



17 February 2021

Mr Sebastian Roberts
General Manager
Australian Energy Regulator
GPO Box 520
Melbourne VIC 3001
For

Email: Evoenergy2021@aer.gov.au

Dear Mr Roberts

RE: AER Draft Decision and Revised Access Arrangement Proposal for Evoenergy 2021-26

Origin Energy (Origin) appreciate the opportunity to provide a response to the AER's draft decision and the revised regulatory proposal lodged by Evoenergy for its ACT (and surrounding areas) gas distribution network for the period from 1 July 2021 to 30 June 2026.

Origin is largely supportive of the AER's draft decision and acknowledges the significant progress that the AER and Evoenergy have made in driving the network towards achieving more efficient expenditure levels and the resultant impact on affordability. Origin believes the AER's draft decision contributes positively to affordability and a reduction in consumers' network bills. We are therefore supportive in principle of the Evoenergy revised proposal being largely in line with the AER's draft decision recommendations. Nevertheless, we encourage the AER to rigorously assess the revised elements of the proposal particularly in relation to amended connections and consumption forecasts.

The economic uncertainty associated with the move toward zero net emissions and the more immediate COVID-19 pandemic has complicated the development of Evoenergy's regulatory proposal and we encourage the AER to adopt a flexible approach that allows for the inclusion of the most up-to-date information in its final decision.

The Evoenergy proposal is heavily influenced by the ACT Government commitment to achieve net zero greenhouse gas emissions across all sectors in the ACT by 2045. We note that since Evoenergy provided its initial regulatory proposal, the ACT Government announced further steps to achieve its legislated target of net zero greenhouse gas emissions by 2045 as set out in the Parliamentary and Governing Agreement (PGA). These initiatives not only clarify the Government's intent but also appear to accelerate the move away from gas. As noted by Evoenergy, the ACT Government policies will result in fewer new gas connections and an increase in disconnections as consumers adopt newer electric technology.

Evoenergy updated their demand and connections forecasts to incorporate the recent Government policy initiatives resulting in a reduction to forecast market expansion capital expenditure over the forthcoming regulatory period. We appreciate that this is a challenging forecasting environment for Evoenergy and the proposed forecasting approach appears rigorous under the circumstances. We note also that Evoenergy updated demand and input price forecasts to include the potential impacts of COVID-19. Given the uncertainty associated with COVID-19 impacts these forecasts may require further update as part of the final decision process as more information becomes available.

Given the ACT Government has made a clear policy directive to significantly reduce or eliminate natural gas consumption in the ACT by 2045, including the recent initiatives in the PGA, the potential for asset

stranding appears to have increased. Evoenergy propose to accelerate the recovery of new investment in long-lived asset to reduce stranding risk. Under the circumstance, we consider the AER's proposal to accept shorter standard asset lives for pipeline assets in the ACT region proposed by Evoenergy is reasonable at this time. We consider that the current economic environment, specifically the relatively low return on capital, represents an opportune time for adopting accelerated depreciation with minimal impact on affordability.

We note that the AER does not accept Evoenergy's proposed shorter standard asset lives for pipeline assets in the NSW region given that Evoenergy has a positive consumer growth outlook for this region and the ACT Government's climate change policies to curtail gas consumption do not apply to this region. In response, Evoenergy argue that the lives of these assets should be shortened across the entire gas network, including those located in NSW. Evoenergy indicate that allocating network assets between ACT and NSW sections is unworkable and stranding risk does not vary between sections of the network. Further, Evoenergy argue that depreciating assets over their economic life is consistent with the Rules and provides for a better alignment of customer costs and benefits across the network.

We recognise that Evoenergy operates as a whole and the NSW network is not a stand-alone network in its own right and thus apply accelerated depreciation to only a section of the network may be infeasible. The situation highlights the need for a better understanding of the workability and implications of accelerated depreciation in the face of potential asset standing risk. We support the AER's elevation of this issue on its list of strategic priorities. Any review should seek to provide networks and consumers with a better understanding of the risks associated with future gas network investments, the regulatory treatment of these investments, the approach to risk sharing and intergenerational equity, and the implications for networks and consumers. With the prospect of increased asset stranding risk across the gas sector, it is important for the AER to develop a principled approach that can be consistently applied in a variety of circumstances.

Notwithstanding the above, we encourage Evoenergy to continue to examine the future of its gas network in a net zero emissions environment, particularly the use of the network to transport renewable gas and we support proposed trials in this area.

Evoenergy propose no change to the operating expenditure (opex) forecasts provided by the AER in its draft decision. Given the change in capital expenditure and input costs proposed by Evoenergy in the revised proposal, we would expect to see a corresponding reduction in forecast opex over the regulatory period. We request that the AER review forecast opex to confirm the Evoenergy forecasts are appropriate.

Tariffs

The AER accepted Evoenergy's proposed tariff changes. Specifically, Evoenergy proposes to:

- combine the separate residential and business tariff classes;
- simplify its tariffs by abolishing the VRH, VBS, VBM, VRG, and DBG tariffs. Customers who remain on these tariffs on 30 June 2021 will be moved to the VI tariff; and
- simplify the process for demand customers to adjust their chargeable demand.

Evoenergy indicate there is no change to existing decline block tariff structures.

We are supportive of the proposed changes and measures to simplify existing tariffs.

Reference Service Agreement

Clause 16.5(d)

As noted in our previous submission, while Origin has a broad ability to pass on distributor costs to our customers, there is no specific reference to additional metering equipment. As a consequence, Origin may experience difficulties recouping associated costs from customers.

Origin proposes that Evoenergy and Origin share responsibility and act reasonably to rectify access to metering equipment. Further, Origin suggests that Evoenergy be required to consult with the customer and user (to gain consent) for any additional metering equipment before proceeding.

Clause 16.5(e)

This clause does concede that the gas Distributor has a responsibility to assist the User recover costs but falls short of sharing the liability for unpaid costs by the customer as noted above.

Clause 16.6 – Induction training costs

Safety is a prime objective for the Gas Distributor and the User. We do not agree that the User should cover any costs incurred by the Gas Distributor in gaining safe access through induction training.

Clause 16.7

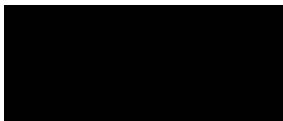
Origin notes that it does not control the customer site and is therefore unable to identify safe access points or warrant other options on behalf of customers. As a result, Origin could potentially be liable if it fails to discuss the issue with the customer and the replicated location for the equipment causes the customer some type of loss. Similar to the above, Origin believe that the consequence of no site access should be shared with Evoenergy such that Evoenergy engage with the user and the customer and review access options available.

Clauses 27.2(b)(C) & (D)

Origin is concerned that these clauses may expose retailers to financial losses. In particular, there is no indication of how liability would be shared amongst claimants, for example, where multiple retailers are exposed to a single network event. Origin consider that it is Evoenergy's responsibility to manage their potential exposure to their many users – that should not limit a retailer's right to recover amounts to which they are entitled. Accordingly, we request that Evoenergy reconsider the clauses in light of these issues.

If you have any questions regarding this submission, please contact 

Yours sincerely



Sean Greenup
Group Manager Regulatory Policy