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

14 September 2022

Sebastian Roberts
Special Advisor
Australian Energy Regulator
GPO Box 520
Melbourne VIC 3001

Submitted electronically:

Dear Mr Roberts,

Re: Draft decision for APA Victorian Transmission System access arrangement 2023–27

Red Energy and Lumo Energy (Red and Lumo) welcome the opportunity to respond to the Australian Energy Regulator's (AER) draft decision on APA's proposed gas access arrangement for the Victorian Transmission System.

Broadly speaking, we do not support the AER's Draft determination as it would deliver a 25% increase in revenues on the Victorian Transmission System (VTS) for the 2023-2027 AA. We acknowledge that transmission charges on the VTS only account for around 8% of a customer's end bill but our strong preference is for network charges to remain flat, given the expected contribution of higher wholesale gas prices.

We also acknowledge the challenge for the AER to make a draft determination at a time when policymakers are considering how the energy system should transition in line with net zero emissions targets. For example, the AER will need to carefully consider expenditure proposals to support APA's transition to renewable gases in light of policies to discourage conventional gas usage and whether this warrants accelerated depreciation.

However, we are very mindful of the consumer impact of regulatory determinations so the AER must ensure that consumers do not underwrite any of APA's commercial risks. In this regard, we appeal to the AER to reject those parts of the AA where it concludes that APA is passing on a commercial risk to consumers that it should be underwriting itself. Furthermore, many elements of the Victorian Government's Gas Substitution Roadmap remain uncertain.

Accelerated depreciation

We support the AER's decision to reject accelerated depreciation in this instance. In approving any proposal for accelerated depreciation, it is critical that the proposal align with other aspects of the regulatory submission. We do not object to the use of accelerated depreciation as a policy mechanism to ensure a fair allocation of asset stranding risk between current and future gas consumers. However, we cannot reconcile the new capex being proposed by APA in the 2023–27 regulatory period with accelerated depreciation in its proposal.

Gas demand

We note the progressive scenario forecast in AEMO's 2022 Gas Statement of Opportunities as it appears to be the most plausible. Under this scenario, action towards net zero emissions is delivered through technological advancements and reflects current state and federal government environmental and energy policies; this leads to a decrease in gas demand of up to 1.9%.

At this stage and given the uncertainty about the future policy environment, the coordinated wide step change scenario—which includes an annual demand reduction of 16.8%—appears overstated. More importantly, this would have a significant impact on transmission tariffs for consumers and we do not believe this is reasonable in the absence of strong evidence to support this scenario.

Fixed principle to not apply capital redundancy provisions

We support the AER's decision to reject the APA's proposal to include a fixed principle in the AA that would mean the redundancy provisions in the National Gas Rules do not apply to the South West Pipeline (SWP) or the Western Outer Ring main (WORM). Consistent with the AER's views on this matter, we consider that the SWP and the WORM would be assets that could provide value in both the short term and the longer term. Furthermore, we understand the AER has traditionally depreciated all assets together treating them as a pool of assets rather than independently. The AER should retain this approach for this AA.

Rebalancing constraint

Broadly speaking, we support APA's amendment to the tariff mechanism to reintroduce the +- 5.5% cap and collar arrangement (relating to non weather related volume variances). While the AER has rejected the proposal on the basis that no discernible detriment to consumers has been demonstrated from its absence in the last AA periods, the potential for tariff shock to consumers is real where non-weather related volume variances occur. Hence, while it is not our first preference, if we are forced to absorb additional costs from tariff increases as a result of excluding the +- 5.5% cap and collar arrangement, we will pass these additional costs through to consumers.

About Red and Lumo

We are 100% Australian owned subsidiaries of Snowy Hydro Limited. Collectively, we retail gas and electricity in South Australia, Victoria, New South Wales, Queensland and the ACT to over 1.1 million customers.

Red and Lumo thank the AER for the opportunity to comment on the issues paper. Should you wish to discuss aspects or have any further enquiries regarding this submission, please call Con Noutso, Regulatory Manager on #### ### ###.

Yours sincerely,

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