Submission from Victorian community organisations to 2023-28 Victorian Distribution Access Arrangements

February 2023

The 2023-2028 Victorian gas distribution access arrangements should determine the efficient network spending needed to safeguard safe, reliable and affordable energy services through the upcoming period, and through the transition away from natural gas.

The comments in this submission are informed by important considerations including the importance of energy affordability through the current period of high energy prices and cost of living pressures, and consideration of the impact of the proposal on low-income households.

This submission, signed by the Brotherhood of St. Laurence, St Vincent de Paul Society Victoria, and the Victorian Council of Social Service (VCOSS) outlines our views on selected issues in the access arrangements.

Service line decommissioning costs should be minimised where safe and possible

We support the retention of high safety standards through the transition. However, we also note that it is important to consider all questions of capex management within the context of an expected decline in network use – and to manage this transition in a cost-effective way. Requiring abolishment at the mains rather than the meter could add about $1.7b to the cost of the transition off the network, and the AER should consider ways to minimise this cost safely.

For example, where a part of the network has a limited expected operational life, it may be suitable to disconnect services at the meter and leave service lines in place for the remaining expected operation of the mains. We encourage the full exploration of possible management approaches through early stages of the transition.

Abolishment costs should be socialised, at least for some users, but not through gas tariffs

The Australian Energy Regulator (AER) has proposed two options for allocating the new costs of disconnecting the service line for customers leaving the gas network at the mains: a user-pays 'ancillary reference service' fee, or adding costs incurred to haulage rates (socialising costs between remaining gas users).

Both of these options are likely to have negative equity outcomes in the context of declining gas usage. The 'user pays'/disconnector pays proposal will increase the upfront costs for households to disconnect, which will create a disproportionate barrier for low-income households. Allocating these disconnection costs among a diminishing pool of gas users will similarly have a disproportionate impact on low-income households.

Alternative arrangements to allocate disconnection costs should be explored, with the objective of reducing both barriers to transition and undesirable distributional impacts.

Preferable avenues to recover costs incurred through abolishment include establishing a Victorian Government subsidy for some or all customers, to prevent abolishment fees acting as a barrier to transition. Alternatively, these costs might be a transferred to a broader base of energy consumers, for example, as a cost socialised between electricity users (e.g. added to the flat daily service charge). Further consultation is required to adequately resolve this important issue.

Growth capex should be fully funded through customer contributions

The networks have forecast a very low level of gas uptake on greenfield sites, with uptake and consumption per house both expected to fall to very low levels by the end of the period. The levels anticipated indicate there is a high risk that tariffs collected from these lines will not justify the $449m of customer connections and augex expenditure proposed (not including customer contributions).

This risk can be easily and appropriately managed by requiring new customers to fully fund any works to expand the network – this is a reasonable and prudent measure to adopt in the context of an acknowledged stranding risk.

Accelerated depreciation should not be increased

The AER has determined a level of accelerated depreciation that will deliver stable real revenue in their draft decision, however AusNet Services and Australian Gas Networks have proposed an increase in their revised proposals. We don't support an increase in accelerated depreciation, given the importance of avoiding adding to rising energy costs that households will face over coming periods.

Instead we encourage a review of opex and capex to identify cost reductions suitable to the expected context of falling demand. This is an important process to inform how the network might be managed in a way that safeguards safety, reliability and affordability through the transition.

(We note that the revenue and pricing principles state that providers should be offered a 'reasonable opportunity to recover at least the efficient costs'[1] incurred, rather than an absolute right to recover all revenue. Reasonable terms in this context could usefully be interpreted as a demonstration from the networks that they are actively working to limit the scope of the stranding risk).

[1] *National Gas Law, Section 23*