PO Box 4136
East Richmond VIC 3121
T 131 806
F 1300 661 086
W redenergy.com.au

PO Box 4136
East Richmond VIC 3121
T 1300 115 866
F 1300 136 891
W lumoenergy.com.au

1 February 2023

Arek Gulbenkoglu
General Manager
Australian Energy Regulator
GPO Box 3131
Canberra ACT 2601

Submitted via email to: VicGAAR2023@aer.gov.au

Dear Arek,

Re: Revised proposals - Victorian Gas distributors Access Arrangement 2023-2028

Red Energy and Lumo Energy (Red and Lumo) welcome the opportunity to comment on the revised proposals submitted by the Victorian gas distributors, including Australian Gas Networks (AGN), AusNet Services (AusNet) and Multinet Gas Networks (MGN), in response to the Australian Energy Regulator's (AER) draft decision on 24 January 2023.

We have reviewed the revised proposals submitted to the AER for the 2023-2028 access arrangement (AA) period by the Victorian gas distributors. We note that they have accepted most of the AER's Draft Decision and undertaken further engagement on a few outstanding issues including:

- the abolishment charge
- accelerated depreciation
- credit support.

Below, we comment further on these matters.

Abolishment charge

The Victorian government is developing its Gas Substitution Roadmap (Roadmap) to help the state navigate the path to net zero emissions. In addition, the AER will be aware of some concerns in the community about the safety of natural gas. At the same time, the gas industry is investigating the feasibility of transporting unconventional gases through the transmission and distribution network, and how gas appliances might need to be reconfigured. This means there is considerable uncertainty regarding the future of gas demand in Victoria both for the industry and for consumers. The proposed abolishment charge should be viewed in this context.

The Victorian Government's approach to the energy transition remains unclear and as such we suggest that it would make sense to continue to investigate the most appropriate way to recover the costs of abolishment as the broader policy environment becomes more certain. In the short term, the AER is considering the merits of a regulated option vs a causer pays option but for this period, it is appropriate that consumers have a choice between meter removal and complete abolishment as different services depending on their circumstances and not be punished for one choice over the other. In other words, the charges should be equal to each other.

The introduction of a causer pay abolishment charge recovered as an ancillary service and combined with a pass through for unrecovered debts will incentivise customers to avoid paying the charge. Customers who pay the abolishment charge in good faith will end up paying the full $900. In contrast, those who do not pay for the charge will be no worse off and avoid paying because the Victorian gas distributors will just recover these costs via a pass through. This is not equitable.

Our experience with AusNet's ancillary reference abolishment charge has been poor to say the least. Since its inception, our customers have complained about this charge and object to its payment, particularly given the broader discussion of the future of gas in Victoria. Furthermore, it has been the basis for numerous complaints to the Energy and Water Ombudsman of Victoria. We fear that if this option is introduced as a standard charge for all networks, this behaviour will be replicated en masse.

In addition, the operation of the pass through is unclear. For example, the gas distributor would invoice the retailer in all instances and the retailer would pass this through on a customer's bill. There would then be some delay until any disagreement between each customer and retailer is resolved, the length of this will differ in every instance. The retailer would then need to explain to the gas distributor that it cannot recover the cost and will not be paying for that component of its network. In short, this is not a feasible solution.

Our view is the cost of small customer residential abolishments should be socialised and recovered through reference tariffs. In practice, this means that the customers who remain on the network will end up paying for the abolishment charges. While accepting that this outcome is inefficient, on balance it will maximise the benefits to consumers.

If the AER concludes that abolishment costs should be recovered through a reference tariff and that consumers must pay a customer contribution, we recommend that charge for the capital contribution must be equal to or lower than the cost of capping the meter. If the AER decides to apply a charge to recover the capital contribution that is higher than the cost of capping the meter then customers will avoid it.

Accelerated depreciation

We support the AER's draft decision which takes a conservative approach to accelerated depreciation. We generally believe that any additional accelerated depreciation should be delayed until we obtain further information from the market on gas demand and take up rates on renewable gases. In addition to this, we should aim to recover more accelerated depreciation through a more strategic approach in the future when the other building block parameters are the impact on consumers is reduced.

As such, we support the AER's draft decision on accelerated depreciation that maintains flat prices across the three Victorian gas distributors over the next regulatory period. A smooth price path that is spread across the regulatory period that does not cause any price shock is appropriate. Over the long run, price shock can result in increased complaints regarding the affordability of bills and adverse impacts on the consumers who are already struggling with energy costs

The AER's draft decision that delivers a flat price path is consistent with recovering less accelerated depreciation upfront in the next regulatory period and recovering more in the subsequent regulatory period. In contrast, the Victorian gas distributors suggest that charges for accelerated depreciation to mitigate asset stranding should be recovered upfront via a price rise in 2023 that is combined with flat prices after that for 10 years. As part of the claim, the Victorian gas distributors have drawn these conclusions following customer research using 4 different pairs of accelerated depreciation profiles normalised for $400M of accelerated depreciation over two regulatory periods.

About Red and Lumo

We are 100% Australian owned subsidiaries of Snowy Hydro Limited. Collectively, we retail gas and electricity in Victoria, New South Wales, Queensland, South Australia and in the ACT to over 1.2 million customers. We thank the AER for the opportunity to comment on the draft report. Should you wish to discuss aspects of this submission or have any further enquiries, please contact Con Noutso Regulatory Manager on 0481 013 988.

Yours sincerely

Geoff Hargreaves
Manager - Regulatory Affairs
Red Energy Pty Ltd
Lumo Energy (Australia) Pty Ltd