



Submission:

**Evoenergy Gas Network 2021-26 Access
Arrangement Revised Proposal and AER
Draft Decision**

February 2021

About ACTCOSS

ACTCOSS acknowledges Canberra has been built on the land of the Ngunnawal people. We pay respects to their Elders and recognise the strength and resilience of Aboriginal and/or Torres Strait Islander peoples. We celebrate Aboriginal and/or Torres Strait Islander cultures and ongoing contributions to the ACT community.

The ACT Council of Social Service Inc. (ACTCOSS) advocates for social justice in the ACT and represents not-for-profit community organisations.

ACTCOSS is a member of the nationwide COSS Network, made up of each of the state and territory Councils and the national body, the Australian Council of Social Service (ACOSS).

ACTCOSS's vision is for Canberra to be a just, safe and sustainable community in which everyone has the opportunity for self-determination and a fair share of resources and services.

The membership of the Council includes the majority of community-based service providers in the social welfare area, a range of community associations and networks, self-help and consumer groups and interested individuals.

ACTCOSS advises that this document may be publicly distributed, including by placing a copy on our website.

Contact Details

Phone: 02 6202 7200
Address: Weston Community Hub, 1/6 Gritten St, Weston ACT 2611
Email: actcoss@actcoss.org.au
Web: actcoss.org.au
CEO: Dr Emma Campbell
Policy Officer: Geoff Buchanan

February 2021

ISBN 978-1-876632-93-9

© Copyright ACT Council of Social Service Incorporated

This publication is copyright, apart from use by those agencies for which it has been produced. Non-profit associations and groups have permission to reproduce parts of this publication as long as the original meaning is retained and proper credit is given to the ACT Council of Social Service Inc (ACTCOSS). All other individuals and Agencies seeking to reproduce material from this publication should obtain the permission of the CEO of ACTCOSS.

This submission was produced as part of the ACT Energised Consumers Project which is co-funded by Energy Consumers Australia and the ACT Government.

This project was funded by Energy Consumers Australia Limited (energyconsumersaustralia.com.au) as part of its grants process for consumer advocacy projects and research projects for the benefit of consumers of electricity and natural gas.

The views expressed in this document do not necessarily reflect the views of the Energy Consumers Australia.

An ACT Government funded initiative.

Initiative of



Table of contents

Acronyms	4
Introduction	5
About ACTCOSS	5
About GN21	5
Our engagement with GN21	6
Summary of key issues and recommendations.....	7
GN21 and a just transition to net zero emissions	8
ACT Government commitment to a just transition.....	9
Evoenergy’s commitment to a responsible transition	12
Key elements of Evoenergy’s revised GN21 proposal	14
Customer bill impacts.....	14
Forecast demand	15
Regulatory depreciation and asset lives	17
Tariffs	21
Conclusion	22
ACTCOSS contact	23
Appendix 1 Relevant 2020-21 ACT Budget Measures	24

Acronyms

ACTCOSS	ACT Council of Social Service Inc.
AGN SA	Australian Gas Networks South Australia
AER	Australian Energy Regulator
Capex	Capital expenditure
CCP24	AER's Consumer Challenge Panel
ECA	Energy Consumers Australia
ECRC	Evoenergy's Energy Consumer Reference Council
GN21	Evoenergy's gas network 2021-26 access arrangement
Opex	Operating expenditure
SACOSS	South Australian Council of Social Service
The CIE	The Centre for International Economics

Introduction

The ACT Council of Social Service (ACTCOSS) welcomes the opportunity to provide feedback to the Australian Energy Regulator (AER) on the AER's draft decision and Evoenergy's revised gas access arrangement proposal. This submission aims to inform the AER's final decision on Evoenergy's access arrangement for its ACT (and surrounding areas) gas distribution network for the period from 1 July 2021 to 30 June 2026. Throughout this submission we refer to the Evoenergy gas network 2021-26 access arrangement as GN21.

