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Mr Sebastian Roberts
General Manager
Australian Energy Regulator
GPO Box 520
Melbourne, Victoria, 3001

Via email: AGNSA2021@aer.gov.au

11 August 2020

Dear Mr Roberts,

**Re: SACOSS Submission to the AER on AGN's Access Arrangement Proposal for the South Australian gas distribution network (July 2021 – June 2026)**

SACOSS welcomes the opportunity to provide comment to the Australian Energy Regulator (AER) on Australian Gas Networks' (AGN) Access Arrangement ("AA") Proposal for the South Australian gas distribution network.

The South Australian Council of Social Service (SACOSS) is the peak non-government representative body for health and community services in South Australia. SACOSS' purpose is to influence public policy in a way that promotes fair and just access to the goods and services required to live a decent life. We undertake policy and advocacy work in areas that specifically affect South Australian consumers on low-incomes and/or those in vulnerable circumstances.

In developing this submission, SACOSS has worked closely with Energy Consumers Australia (ECA) and the Consumer Challenge Panel (CCP) 24, and are broadly supportive of their respective submissions. We have also benefitted from AGN's regulatory reset happening in parallel with the gas distributor in ACT (Evoenergy), which has provided an interesting point of comparison and we will offer observations on these where relevant.

From the outset of its engagement, AGN have committed to developing a plan that:

- Delivers for current and future customers
- Is underpinned by effective stakeholder engagement
- Is capable of being accepted by customers and stakeholders; and

- Adopts a “no surprises” approach

SACOSS believes that AGN’s AA Proposal is tracking well towards being “capable of acceptance” and is of the view that AGN has run an effective stakeholder engagement program to date. The AA Proposal is largely consistent with what has been presented at the Draft Plan stage, meeting the brief of a “no surprises” approach. Our submission makes specific comments in the following areas:

- Pricing
- Operating Expenditure; and
- Future of gas

## Pricing

AGN are responsible for maintaining the gas distribution network, accounting for roughly 50% of consumers’ bills (see figure 1 below).

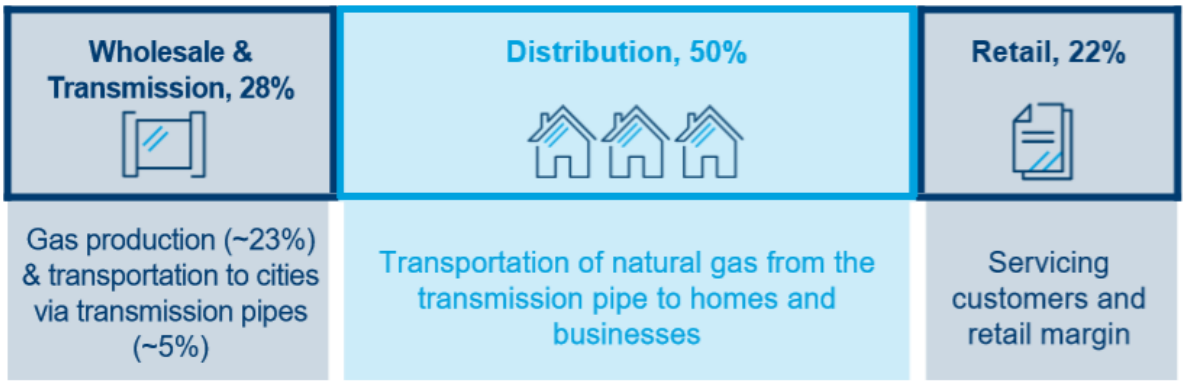


**Figure 1: Cost stack of the typical residential and business gas bill in South Australia**

Price and affordability have been clearly prioritised by customers involved in AGN’s stakeholder engagement and SACOSS observes that this remains an ever-important consideration given the economic impact of COVID-19. Overall, SACOSS welcomes AGN’s proposed initial price cut of 7% (after inflation) from 1 July 2021 and annual price increases of 2.8% for the remainder of the AA period. The proposed price path allows AGN to promote a headline price cut (which will be a welcome relief for consumers) and allows AGN’s revenues to grow in line with its asset base to maintain a stable credit rating. However, SACOSS notes the impact of the regulatory rate of return in driving many of the cost reductions seen in other recent regulatory resets.[1] As such, SACOSS encourages both the AER and AGN to seek any further cost savings and efficiencies wherever possible, noting consumers’ affordability concerns.

