To: Australian Energy Regulator

28 November 2024

AusNet Services - Access Arrangement 2023–28 - Variation proposal

We appreciate the opportunity to comment on AusNet Services' proposal to the Australian Energy Regulator (AER) to vary their access arrangements for 2023-28.

About Environment Victoria

Environment Victoria is the leading not-for-profit environmental advocacy organisation in Victoria. With 40 grassroots member groups and over 200,000 individual supporters, we've been representing Victorian communities on environmental matters for over 50 years. Through advocacy, education and empowerment, Environment Victoria seeks significant and enduring solutions that will safeguard the environment and future wellbeing of all Victorians.

Our Safe Climate For All campaign focuses on getting Victorian households off fossil methane gas so that we meet our climate targets. We advocate for a fast and fair transition that does not leave people behind. This is a complex prospect and the gas networks' access arrangements are of material import to our campaign goals.

Introduction

In summary, our submission makes the following points:

- Electrification of end uses historically supplied with gas is a structural shift that has been foreseeable for many years, predating AusNet Services' existing access arrangement. Therefore, accelerated depreciation of the asset base is not justified because AusNet Services (and others) have already had reasonable opportunity to recover their efficient costs.
- The precise speed of electrification is more difficult to forecast. Coupled with an existing problem with persistent supernormal profits across all networks, there is a strong case for broader AER reform in the interests of consumer affordability.
- The AER should close the loop on forecasts by implementing regular ex post evaluation that leads to reinvestment of supernormal profits and/or higher efficiency benchmarks.
- The AER should formally plan for how the costs of gas network redundancy will be fairly apportioned.

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The proposed variation

AusNet Services argues that due to new and proposed government policies, as well as early signs of customer preferences for electrification, accelerated depreciation of network assets is justified. The proposed increase in depreciation would add around $49 per year for three years to the average residential bill.

It is good that AusNet Services is thinking through this issue now as it sends a clear message to households and businesses that they should be thinking about life after gas. However, networks obviously have an incentive to accelerate their asset depreciation. There is a very clear and significant risk of profiteering, and the outcomes of this proposal will set a precedent for other networks. We argue that the AER needs to establish new processes and accountabilities to protect consumer affordability as we deal with these types of requests going forward.

Accelerated depreciation is not the only option

We refer to the Justice and Equity Centre's recent submission to Jemena Gas Networks (NSW) access arrangement issues paper in making the points in this section.[1]

There is no automatic entitlement for networks to recover the full value of their regulated asset base from consumers. Networks can expect only to get 'reasonable opportunity' to recover their efficient costs – this does not imply a guarantee. Consumers are not automatically required to bear the entire cost.

Networks are not entitled to payment for the *risk* of capital redundancy, especially when there is uncertainty on when or how the risk might materialise. Redundancy occurs at the point when the asset is removed from the regulated asset base. At that point they could be compensated and it is up to the AER to make a discretionary determination on how those costs would be shared.

Dealing with uncertainty

One issue is whether forecasts regarding customer numbers, consumption levels and so on turn out to be reasonably accurate. Even during times of predictable growth, both in terms of how many customers and the types of appliances they are using, demand varies considerably year on year due to weather and price fluctuations. These variations are already hard to predict.

New dynamics due to policy changes and customers' interest in electric appliances add to uncertainty. There is broad agreement that electrification will happen. Gas networks are sophisticated businesses that have known this since before the current access period and no doubt have been realigning their plans internally for some time. Therefore we argue that AusNet Services already had 'reasonable opportunity' to account for policy uncertainty at the time the original access arrangements were decided.

[1] Justice and Equity Centre, 'Submission on Jemena Gas Networks Access Arrangement 2025-30', September 2024, https://www.aer.gov.au/system/files/2024-10/JEC%20-%20Submission%20on%20JGN%202025-30%20Access%20Arrangement%20Proposal%20-%20September%202024_0.pdf.

However, the precise rate that electrification will occur from now until the end of the access period 2028 is uncertain. The real-world evidence of gas disconnection and lowering consumption is still nascent. The significant policy changes proposed by the Victorian government are highly contested and their timing and exact form is yet to be confirmed. Further policies can be expected over time. It would not be in the interests of consumers for networks to reopen their access arrangements each time something changes.

Closing the loop on forecasts

The AER's current model of forecasting without ex post evaluation and correction is no longer fit for purpose, given the many uncertainties and new dynamics. Indeed, evaluation and correction has been needed for a long time. A recent report from the Institute for Energy Economics and Financial Analysis (IEEFA) highlights the "persistent and significant supernormal profits" made by gas networks over the past decade.[2] A second IEEFA report has found a similar situation for electricity networks.

These consistent results point to problems with the AER's calculation methodology for access arrangements leading to endemic overestimation. Granted, it could be that networks are getting better and better at their jobs and finding significant efficiency dividends each and every year, but we consider this highly unlikely. In either case, there is a strong argument for the AER to reform its methodology to include ex post evaluation and correction in the interests of consumer affordability.

We recommend that the AER review the calculation methodology and access arrangement processes by requiring networks to regularly justify their results. If the cost of running the network was overestimated, the supernormal profits should be reinvested in the next access period. If the cost of running the network was lower because of efficiency improvements, those efficiency improvements should become the standard that all networks must meet. In a similar vein, IEEFA suggest that the AER should be reviewing all demand forecasts to identify any trends or structural drivers that should be accounted for in the next forecast.[3]

You are welcome to contact me on the details below, should you wish to discuss this submission in more detail.

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[2] Jay Gordon, 'Gas Networks Are Making Persistent and Significant Supernormal profits_May24.Pdf' (IEEFA, 2024), https://ieefa.org/sites/default/files/2024-06/Gas%20networks%20are%20making%20persistent%20and%20significant%20supernormal%20profits_May24.pdf.
[3] Gordon, 28.