About ACTCOSS

ACTCOSS represents not-for-profit community organisations and advocates for social justice in the ACT. In partnership with Care Financial Counselling Service, ACTCOSS leads the ACT Energised Consumers Project which is co-funded by Energy Consumers Australia (ECA) and the ACT Government. Through this project ACTCOSS advocates for residential, not-for-profit, and small business energy consumers in the ACT.

This submission has been developed primarily as part of the ACT Energised Consumers Project and has been informed by engagement with ACT energy consumers and community organisations. This includes through bi-monthly meetings of the ACT Energy Consumer Policy Consortium, which is attended by representatives from Better Renting, Canberra Business Chamber, Care Financial Counselling Service, Conservation Council ACT Region, and ACT Government. A key focus of the ACT Energised Consumers Project for 2020-22 is the future of gas in a just transition to net zero greenhouse gas emissions in the ACT. ACTCOSS sees GN21 as critical in determining how the future of gas can contribute to a just transition.

ACTCOSS has received funding from Evoenergy to support their engagement with vulnerable energy consumers in their GN21 planning and to provide input to the AER's GN21 review that is focused on vulnerable energy consumers.

ACTCOSS is represented on Evoenergy's Energy Consumer Reference Council (ECRC), the AER's Customer Consultative Group, and the National Consumer Roundtable on Energy.

About GN21

Evoenergy is the gas distribution network service provider for the ACT and Queanbeyan-Palerang region – it owns and operates the network delivering gas to homes and businesses in the region. The AER notes that:

Evoenergy provides natural gas distribution services to approximately 150,000 homes and businesses across Canberra, Greater Queanbeyan and Bungendore, of which around 90 per cent of consumers are located in

the ACT and 10 per cent in NSW. Around 98 per cent of Evoenergy's consumers are residential consumers.¹

Evoenergy's network charges for transporting gas through the network are levied on gas retailers and form part of the costs in a retail gas bill. The National Gas Law and National Gas Rules provide the regulatory framework governing gas networks. The Australian Energy Regulator (AER) determines the revenue Evoenergy can raise through tariffs from network users (i.e., gas retailers) to operate and maintain the network and to fund network growth, refurbishment, and replacement under an approved access arrangement. The revenue that the AER allows Evoenergy under the access arrangement forms the distribution network component of retail gas bills, making up 28% of a typical residential bill and 22% for small businesses.²

Evoenergy submitted its gas network access arrangement proposal for the 2021-26 period to the AER for approval by 1 July 2020. The AER released its draft decision on Evoenergy's proposal on 27 November 2020 and received Evoenergy's revised proposal on 13 January 2021. The AER is expected to publish its final decision on 30 April 2021.

Our engagement with GN21

The primary focus of ACTCOSS's engagement with GN21 has been to engage with and advocate for the interests of vulnerable, low-income, and other at-risk gas consumers. In line with the National Gas Objective, we are concerned about the long-term interests of consumers of natural gas, with a focus on the interests of vulnerable consumers.

The National Gas Objective as stated in the National Gas Law is:

to promote efficient investment in, and efficient operation and use of, natural gas services for the long term interests of consumers of natural gas with respect to price, quality, safety, reliability and security of supply of natural gas.

ACTCOSS has had considerable engagement in the GN21 process. This submission builds on and has been informed by the following engagements:

- Submission to Evoenergy on the Evoenergy Gas Network 2021 Draft Plan³

¹ AER, *Draft decision – Evoenergy access arrangement 2021-26: Overview*, AER, Melbourne, November 2020, p. 5, https://www.aer.gov.au/system/files/AER%20-%20Draft%20Decision%20-%20Evoenergy%20access%20arrangement%202021-26%20-%20Overview%20-%20November%202020_0.pdf

² *ibid.*

³ ACTCOSS, *Submission: Evoenergy gas network 2021 draft plan*, ACTCOSS, Canberra, April 2020, available at, <<https://www.actcoss.org.au/publications/advocacy-publications/submission-evoenergy-gas-network-2021-draft-plan>>.