That said, SACOSS recognises that both AGN and the AER has a difficult task of balancing the priorities of affordability for current customers, sustainability of the network, and the long-term interests of consumers. In an uncertain policy environment, this involves complex discussions

[1] For example, in SA Power Networks Regulatory Determination 2020 – 25 and SA Water 2020 - 24

around intergenerational equity, which we will unpack in this submission with reference to the future of gas in attempt to answer the questions as to whether AGN's AA Proposal delivers for current and future stakeholders.

## Operating Expenditure

AGN are proposing to spend $357 million in operating expenditure (opex) over the upcoming access arrangement period (2021 – 2026) , which is $3 million higher than proposed in AGN's draft plan, and $27 million higher (8%) than what is forecast to be incurred in the current access arrangement period (2016 – 21).

The increased opex for the 2021 – 26 period is driven by a series of step changes, including:

- A vulnerable customer assistance program ($780,000 pa / ~$3.8m over the AA period);
- A digital customer experience project ($280,000 pa / $1.4m over the AA period);
- Increased costs of Unaccounted for Gas (UAFG) including a new proposal to purchase 20% renewable Unaccounted for Gas ($9.4m p.a / $47m over the AA period); and
- Insurance premium increases ($3m over the AA period).

We will discuss the vulnerable customer assistance program and UAFG initiatives in the sections below. On the matter of insurance, we note that EvoEnergy has elected not to pass on insurance premium increases in their proposal and ask the AER to consider whether it would be more efficient for insurance changes to be reflected in the annual tariff review mechanism of the AA.

### Vulnerable Customer Assistance Program

SACOSS congratulates AGN for taking a proactive, leadership role in seeking ways to better support customers in vulnerable situations. We note that the program has been underpinned by strong consumer engagement, including three co-design workshops with the social services sector. AGN acknowledges in its business case that:

> "Traditionally, the provision of assistance to vulnerable customers in the energy sector has been left to retailers, not-for-profit organisation and governments. It has, however, become clear through our stakeholder engagement process, the development of the Energy Charter, the Financial Services Royal Commission and the CPRC's work for the AER, that networks also have a role to play in supporting vulnerable customers and that this is becoming an increasingly important element of our social licence to operate" [2]

SACOSS notes that the CCP24's submission to the draft plan questions whether some of the initiatives should be considered part of "business as usual"[3] and AGN has responded to requests

[2] AGN (2020) Attachment 7.2 Opex Business Cases, https://www.aer.gov.au/system/files/AGN%20-%20Attachment%207.2%20-%20Opex%20Business%20Cases%20-%201%20July%202020.pdf

[3] CCP24 (2020), CCP24 Advice to the Australian Energy Regulator on Australian Gas Networks South Australia Draft Plan for Access Arrangement July 2021 – June 2026, https://www.aer.gov.au/system/files/CCP24%20-%20Advice%20to%20AER%20-%20AGN%20Draft%20Plan%20response%20-%20June%202020.pdf, p. 11

from both the CCP24 and SA Reference Group for a more detail on this proposed program with a detailed business plan in Attachment 7.2 of their final proposal.

AGN's business case sets out a proposed series of initiatives developed via their co-design process. Some initiatives are proposed to be funded from AGN's existing operating expenditure allowance, while others will require additional investment. These are summarised in the table below:

| **Proposed Initiative** | **Proposal Detail** | **Funding** |
|---|---|---|
| Dedicated vulnerable customer service role | Funded role to resolve complaints involving vulnerable customers, liaise with customer advocate groups and community service organisations, developing referral programs, developing referral programs for customer service teams to supporting agencies, and other aspects of the program | New Opex proposal |
| Reviewing end-to-end customer journey | Reviewing the impact of AGN's activities and processes on vulnerable customers | Existing Opex allowance |
| Training frontline staff to engage with customers with empathy and sensitivity | Includes where appropriate, referring customers to priority services, support initiatives, and dedicated supports | Existing Opex allowance |
| Improving communications with vulnerable customers | Targets accessibility of communications, including making information available in multiple languages and those with low levels of computer literacy | Existing Opex allowance |
| Funding for vulnerable customers to access specific initiatives | Funding for gas appliance safety checks, emergency appliance repairs (e.g. hot water systems, stoves, heating) and rebates to help access more efficient appliances | New Opex proposal |
| Priority Services Register | The development of a priority services register using the upgraded Customer Relationship Management (CRM) system) to allow provision of advance notice of planned outages, providing priority support in an emergency. | New Opex proposal |
| Community engagement, | Working with community organisations, government agencies and retailers to develop and deliver energy literacy programs | Existing Opex allowance |

| | | |
|---|---|---|
| outreach and education | and tools to enable vulnerable customers to more effectively manage their gas consumption and bills | |
| Advocacy role | Advocate for vulnerable customers in rule change, regulatory and policy processes relating to customer vulnerability and affordability | Existing Opex allowance |

In assessing the business case presented, the challenge will be for the AER to determine the costs and benefits of delivering the program of initiatives compared to delivering a deeper price cut. SACOSS welcomes the commitment from AGN to undertake a number of initiatives under its existing opex allowance, essentially integrating these activities into its "business as usual". We also support AGN's position to continue working with community organisations, government agencies and other parts of the energy supply chain to ensure the assistance provided is best practice and appropriately targeted.[4]

To help guide additional engagement and in determining whether this proposal is capable of acceptance, SACOSS suggests that AGN and the AER consider:

- The extent to which the dedicated customer service role adds value over and above the initiatives being absorbed into existing opex (e.g. training of frontline staff, reviewing the end-to-end customer journey);
- The extent to which AGN is currently resourced to support vulnerable customers, noting that AGIG are an active signatory to the Energy Charter, and are providing leadership in this space as the current Chair of the Energy Charter[5];
- Noting that 77% of customers actively supported the inclusion of a vulnerable customer assistance program at a cost of $1 - $2 on their bill, and 19% were moderately supportive, the extent to which stakeholders supported the intent of the program overall, or had more detailed views on specific initiatives. This would help identify the appropriate program mix;
- Expected uptake of the initiatives, perhaps using AER figures suggesting that there were 6,150 South Australian gas customers on a retailer financial hardship program in 2019 (approx. 1.4% of customers) as a starting base;[6]
- Whether providing rebates to switch to more efficient natural gas appliances is prudent given the uncertainty in the future of gas. (i.e. how to balance the expected cost savings of more efficient natural gas appliances and their useful lifespan, and when households will

[4] AGN (2020) Attachment 7.2 Opex Business Cases, https://www.aer.gov.au/system/files/AGN%20-%20Attachment%207.2%20-%20Opex%20Business%20Cases%20-%201%20July%202020.pdf, p. 3

[5] The Energy Charter have recently released COVID-19 related communications targeted at customers in vulnerable circumstances. These have been translated to a number of different languages - https://www.theenergycharter.com.au/bettertogether/

[6] AGN (2020) Attachment 7.2 Opex Business Cases, https://www.aer.gov.au/system/files/AGN%20-%20Attachment%207.2%20-%20Opex%20Business%20Cases%20-%201%20July%202020.pdf, p. 5

plausibly be needing to think about switching to "hydrogen-ready" appliances?) A similar issue is currently playing out in the ACT where the ACT Government are currently pivoting away from natural gas against a policy backdrop of previously having promoted rebates for energy efficient gas heating and hot water to incentivise the switch *towards* natural gas[7];

- The extent to which the Priority Services Register is the fit for purpose solution for the issue of supporting customers in vulnerable circumstances.

Overall, SACOSS invites the AER to consider the extent to which some of AGN's proposed activities could be funded outside of AGN's regulated revenue and which proposals would be more efficient to be provided for by governments[8] or incorporated into retailers' existing programs.

