerging consumer trend towards electrification
- Development of Victorian Government Gas Substitution Roadmap

However, we also note that in the context of an identified potential stranding risk, overestimating customer and load growth may have particularly high future impacts for consumers.

We note the potential inconsistencies in association with the forecasts presented in the draft plans, noting that further detail will be required to support the initial proposals.

- AGIG states that the forecast for new customer connections is driven by HIA's forecast for new dwellings, ie that in the 'medium term, the COVID-19 pandemic will have a material impact on the drivers for housing demand, including density, location and type of housing. The HIA sees a shift away from construction in large cities such as Sydney and Melbourne in favour of regional areas, which has reduced the level of construction activity expected during the AA period.'

Despite that statement, Figure 13.3 shows connections growth forecasts that do not seem significantly lower than pre-COVID-19 growth.

- We also question the apparent assumption that all new homes will continue to chose to connect to gas, given the demonstrated favourable NPV, for new homes to forego a gas connection. The customer trend towards adopting electric appliance is acknowledged in the demand-per-customer forecast. However, when a customer has substituted one major appliance with electric, there is a strong commercial case to switch to all-electric. It seems inconstant to omit this driver from the connections forecast.
- Figure 13.7 shows commercial customer consumption per connection. This data series suggests that customer consumption per connection will grow, while pre-COVID-19 consumption can be seen to be stable. Given the expectation of near-term future gas market price increases, and given the opportunities for some commercial operations to realise similar gains to those acknowledged for residential consumers through electrification – this assumption does not seem substantiated.

## 8.2 Do you have any feedback on how we have had regard to energy policy changes, Victoria's net zero by 2050 target, and other factors that will affect demand over the next AA period?

### 8.2.1 We encourage the gas distribution businesses, and the AER, to be flexible through the access arrangement process, to best accommodate the emerging outcomes of the Victorian Government's Gas Substitution Roadmap process

It is in consumers interest that the infrastructure planning decisions included in the access arrangement are consistent with the outcomes of the Victorian Government's Gas Substitution Roadmap, which is currently in planning.

Further, we would like to make the following recommendations with respect to the relationship between these processes

- It is important to acknowledge that effective action on climate change is an imperative, not an artifact of government policy. The absence of clear government direction on transition planning actually makes

infrastructure planning harder for investors and consumers, not easier – so that we do not think that a change in government policy – such as the Victorian Government’s 2050 target or Gas Roadmap – should be received as justification for the mitigation of risk, or other concession to gas networks.

- Where government policy undertakes an informed and reasonable assessment of various pathways, or transition measures, and develops a policy to pursue one that is more viable – this should not be received as ‘picking a winner’ or creating an ‘uneven playing field.’ Supporting competitive technologies will be a necessary factor of the transition.
- The networks’ modelling will need to be released, with details of assumptions and methodologies, before this can be accepted as a meaningful input to the access arrangement process.
- Modelling must properly account for the relative uncertainties of various proposed pathways, and the estimates that underpin them. When an estimate is highly uncertain (such as the future price trajectory of green hydrogen in Australia) appropriate treatment (such as conservative estimates, sensitivity analysis or estimation within a range) should be applied.

## 9 Revenue and prices

### 9.1 Would you prefer to see a different profile of revenue, for example, a reduction at the start of the period followed by larger increases in later years?

We generally support the development of a revenue profile that aims to minimise volatility within and between periods. (Additional consideration in this period may be given to the revenue profiles’ effect on the COVID recovery for affected households and the broader economy.)

We are advocating for a number of changes that would reduce total proposed revenue in this submission. The final revenue (and tariff) profile over the period should be revisited with respect to the final revenue.

#### 9.1.1 Revenue stability and/or reduction should not rely on the reduction from the rate of return

The revenue proposed for the next period is marginally higher than the current period.

However, if it were not for the lower revenue associated with the rate of return – reflecting the low interest environment of recent years – the proposed revenue would be significantly higher than the current period.

Securing ongoing affordability generally requires revenue reductions that are independent of the rate of return.

#### 9.1.2 Revenue per customer is increasing, and RAB per customer is decreasing

Section 3.2.1 outlines our view on accelerated depreciation.

Separate to these comments, we note that an effect of the proposed accelerated depreciation would be to increase revenue per customer, and decrease the RAB per customer.

It would be useful to understand these two metrics: revenue per customer and RAB per customer; as they would be calculated without the effect of accelerated depreciation.

We also note these metrics’ sensitivity to forecast customer numbers (forecasts are discussed in Section 8).

### 9.1.3 BSL are keen to better understand the consumer impacts of MGN's proposal for consistent pricing

MGN's draft proposal includes a proposal to shift to consistent annual pricing, rather than seasonal. This proposal is not mentioned in the AGN proposal.

BSL is interested to further understand the implications of the proposed tariff changes on Victorian residential consumers, particularly those on low incomes or those in, or vulnerable to, financial or energy related stress. We would appreciate being briefed on any modelling that identifies the impacts on consumer bills, and in particular on different consumer cohorts (eg, small, medium, large users, and concession card status if known).

We are also keen to understand whether there is a difference in the tariff structure being proposed for the two networks, and whether there is a consumer-centric reason for any difference.

### 9.1.4 Where possible, BSL encourage distributors to facilitate customer choice through simple and standard tariff structures

The current complexity of gas tariffs makes it very difficult for consumers to compare gas offers and find the gas offer that best suits their circumstances.

We encourage distributors to give consideration to suitable opportunities to simplify and standardise gas pricing structures. For example, we would be interested to better understand whether there is an opportunity to structure tariffs around common block tier levels between distributors – and what the implications of pursuing simpler and more standard tariff structures might be.

### 9.1.5 Tariff structures that incentivise gas consumption should be questioned in the changed circumstances of the current access arrangement

AGIG has stated that they have adopted a declining block tariff structure to incentivise higher gas consumption, stating:

*'Given declining average gas consumption, our tariff structure is designed to encourage greater network utilisation. We consider our pricing structures align with our obligations that require us to promote the efficient use of the network.'*

We are highly sceptical of the value of a declining block tariff structure, particularly when considering medium to long term consumer interest. We question whether deliberate incentives to encourage gas consumption is in the consumer interest, considering:

- The decline in traditional affordable flexible gas supply to Victorian consumers, and the considerable cost involved to access new gas sources. This is particularly relevant to the current APA Access Arrangement, which has proposed significant new augmentation of a network that has been identified as being at risk of stranding, because of marginal potential peakday shortfalls.

Demand management to avoid the cost of new transmission, and the need to source gas from new, more expensive sources, will benefit all customers.

- Encouraging higher consumption of fossil gas has negative climate consequences.
- The declining block tariff structure reduces the potential for households who are energy stressed to reduce their costs by implementing energy efficient practices.

## 10 References

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