- Submission to the AER on the Evoenergy Gas Network 2021-26 Access Arrangement Proposal⁴
- ACTCOSS's GN21 Energy Consumer Advocacy Workshop and subsequent workshop outcomes report funded by Evoenergy⁵
- Presented evidence and observed at Evoenergy's 2019 Citizens' Jury
- Participated in Evoenergy's GN21 Draft Plan Deep Dive discussions with local consumers and consumer representatives (Part A), and with consumer advocates (Part B)
- Participated in the Evoenergy Stranded Asset Risk Deep Dive Workshop
- Bi-monthly meetings of Evoenergy's ECRC
- Bi-monthly meetings of the ACT Energy Consumer Policy Consortium
- Multiple meetings with Evoenergy's GN21 team
- Multiple meetings with ECA, TRAC Partners, the AER Consumer Challenge Panel (CCP24), and the South Australian Council of Social Service (SACOSS)
- Two meetings between national and ACT energy consumer advocates facilitated by ACTCOSS to discuss Evoenergy's draft plan and revised proposal.

In developing this submission, ACTCOSS has benefited from numerous discussions with members of CCP24, ECA, and TRAC Partners who have provided expert advice from an energy consumer perspective. ACTCOSS has also benefited from their engagement – along with our colleagues at SACOSS – with the Australian Gas Network South Australia (AGN SA) 2021-26 access arrangement which has provided a useful point of comparison. We are broadly supportive of the submissions to the AER on GN21 by CCP24 and ECA, including the technical report prepared by TRAC Partners for ECA.

Summary of key issues and recommendations

The key issues and recommendations identified in this submission are outlined in the table below.

⁴ ACTCOSS, *Submission: Evoenergy's gas network 2021-26 access arrangement proposal to the Australian Energy Regulator*, ACTCOSS, Canberra, August 2020, available at, <<https://www.actcoss.org.au/publications/advocacy-publications/submission-evoenergys-gas-network-2021-26-access-arrangement>>.

⁵ ACTCOSS, *GN21 energy consumer advocacy workshop outcomes report: building capacity for people on low incomes, experiencing disadvantage, or at risk or hardship to actively engage in the Evoenergy Gas Network 2021-26 Access Arrangement Review*, ACTCOSS, Canberra, October 2019, available at, <<https://www.actcoss.org.au/publications/advocacy-publications/report-gn21-energy-consumer-advocacy-workshop-outcomes>>.

Table 1 Summary of key issues and recommendations

Issue	ACTCOSS Recommendations
Forecast demand	ACTCOSS recommends that the AER rigorously assess the methodology used to forecast customer numbers and gas demand for the 2021-26 period, including the validity of assumptions and the reliability of data.
Responding to stranded asset risk	ACTCOSS has identified an urgent need for a clear and coordinated approach to addressing stranded asset risk in a way that is fair and equitable. This will be critical to achieving an orderly, well-managed and just transition to net zero emissions.
Consumer vulnerability	ACTCOSS recommends that the AER explore regulatory approaches to consumer vulnerability in relation to distribution networks.
Consumer vulnerability	ACTCOSS recommends that Evoenergy further develop its understanding of consumer vulnerability, including which of its customers are vulnerable; what makes them vulnerable; the impact of Evoenergy’s work on consumer vulnerability; and specific measures Evoenergy could undertake to address consumer vulnerability.
Tariffs	ACTCOSS recommends that the AER further explore the interactions between gas network tariffs, emissions reduction, and social equity as part of its elevated consideration of future gas market issues in its strategic priorities list.
Tariffs	ACTCOSS recommends that Evoenergy further explore the interactions between gas network tariffs, emissions reduction, and social equity as part of producing its transition roadmap during the 2021-26 period.
Beyond GN21	There is an urgent need for a comprehensive gas transition strategy for Evoenergy’s gas network in the ACT and Queanbeyan-Palerang Region.
Beyond GN21	ACTCOSS recommends that the AER and/or the AEMC undertake a fit-for-purpose review of the gas law and rules to see how these might need to be changed to meet the National Gas Objective in the context of governments’ net zero greenhouse gas emissions policies