On the last point, we recognise that the Priority Services Register is modelled on the UK experience, where energy suppliers and distribution networks are required to set up and maintain a Priority Services Register. SACOSS notes that one of the challenges in implementing a Priority Services Register in the UK was low awareness of the program and associated low uptake of services. While both energy suppliers and network operators are required to publicise the register, Ofgem's 2016 review of the Priority Services Register identified that only a quarter of customers who might be considered vulnerable were aware of the service.[9]

SACOSS' research suggests that one of the barriers to seeking help when facing financial difficulty is not knowing which services are available and who to contact. [10] Noting the reluctance of some customer segments in seeking help, we question whether they are more likely to seek assistance from retailers or a distribution network who do not always have a direct relationship to the customer. In summary, SACOSS supports the efforts of AGN to play its role in supporting customers in vulnerable situations, but suggests the challenge for the AER would be to determine the most appropriate and cost-effect mix of support that AGN are best placed to deliver. It may also be worth considering whether removal of some of the proposed initiatives involving opex step changes would be a preferable in the current environment of prioritising price and affordability.

[7] See p. 2 – 3 of Incenta (2020) Responding to Stranded Asset Risk, https://www.aer.gov.au/system/files/Evoenergy%20-%20Incenta%20-%20Appendix%204.3%20-%20Responding%20to%20stranded%20asset%20risk%20-%20June%202020.pdf

[8] E.g. via the South Australian Governments' redesigned energy efficiency scheme, the Retailer Energy Productivity Scheme (REPS) - https://energymining.sa.gov.au/energy_and_technical_regulation/energy_efficiency/retailer_energy_productivity_scheme_reps

[9] Ofgem (2016) Priority Services Register review: Statutory consultation, https://www.ofgem.gov.uk/system/files/docs/2016/06/priority_services_register_statutory_consultation_and_proposals.pdf

[10] SACOSS (2019) Working to Make Ends Meet: Low-income Workers and Energy Bill Stress, https://www.sacoss.org.au/sites/default/files/public/191120_SACOSS%20Waged%20Poor%20Full%20Report_FINALv2.pdf

**Unaccounted for Gas (UAFG)**

Unaccounted for Gas (UAFG) is the difference in the measured quantity of gas entering a gas distribution system (as measured at various supply points) and the gas which is delivered to end-users. Gas distribution networks such as AGN are required to purchase gas from the wholesale market to replace the volume lost in the network due to leaks, metering inaccuracies and/or gas theft. AGN forecasts the costs for UAFG for the next AA period to be $47.2 million, up from $40.3 million in the current AA period, pointing to increased market cost for gas as the major driver in this increase.[11]

AGN are also proposing to offset 20% of their UAFG with a renewable gas (biomethane). This proposal was iteratively tested with customers at a series of workshops, with early workshops indicating that environmental sustainability is a high priority for customers and stakeholders.[12] Based on this, AGN presented three options of replacing UAFG with renewable gas to reduce carbon emissions, with the following increases to annual gas bills of customers:

- Replacing 20% of UAFG with renewables at $1.50 bill increase
- Replacing 40% of UAFG with renewables at $3.00 bill increase
- Replacing 100% of UAFG with renewables at $5.50 bill increase

SACOSS notes that 84% of customers supported replacing UAFG with renewable gas at an additional cost of $1.50 - $5.50 on the average residential bill. Of the options presented, AGN have opted for the lower band (20%), which was supported by stakeholders in their Stage 4 Engagement.

It is clear that AGN are committed to playing its role in decarbonising the energy sector, and sees merit in the renewable UAFG initiative to signal to both consumers and stakeholders in the sector. We note submissions made by AGN in its advocacy capacity promoting a Renewable Gas Blending Target, including obligations on gas networks to offset emissions from UAFG with renewable gas blends.[13] It is also worth noting that the New South Wales Government has announced a target of up to 10% hydrogen in the NSW gas networks by

[11] Detailed further in Attachment 7.9: Independent Assessment of the market price of gas, https://www.aer.gov.au/system/files/AGN%20-%20Attachment%207.9%20-%20CoRE%20Independent%20Assessment%20of%20the%20Market%20Price%20for%20Gas%20-%201%20July%202020.pdf

