



P.O. Box 396
Dickson ACT 2602
10 August 2015

To: Mr Warwick Anderson, Australian Energy Regulator
Re: Submission on ActewAGL's access arrangement proposal

Dear Mr Anderson,

I am a member of the Energy Consumer Reference Council (ECRC) established by ActewAGL Distribution (AAD). I attend the ECRC as a representative of the North Canberra Community Council and I circulate information about meetings of the ECRC to other community councils in Canberra. The views I express below have been informed by discussions I have had with community members relating to the ACT gas network over the past 6 months.

1. Length of AAD's submission

AAD's proposal to the AER consists of around 150 documents with a combined total of around 7000 pages. Developing informed comments on such a proposal within one month could only be undertaken by a team of people employed full time to do so.

Given the length of the proposal I should state that I have not read the entire proposal and I have only skimmed through some documents. My failure to comment on a particular issue in AAD's proposal should not be seen as an endorsement of that issue.

The length of AAD's proposal also raises the question as to whether the current process for determining revenue allowances for owners of energy distribution networks is an effective and efficient process. I think that consideration should be given to finding a market mechanism to test the appropriateness of the AER's decisions on revenue allowances rather than having a long, drawn out, public consultation process.

One possible market mechanism would be to require owners of distribution networks to offer their network for sale after each 5 year determination of the AER. If offers for the network are made at or above the fair value of the network then the AER's decision is probably appropriate. If offers come in below the fair value of the network then there would be strong grounds for reviewing the revenue decision. Such a mechanism would also facilitate the transfer of ownership of distribution networks to entities that can operate them most efficiently.

2. Current and future viability of the gas network

Appendix 3.01 of AAD's proposal shows that ACT households are switching away from gas appliances at a significant rate (see pages 43 and 95 of Appendix 3.01). Core research believes that the significant efficiency gains and lower running costs from reverse cycle air conditioning and solar water heating are being pursued by a substantial number of households in the ACT. This is expected to increase during the forthcoming Review Period and this will help to sustain the continued decline in demand per residential connection.

The efficiency of reverse cycle air conditioning has considerable scope to increase from current levels while the efficiency of current gas heaters is already close to the theoretical maximum of 100%. In addition, page 24 of Appendix 12.01 of AAD's proposal states that domestic wholesale gas prices are forecast to rise due to demand in the international market for gas produced in the eastern Australian market. This combination of factors will make gas heating appliances even less economically viable than they have been in the past and will accelerate the transition of consumers from gas to electric appliances. As consumers leave the gas network the cost of the network will need to be distributed across a smaller number of consumers, increasing costs per consumer, and further encouraging consumers to leave the gas network.

These factors raise serious questions as to the viability of the gas network and I believe serious discussions are needed to facilitate the orderly transition of gas consumers to more efficient electric appliances.

3. Gas tariffs

The proposed gas tariffs in ActewAGL's proposal are complicated, and I am not convinced that the proposed tariff structure will result in more efficient use of the gas network. Gas appliances, other than for heating, typically use a small amount of gas and so encouraging households to have multiple gas appliances will not result in a substantial use of the gas network during non-peak periods. Providing lower prices per GJ for heavy gas users with multiple gas appliances will also encourage increased gas use during peak periods.

A more efficient use of the gas network could be achieved by establishing time-of-use tariffs and seasonal tariffs that use price signals to encourage gas use during non-peak periods. To cover the costs of metering such tariffs, the tariffs would only be worthwhile for large gas users who can effectively limit their gas use during peak periods.

The tariffs in AAD's proposal include a range of fixed charges, but I didn't see any data justifying the amount of these charges. In addition, the proposed use of declining block tariffs discourages energy efficiency and I did not see any data in AAD's proposal justifying the size of the proposed blocks or the proposed block rates.

As a basic premise, gas consumers should pay for the gas network in proportion to the amount of gas that they use. For a typical gas consumer who does not have scope to limit gas use during peak periods, I would like to see an investigation of a single distribution tariff that is a simple \$/GJ of gas consumed, without any blocks. This tariff would apply to all residential, business and major customers and would mean that high gas consumers would pay proportionately more for the gas network. Such a tariff would encourage energy efficiency and would protect vulnerable consumers by

allowing a consumer to efficiently reduce their gas bill by reducing gas consumption.

The exact figure for this tariff would need to be determined after the total amount of revenue needed to run the distribution network has been determined, however there is considerable scope to determine a figure that falls below the standalone costs and above the avoidable costs for residential and business consumers (assuming the figures stated in Appendix 12.02 of AAD’s proposal are correct).

If it can be shown that this type of tariff does not accurately reflect the costs of providing a gas supply to consumers, a small fixed charge (say \$10 or \$20 per annum) could be included for all types of consumers. The cost of meter reading and maintaining an open gas connection should be, with current technology, negligible.