GN21 and a just transition to net zero emissions

A key focus of ACTCOSS’s work under the ACT Energised Consumers Project for 2020-22 is to examine the future of gas in a just transition to net zero greenhouse gas emissions in the ACT. This work is focused on ensuring vulnerable gas consumers are not left behind in this transition and that, wherever possible, their circumstances are improved. ACTCOSS’s primary concern in relation to GN21 is to ensure that it supports a just transition to net zero emissions in the ACT by delivering fair and equitable outcomes for vulnerable gas consumers. Wherever possible, the GN21 plan should support intra- and inter-generational equity in a way that contributes to improved wellbeing for vulnerable gas consumers. We see this as being closely aligned with the focus of the National Gas Objective on the long-term interests of

consumers of natural gas with respect to price, quality, safety, reliability, and security of supply of natural gas.

ACT Government commitment to a just transition

The ACT has legislated to reduce emissions (from 1990 levels) by:

- 40% by 2020
- 50–60% by 2025
- 65–75% by 2030
- 90–95% by 2040
- 100% (net zero emissions) by 2045.⁶

These legislated targets indicate that a further 10-20% reduction in greenhouse gas emissions is to be achieved in the ACT by 2025. This will require a focus on gas and transport given the achievement of 100% renewable electricity in late 2019. It was estimated that gas accounted for 22% of ACT emissions in 2020, with more than 70% of ACT homes and businesses connected to gas.⁷

Under the *ACT Climate Change Strategy 2019-25* the ACT Government has,

...committed to a just transition to net zero emissions that supports low income households and the most vulnerable in our community, and will work with industry to re-train affected workers and pursue opportunities for new, zero emissions industries.⁸

...Government will seek to partner with vulnerable households and community service providers to ensure low income households can participate in the shift to net zero emissions and are not disproportionately affected by new measures. A coordinated mix of concessions, rebates, loans, education, dispute resolution and consumer advocacy programs will be required. These will be designed to address the barriers faced by groups such as low income households, renters, those in public housing, elderly people, people with disabilities and illness, sole parents, people in energy poverty or who are working but on low incomes and not eligible for current concessions.⁹

The ACT Government has committed to develop a plan [by 2024] for achieving zero emissions from gas use by 2045, including setting timeframes with appropriate transition periods for phasing out new and existing gas connections.

⁶ [Climate Change and Greenhouse Gas Reduction Act 2010](#) (ACT); [Climate Change and Greenhouse Gas Reduction \(Interim Targets\) Determination 2018](#) (ACT).

⁷ ACT Government, *ACT Sustainable Energy Policy 2020-25 Discussion Paper*, Environment, Planning and Sustainable Development Directorate, Canberra, 2019, p. 55, https://www.environment.act.gov.au/_data/assets/pdf_file/0007/1411567/act-sustainable-energy-policy-discussion-paper.pdf

⁸ ACT Government, *ACT Climate Change Strategy 2019-25*, Environment, Planning and Sustainable Development Directorate, Canberra, ACT 2019, p. 4, viewed at, <https://www.environment.act.gov.au/cc/act-climate-change-strategy>.

⁹ *ibid*, p. 47.

The ACT Government has also committed to ‘partner with community service organisations to identify vulnerable and disengaged sectors of the community and implement measures to support their participation in shifting to net zero emissions’.¹⁰

We have identified 10 measures in the *ACT Climate Change Strategy 2019-25* aimed at reducing emissions from gas, including supporting consumers to transition from gas to electricity (see Table 2).