[12] Attachment 5.3 KPMG Customer Engagement Report: Prepared for Australian Gas Networks Five Year Plan for the South Australian Network, https://www.aer.gov.au/system/files/AGN%20-%20Attachment%205.3%20-%20KPMG%20-%20Final%20Report%20-%20AGN%20Customer%20Engagement%20Program%20-%201%20July%202020.pdf, p. 33

[13] For example, AGN (2020) Submission to Green Hydrogen Discussion Paper – Victorian Hydrogen Investment Program, https://s3.ap-southeast-2.amazonaws.com/hdp.au.prod.app.vic-engage.files/6715/8155/6271/184819_200212_VHIP_AGIG_002.pdf

2030 as part of their "Net Zero Plan Stage 1: 2020 – 2030."[14] Given the South Australian Government's strong backing of hydrogen[15], it is not unreasonable to expect a similar policy being considered in SA.

We understand that AGN are seeking to negotiate a bundled contract with a retailer to purchase both the renewable and natural gas portion of UAFG. SACOSS would be interested in understanding the merits of capping UAFG allowance at a maximum price, noting that consumers reported to being supportive of renewable UAFG only to the extent it increases bills up to a certain amount. While we note the inclusion of a true-up mechanism is designed to account for variability in the forecast gas price,[16] we would want to seek assurances that consumers do not unnecessarily wear the risk of higher priced renewable UAFG if there is a cheaper alternative to biomethane (i.e. natural gas).

## Future of Gas

AGN reports that there has been considerable interest in "future of gas" during its stakeholder engagement, including interest in opportunities to use hydrogen, biogas and decarbonisation in the context of a broader energy transition. SACOSS notes that AGIG are engaged in a number of hydrogen R&D projects across Australia, including the Hydrogen Park SA project (a $11.4 million project, funded by AGN outside of its regulated revenue, and supported by a $4.9 million grant from the South Australian Government).[17] The Hydrogen Park SA project includes a 1.25MW electrolyser and a pilot to deliver 5% renewable hydrogen blend in Mitchell Park for up to 700 residential properties. The South Australian government released its Hydrogen Action Plan in 2019, providing some degree of policy backing.[18] AGN's AA 2021 – 26 includes the replacement of 860 km of old cast iron mains, completing the cast iron mains replacement program. This positions AGN's network as "hydrogen ready", with AGN SA's network currently capable of supporting renewable hydrogen blends up to 10% in volume.

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[14] NSW Government, Net Zero Plan Stage 1: 2020 – 2030, https://www.environment.nsw.gov.au/-/media/OEH/Corporate-Site/Documents/Climate-change/net-zero-plan-2020-2030-200057.pdf

[15] Government of South Australian (2019) South Australia's Hydrogen Action Plan, http://www.renewablessa.sa.gov.au/content/uploads/2019/09/south-australias-hydrogen-action-plan-online.pdf

[16] Under the UAFG price variation formula, if the actual price paid by AGN for UAFG is lower than forecast, the lower price is passed through to customers; similarly, if the price for UAFG is higher than forecast, the higher price is passed through. See p.8 of AGN (2020), Attachment 13.1: Tariff Variation Mechanisms and Tariff Structure, https://www.aer.gov.au/system/files/AGN%20-%20Attachment%2013.1%20-%20SA%20Tariff%20Structure%20-%201%20July%202020_0.pdf

[17] Government of South Australia (2020) Hydrogen Park South Australia, http://www.renewablessa.sa.gov.au/topic/hydrogen/hydrogen-projects/hydrogen-park-south-australia

[18] Government of South Australian (2019) South Australia's Hydrogen Action Plan, http://www.renewablessa.sa.gov.au/content/uploads/2019/09/south-australias-hydrogen-action-plan-online.pdf

SACOSS has observed AGN being open and transparent about the challenges it faces as a network business where gas is a "fuel of choice" and there is a commercial impetus on AGN to maintain and grow its customer base to keep prices affordable. Under the price cap form of regulation, prices are determined by dividing the total revenue by total network usage.[19] This means that there is an incentive on AGN to encourage increased customer connections and network use to spread costs over a larger customer base and keep prices low.