I am not familiar with “demand customers” and it is not clear to me why such customers would need a different type of tariff. Any tariff for demand customers should ensure that such customers are paying their appropriate share of network cost as determined by the proportion of gas that they consume.

4. Other comments

The following table contains a range of other comments about AAD’s proposal:

Document	Page	Aspect of document	Comment
Consumer summary	9	Key principles used in developing the new pricing structure.	<p>The principles don’t reflect the promotion of energy efficiency and the protection of vulnerable consumers as discussed in meetings of the ECRC.</p> <p>There was concern expressed in community forums and in ECRC meetings about the AAD’s strategy of attempting to grow the network given that more electric appliances are replacing gas appliances.</p> <p>Consumers are not adverse to sudden changes to customer bills if such changes result in a bill reduction.</p>
Access arrangement information overview	7	“This is the lowest sustainable price path, and takes account of feedback from consumers, via the Energy Consumer Reference Council (ECRC) and community engagement, on their preference for a stable price path with minimal price shocks.”	I can’t see this preference recorded in the minutes of the meetings of the ECRC.

	31	“The proposal to maintain the targets recognises that consumers have told ActewAGL Distribution, via the ECRC, community workshops and the willingness to pay studies, that they do not want a reduction in service standards.”	I can’t see this in the minutes of the meetings of the ECRC. I have asked AAD for a graphical representation showing the trade-off between price and reliability of gas supply. To date, this has not been provided.
	34	Five themes reflected in feedback received during the consultation program.	I would say that the key themes of the consultation program were that consumers want to: <ul style="list-style-type: none"> • keep prices as low as possible; • encourage energy efficiency; • protect vulnerable consumers; • avoid over expanding a gas network that is not viable.
	61	“ActewAGL Distribution has engaged with consumers, via the ECRC, on the basis for the rate of return proposal.”	I can’t see this in the minutes of the meetings of the ECRC and I don’t recall this being done in any detail.
	73	<p>“ActewAGL Distribution presented a range of price path options to the ECRC and discussed the options over the course of three meetings. The ECRC noted that it could not endorse a particular price path, but it could agree on the following principles, which were included in the Communiqué released after the 18 May 2015 meeting:</p> <ul style="list-style-type: none"> • if there is a reduction in gas distribution charges, the reduction should be passed on to customers early in the five year regulatory period; and • if there is an increase in the gas distribution charges then the impact on customers should be passed on gradually (not 'front loaded' at the beginning of the regulatory period). <p>ECRC members had also expressed during the meetings a preference for price stability and no price shocks.”</p>	<p>This is incorrect. To date, no communicate has been issued and nothing has been agreed. The ECRC has not even discussed how it makes decisions.</p> <p>The North Canberra Community Council executive committee passed a motion on 21 July 2015 “That a representative of the NCCC attending meetings of the ActewAGL Energy Consumer Reference Council is not authorised to make decisions on any matter without the prior agreement of the executive committee of the NCCC.” To date no agreement of the executive committee of the NCCC has been given.</p>

	85	“Price stability is also an important consideration for consumers. This has been confirmed in feedback provided by the ECRC to ActewAGL Distribution.”	I can’t see this in the minutes of the meetings of the ECRC.
ActewAGL Access Arrangement	38	Clause 13	It isn’t clear to me what deficiency in the law of contract or tort this clause is trying to correct. I would prefer to see this clause removed.
	53	Schedule 2	I think estimating individual appliance loads is onerous and unnecessary.
	55-66	Schedule 3	See comments above in relation to tariffs.
Gas Access Arrangement Schedule 5	17	Clause 3.3	What deficiency in the law of evidence is this clause trying to correct? I would prefer to see the first sentence of this clause removed.
	28	Paragraph 9.4(b)	If this paragraph is retained there should be a similar paragraph stating that ActewAGL indemnifies Users for loss relating to gas and gas leaks from ActewAGL’s network. There should also be clarity relating to who has responsibility for gas leaks occurring at the connection between ActewAGL’s network and a User’s network/equipment.
	70-74	Clause 26	I don’t think this clause is necessary and the default law should apply. Limitations on liability simply transfer risk to other parties who are less able to control the risk.
Attachment 1 – consumer engagement	18	“Information on the consultation paper and workshops was distributed through the following organisations: • combined community councils;”	Information on the consultation paper and workshops were distributed to the chairs of each of the community councils but I am only aware that some community councils further distributed the information to their members.

ActewAGL was invited to comment on a draft of this submission but declined to do so.

Regards,

A handwritten signature in black ink, appearing to read 'Marcus Hipkins', followed by a period.

Marcus Hipkins

Committee member, on behalf of the North Canberra Community Council

email: info@northcanberra.org.au

Protecting, promoting and enhancing the economic, cultural, social and environmental well being of the residents of Acton, Ainslie, Braddon, Campbell, Dickson, Downer, Duntroon, Hackett, Lyneham, North Lyneham, O'Connor, Pialligo, Reid, Russell, Turner and Watson.