Table 2 Actions to reduce emissions from natural gas and to transition from natural gas to electricity, ACT Climate Change Strategy 2019-25

No.	Goal	Action	Timing
4.03	Reduce emissions from gas	Amend planning regulations to remove the mandating of reticulated gas in new suburbs.	By 2020
4.04	Reduce emissions from gas	Conduct a campaign to support the transition from gas by highlighting electric options and savings opportunities to the ACT community.	From 2020
4.05	Reduce emissions from gas	Develop a plan for achieving zero emissions from gas use by 2045, including setting timeframes with appropriate transition periods for phasing out new and existing gas connections.	By 2024
4.09	Climate-wise, zero emissions public housing	Continue to upgrade to efficient-electric appliances in existing public housing properties where technically feasible and assess the cost and benefits of shifting to all-electric public housing.	From 2019
4.10	Climate-wise, zero emissions public housing	Ensure all newly constructed public housing properties are all-electric (fitted with electric appliances) from 2019.	From 2019
4.12	Climate-wise, zero emissions low income homes	Trial facilitating access to interest free loans or other innovative finance for gas to electric upgrades and deep retrofits of low income homes.	By 2022
4.18	Climate-wise, zero emissions buildings	Trial incentives and other measures to encourage all-electric, high efficiency apartment and commercial buildings.	By 2024

¹⁰ *ibid*, p. 7.

No.	Goal	Action	Timing
4.19	Climate-wise, zero emissions buildings	Expand the Energy Efficiency Improvement Scheme to increase support for low income priority households and further encourage a shift from gas to high efficiency electric appliances.	From 2020
5.13	Zero Emissions Government	Ensure all newly built or newly leased Government buildings and facilities are climate-wise and all-electric (where fit for purpose).	From 2020
5.14	Zero Emissions Government	Replace all space and water heating systems in Government facilities with electric systems at the end of their economic lives (where fit for purpose).	From 2020

In November 2020, the new ACT Government set out its next steps on climate change action under the ACT Labor and Greens Parliamentary and Governing Agreement which covers the term of the 10th ACT Legislative Assembly from 2020 to 2024.¹¹ The 'next essential steps to a net zero-emissions ACT' include:

Phase out of fossil-fuel-gas in the ACT by 2045 at the latest, support energy grid stability and support vulnerable households, by doing the following:

- **Implement a program of zero-interest loans of up to \$15,000 for households and not-for-profit community organisations to assist with the upfront costs of investing in: rooftop solar panels; household battery storage; zero emission vehicles and efficient electric appliances. The program will include an education and communications component about energy efficiency and the shift from gas to electric.**
- **Progress a project with relevant asset owners and key stakeholders to reduce the emissions intensity of the existing ACT gas network as much as is possible, by injecting zero-emissions gas alternatives.**
- Enact minimum energy efficiency standards regulations for rental properties in 2021 with progressive implementation over the coming years.
- Implement a five-year, \$50 million program to improve building efficiency and sustainability for social and public housing, low income owner-occupiers, and the lowest performing rental properties; this

¹¹ ACT Government, *Parliamentary & Governing Agreement – 10th Legislative Assembly Australian Capital Territory*, ACT Government, Canberra, 2020, Appendix 1, https://www.cmtedd.act.gov.au/data/assets/pdf_file/0003/1654077/Parliamentary-Agreement-for-the-10th-Legislative-Assembly.pdf

includes upgrades to government housing, and financial incentives to implement minimum energy efficiency standards in rental properties.

- Deliver at least 250MW of new 'large-scale' battery storage distributed across the ACT.
- **Develop the Molonglo Commercial Centre as an all-electric commercial centre (no new connections to gas mains network, but allow transition gas arrangements such as tanks), in partnership with expert stakeholders, and use lessons from this project to assist the phase out of fossil-fuel gas in the ACT, and demonstrate national best practice.**
- **Legislate to prevent new gas mains network connections to future stages of greenfield residential development in the ACT in 2021-22. Future stages of Jacka and Whitlam will be all-electric.**
- **Commence a transition project, working with industry and other stakeholders, to advance all-electric infill developments, with a goal of no new gas mains network connections to future infill developments from 2023.**
- **Ensure all new ACT Government buildings and facilities are fossil-fuel-gas free, including new leases. All retrofitting in Government buildings and facilities will have a goal of net-zero emissions post retrofit.**¹²