In its AA Proposal 2021 – 26, AGN are not considering changes to the economic lives of their assets ("accelerated depreciation") until a future AA period. The 2021 – 26 period will be focused on understanding the suitability of hydrogen as a long-term and large-scale fuel for decarbonising gas networks. This "wait and see" approach on the role of hydrogen in gas networks is in contrast to Evoenergy in the ACT, who are proposing to shorten the asset lives of new capital investments in 2021 – 26 to address stranded asset risk. The stranded asset risk is driven by the ACT Government, who have legislated a policy of zero net emissions by 2045.[20] As part of the policy, the ACT Government are seeking to transition away from natural gas, removing the mandatory requirement for new suburbs to be connected to gas mains and subsidising consumers to move from gas to electric appliances.

More sophisticated and detailed discussions on the future of gas and managing stranded asset risk can be found elsewhere[21], however SACOSS believes the material risk from a consumer perspective is captured well below by CCP 24:

> "If hydrogen is proven not to be economic in 5-10 years' time, consumers may be suddenly faced with a gas network charge assuming an asset life of only a further 10-20 years rather than 50, as accelerated depreciation steps in. Slow recovery of capital suddenly becomes very fast as network charges increase significantly. In the context of a 'no regrets' decision framework, consumers may regret that their builder installed gas in 2022."[22]

We understand that AGN's approach to delay changes to depreciation is premised on:

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[19] Attachment 13.1 Tariff Variation Mechanisms and Tariff Structures, https://www.aer.gov.au/system/files/AGN%20-%20Attachment%2013.1%20-%20SA%20Tariff%20Structure%20-%201%20July%202020_0.pdf, p. 2

[20] ACT Government (2019), ACT Climate Change Strategy 2019 – 25, https://www.environment.act.gov.au/__data/assets/pdf_file/0003/1414641/ACT-Climate-Change-Strategy-2019-2025.pdf/_recache

[21] See, Attachment of CCP24's Draft Submission to AGN's Draft Plan https://www.aer.gov.au/system/files/CCP24%20-%20Advice%20to%20AER%20-%20AGN%20Draft%20Plan%20response%20-%20June%202020.pdf, and Incenta's report on Managing Stranded Asset Risk, https://www.aer.gov.au/system/files/Evoenergy%20-%20Incenta%20-%20Appendix%204.3%20-%20Responding%20to%20stranded%20asset%20risk%20-%20June%202020.pdf

[22] CCP24 (2020), CCP24 Advice to the Australian Energy Regulator on Australian Gas Networks South Australia Draft Plan for Access Arrangement July 2021 – June 2026, https://www.aer.gov.au/system/files/CCP24%20-%20Advice%20to%20AER%20-%20AGN%20Draft%20Plan%20response%20-%20June%202020.pdf, p. 35

- The likelihood that in 5 years' time, we will know more about the economic viability of hydrogen in reticulated gas networks and associated government policy settings (e.g. legislated targets for decarbonisation);
- The commitment to deliver a headline price cut for the 2021 – 26 period (and constraints due to the proposed completion of its mains replacement program);

SACOSS supports the AER undertaking a cost benefit analysis / risk assessment of AGN's proposed approach of deferring a decision on accelerated depreciation on new assets and acting in the 2021 - 26 AA.

We encourage AGN to continue taking a leadership role in its ongoing engagement to "bring consumers along" in engaging in these complex issues. Key to this will be framing the discussion in terms and scenarios relevant to a range of consumer groups (i.e. those unlikely to have the means to be able to switch from gas to hydrogen or all-electric; those left to carry the costs of a shrinking customer base / stranded assets). We observe that such debates on the future of gas has the potential to devolve into too technical or economic in framing, without having consumers at the heart of planning. Consumers, who, ultimately will vote with their feet in connecting to gas or converting to electricity.

Further we support the positions made by both ECA and CCP24 in their respective submissions around whether five-year regulatory periods are the most appropriate avenue for dealing with the future of gas and stranded asset risk. In particular, SACOSS supports a holistic review to consider whether the current National Gas Law and National Gas Rules are fit for purpose for considering these issues as more governments move towards net zero emissions policy frameworks.

We thank you in advance for consideration of our comments. If you have any questions relating to this submission, please contact [redacted]

Yours sincerely,

[redacted]

Ross Womersley

Chief Executive Officer