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18 February 2022

Mr Kris Funston
Executive General Manager
Australian Energy Regulator
GPO Box 3131
CANBERRA ACT 2601

Submitted electronically: APAVTS2023@aer.gov.au

Dear Mr Funston,

Re: APA Victorian Transmission System - Access Arrangement 2023–27

Red Energy and Lumo Energy (Red and Lumo) welcome the opportunity to make a submission to APA's access arrangement proposal (AA) for the Victorian Transmission System (VTS) that applies from the period of 1 January 2023 to 31 December 2027. Under the National Gas Rules (NGR) APA is required to lodge an AA every five years.

As part of the process of developing its regulatory proposal for its AA, APA undertook a comprehensive consultation process and engaged with its stakeholders in order to help them understand and comment on the key aspects of the AA. In this regard, as retailers we appreciate APA's efforts especially because many of the issues that were covered were complicated and challenging for us to understand.

Nevertheless, a key learning for us in the consultation process was that as demand uncertainty for natural gas begins to increase in light of Victoria's 2050 net zero emissions policy, the monopoly regulation of pipeline assets would become increasingly challenging to the AER. As a result, the AER would need to be more cognisant of the challenges of regulating gas into the future to ensure that consumers are better off.

To help facilitate the AER in the process of delivering efficient network prices on the VTS in this period of uncertain demand, we have included some suggestions in this submission for the AER's consideration. In this regard, the AER should:

1. Apply a higher level of scrutiny to the process of approving new pipeline assets if accelerated depreciation is used to mitigate asset stranding risk
2. Delay the expansion of the South West Pipeline (SWP) to 570 TJ/day until it is clear that it is required
3. Reform the current VTS tariffs.

Below, we expand on these points.

Apply a higher level of scrutiny to the process of approving new pipeline assets if accelerated depreciation is used to mitigate asset stranding risk

As a direct response to Victoria's 2050 net zero emissions policy, APA has proposed to shorten the asset lives of all pipelines to 25 years through accelerated depreciation to recover its cost quicker and mitigate asset stranding risk.

In our view, accelerated depreciation provides the AER with an opportunity to respond to forecast changes in gas demand allowing them to adjust tariffs to ensure a fair allocation of asset stranding risk between current and future gas customers.

However, there is a risk that new pipeline assets will not recover their projected revenues because of their shorter asset lives and higher tariffs especially during a period of uncertain demand increasing the probability of asset stranding.

Therefore, to mitigate against this risk it is important for the AER to apply a higher level of scrutiny to the process of approving pipeline assets to protect them from becoming stranded and consumers paying for them.

Delay the expansion of the South West Pipeline to 570 TJ/day until it is clear it is required

As part of their regulatory proposal, APA has proposed an expansion of the South West Pipeline (SWP) under Section 79 (B) (2) - system integrity test of the National Gas Rules (NGR) to 570 TJ/day to mitigate gas supply shortfalls forecast for peak periods in the outer years of the access arrangement period as projected in AEMO's 2021 GSOO.

In a direct response, we have reviewed APA's proposal to increase the capacity expansion of the SWP to 570 TJ/day on the VTS and we have decided not to support it. Our key reasons for taking this position include:

1. Consumers should not be required to underwrite the cost of an expensive long term solution to mitigate a short term system security problem
2. APA has not yet demonstrated that it has investigated alternative solutions to mitigate the problem including demand side solutions
3. The PKGT project has been classified as a "committed project" under AEMO's 2021 GSOO mitigating any gas shortfalls in Victoria until 2026. While understanding that the project owners have yet to reach their Final Investment Decision (FID) on this project, APA's investment plans should primarily be driven by AEMO's 2021 GSOO.

Reform VTS tariffs

As a package, the VTS tariffs are complex making them difficult for retailers to work with thus requiring reform. Injection tariffs, for example, are levied on the ten peak injection days across a range of geographically dispersed injection points. In contrast, the withdrawal tariffs are flat although they are cost reflective on a geographical basis. As a result, we request for APA initiate a process of to reform these tariffs for the following reasons including:

1. Injection tariffs don't work well because they are charged in advance and gas buyers are not able to respond to the price signals in them. In the end, this makes it impossible for retailers to forecast the projected revenues that will be recovered under these tariffs
2. Withdrawal tariffs are flat and overly complex even if APA argues they are cost reflective on a geographical basis.

We look forward to cooperating and working with APA to introduce tariff reform on the VTS.

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 million customers.

Red and Lumo thank the AGN for the opportunity to respond to this consultation. Should you wish to discuss aspects or have any further enquiries regarding this submission, please call [redacted]

Yours sincerely,

[redacted]

Stefanie Monaco
Manager - Regulatory Affairs
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Lumo Energy (Australia) Pty Ltd