In February 2021, the ACT Government announced its delayed 2020-21 ACT Budget which allocates funds towards the phasing out fossil fuel gas and supporting households over the forward estimates to 2023-24 (see Appendix 1).¹³

Evoenergy's commitment to a responsible transition

We commend Evoenergy on its consumer engagement efforts and for incorporating many of the views and priorities of consumers into the GN21 plan. We especially welcome Evoenergy's efforts to engage with and understand the needs of vulnerable consumers. We note that the overarching themes identified in Evoenergy's consumer engagement reflect strong community support for addressing the needs of vulnerable consumers as part of a just transition to net zero greenhouse gas emissions in the ACT by 2045 (see Box 1).¹⁴

During the 2021-26 period we encourage Evoenergy develop its understanding of consumer vulnerability, including which customers are vulnerable; what makes them vulnerable; the impact of Evoenergy's work on consumer

¹² *ibid.* Note: Emphasis added.

¹³ ACT Government, *ACT Budget 2020-21 Budget Outlook*, ACT Government, Canberra, February 2021, <https://apps.treasury.act.gov.au/budget/budget-2020-21>

¹⁴ Evoenergy, *Overview – Access arrangement information, ACT and Queanbeyan-Palerang gas network 2021-26*, Submission to the Australian Energy Regulator, (Evoenergy GN21 Overview), Evoenergy, Canberra, June 2020, p. 14, <https://www.aer.gov.au/networks-pipelines/determinations-access-arrangements/evoenergy-access-arrangement-2021-26/proposal>

vulnerability; and specific measures Evoenergy could undertake to address consumer vulnerability.

Box 1 Overarching themes identified in Evoenergy's consumer engagement

Environmental sustainability

Environmental sustainability, as embodied in the ACT Government's climate change policy leading to net zero greenhouse gas emissions from activities in the ACT by 2045, has widespread support in the community. We have recognised this in our 2021-26 plan by, consistent with the ACT climate change strategy, assuming that our gas network will not be expanded into new ACT suburbs while a transition roadmap is being developed; assuming lower numbers of new connections and declining gas use of gas in response to policy; and minimising investment in the network and accelerating depreciation of new long lived assets in view of the uncertainty future of the network pending a decision by 2024 on the nature of the transition.

Responsible transition

As well as incorporating the elements discussed above under Environmental sustainability for acting consistently with the ACT climate change strategy, responsible transition also involves a least cost and orderly transition to net zero emissions. This involves our **working with other stakeholders to develop a roadmap to net zero emissions**, and sharing with our community findings on the costs and benefits associated with various options for achieving net zero emissions, including both electrification and renewable gas options, and with **emphasis on the needs of vulnerable customers**. The impacts of accelerated depreciation should be further explored, including the AER providing necessary certainty to customers and to network owners as to how asset stranding is to be managed.

Safe and reliable service

Many consumers will continue to use gas during the transition to net zero emissions, and Evoenergy needs to maintain a reliable service and to ensure absolutely that the network remains safe for them, network technicians, and the general community.

Affordability and fairness

Consumers are concerned about the high price of gas services and note the need to ensure that Evoenergy's network prices promote affordability wherever possible. Supply charges as well as disconnection fees are seen as unfairly high. Gas consumers sometimes see fairness as requiring flatter tariff structures. They are concerned that declining block tariffs lack progressivity, and perhaps even encourage higher gas consumption counter to ACT Government policy objectives. They support tariff simplification. They also support incentive schemes which encourage lower network expenditure, so long as there are measures in place to ensure continued focus on performance measures that they value.

Key elements of Evoenergy’s revised GN21 proposal

Customer bill impacts

As noted above, the revenue that the AER allows Evoenergy under the access arrangement forms the distribution network component of retail gas bills, making up 28% of a typical residential bill and 22% for small businesses.

As shown in Table 3 below, the bill impact of Evoenergy’s revised GN21 proposal for the typical residential customer is minimal, with a real price change of -0.5% in 2021-22 with prices only increasing with inflation over the 2021-26 period. Evoenergy notes that:

Because our updated demand forecast results in lower customer connections and gas volumes, our revised GN21 plan results in a smaller price reduction than what we initially proposed and what the draft decision included.¹⁵

Table 3 Customer bill impact, Evoenergy revised proposal and AER draft decision¹⁶

\$ (nominal)	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
Revised proposal						
Real weighted average price change across all tariffs (%)		-0.05	0.00	0.00	0.00	0.00
Increase in the typical residential customer network bill (\$)		9.81	8.22	8.42	8.62	8.82
Estimated Evoenergy network gas bill for the typical residential customer (\$)	337	346	355	363	372	380
Estimated retail gas bill for the typical residential customer (\$)	1,440	1,488	1,547	1,616	1,674	1,721
Draft decision						
Real weighted average price change across all tariffs (%)		-9.77	0.00	0.00	0.00	0.00
Increase in the typical residential customer network bill (\$)		-24.02	7.42	7.60	7.78	7.96
Estimated network gas bill for the typical residential customer (\$)	337	313	320	328	335	343
Estimated retail gas bill for the typical residential customer (\$)	1,440	1,454	1,512	1,580	1,637	1,684

A key theme of the AER’s draft decision is ‘ensuring consumers pay no more than they need for safe and reliable gas services that they want is a cornerstone of the access arrangement decision process’.¹⁷ ACTCOSS is largely satisfied that Evoenergy’s revised GN21 proposal reflects customers’ priority of affordability and fairness, alongside environmental sustainability, responsible transition, and a safe and reliable gas service. While the revised proposal results in a smaller price decrease than in Evoenergy’s initial GN21 proposal

¹⁵ Evoenergy, *Revised GN21 plan*, op. cit., p. 48.

¹⁶ *ibid.*

¹⁷ AER, *Draft decision*, op. cit., p. 7

and in the AER's draft decision, we welcome a GN21 plan that provides price stability without any real price increase. ACTCOSS also welcomes the AER's further scrutiny as it develops its final decision to ensure that consumers pay no more than they need to.

Forecast demand

The AER's draft decision did not accept Evoenergy's proposed demand forecast for individual volume consumers (Tariff VI) for the 2021–26 period. Tariff VI applies to residential and small business customers who are charged according to the volume of gas they use.¹⁸ Evoenergy's revised GN21 proposal provides a revised demand forecast based on:

- updating the demand forecast based on latest available customer numbers and usage data, up to October 2020
- commissioning expert market research consultants Sagacity Research, to undertake a survey of ACT residential customers on their energy fuel preferences, future gas usage intentions, and responsiveness to electrification incentives
- analysis of specific policy targets set out in the P&G agreement to achieve net zero emissions in the ACT by 2045, including the goal of no new gas connections to future infill developments from 2023
- review of gas demand by major gas customers on Tariff D, including commitments to transition away from natural gas.¹⁹

Evoenergy's revised GN21 proposal is based on the following demand forecasts resulting from the above:

- the number of connections on the volume tariffs being forecast to fall by approximately 8.2% over the period
- gas demand for Tariff VI customers in 2025-26 will be 20.43% lower than in 2019-20, decreasing by approximately 15.8% between 2021-22 (6.1m GJ) and 2025-6 (5.1m GJ)
- total usage and chargeable demand for demand customers are forecast to fall by 10% and 9% respectively.²⁰

Evoenergy notes that in comparison to their initial GN21 proposal, 'which forecast a small increase in connections, the revised forecast reflects the ACT

¹⁸ Customers are split into two main groups: volume customers and demand customers. The volume group includes our residential and small business customers who are charged according to the volume of gas they use, while the demand group includes our largest commercial customers who are charged based on the capacity they require.

¹⁹ Evoenergy, *Revised GN21 plan*, op. cit., pp. 39-40.

²⁰ *ibid*, pp. 45-6.

Government's commitment to have no new gas connections for infill developments from 2023'.²¹

We welcome Evoenergy commissioning a survey of owner-occupiers as part of revising its Tariff VI demand forecast. We do however question Evoenergy's statement that:

... the CIE has estimated that the weighted average likelihood that a representative owner-occupier would no longer have any gas appliances in the next five years is 17 per cent. This means that we can expect approximately 17 per cent of our current ACT customer base to not use gas in five years' time.²²

This appears to misrepresent – unintentionally – The CIE's analysis which distinguishes between owner-occupiers and renters. Renters were not included in the consumer survey. Renters are a key group that we are concerned about in terms of potential stranded customers due to the barriers they are likely to experience in transitioning from gas to electric – e.g., due to lower income and split incentives which make it less likely for landlords to pay the cost of transition. This is an important distinction and a critical issue given that over one-third (34%) of ACT households are renters.²³

In revising the demand forecast, we would like to have seen evidence of further and more detailed engagement with developers around their intentions to either connect to the gas network or to go all-electric in ACT infill developments. In their initial GN21 proposal, Evoenergy noted that:

...historically, we have captured a large share of the medium density/high-rise sector across the ACT and in NSW. Developers have preferred centralised gas hot water plants which are cheaper, take up less space, and perform better in colder climates. At this stage, developers are continuing to choose gas for these developments, but are increasingly telling us they are looking to move away from gas.²⁴

A key assumption of the updated demand forecast produced by The Centre for International Economics is that there will be 'no new ACT connections from 1 January 2023' for the residential Tariff VI customer group.²⁵ This assumption projects a questionable amount of certainty onto the ACT Government's 'goal of no new gas mains network connections to future infill developments from

²¹ *ibid*, p. 45.

²² *ibid*, p. 43.

²³ ABS, *4130.0 - Housing Occupancy and Costs, 2017-18*, ABS, Canberra, 2020, Summary: States and Territories, <https://www.abs.gov.au/ausstats/abs@.nsf/Lookup/by%20Subject/4130.0~2017-18~Main%20Features~States%20and%20Territories~9>

²⁴ Evoenergy, *Overview – Access arrangement information, ACT and Queanbeyan-Palerang gas network 2021-26*, Submission to the Australian Energy Regulator, (Evoenergy GN21 Overview), Evoenergy, Canberra, June 2020, p. 25, <https://www.aer.gov.au/networks-pipelines/determinations-access-arrangements/evoenergy-access-arrangement-2021-26/proposal>

²⁵ The Centre for International Economics, *Update for forecast demand for natural gas – ACT and Queanbeyan-Palerang 2021-26*, Final report, prepared for Evoenergy, The CIE, Canberra, 22 December 2020, [Evoenergy Revised GN21 Proposal Attachment 8.1], https://www.aer.gov.au/system/files/Evoenergy%20-%20CIE%20-%20Attachment%208.1%20-%20Update%20to%20forecast%20demand%20report%20-%20January%202021_0.pdf

2023'.²⁶ One indicator that suggests the ACT Government's 'transition project' could extend beyond 1 January 2023 is that the forward estimates for funding the legislative work to phase out fossil-fuel gas in the 2020-21 ACT Budget extends to the 2023-24 financial year (see Appendix 1).

Likewise, we would question basing the assumption that ACT greenfield connections will be prevented from 1 July 2021 on the ACT Government's commitment to legislate to prevent new gas mains network connections to future stages of greenfield residential development in the ACT in 2021-22.

Forecasting demand rapidly and under significant uncertainty presents a considerable challenge in terms of getting the fundamentals right for GN21. Under these circumstances historical data is of limited value to forecasting future demand. We recognise both the challenge Evoenergy has faced and the effort it has made to try to meet this challenge. Given these circumstances we believe it is critical that the forecasts be checked and tested as rigorously as possible within the timeframe. If the AER's final decision identifies significant concerns about the reliability of the demand forecasts, we would support TRAC Partners suggestion that be reviewed at an appropriate stage during the 2021-26 period.²⁷

The AER's draft decision explains the link between demand forecasts and tariffs:

Under a weighted average price cap, demand is an important input into the derivation of Evoenergy's reference tariffs. In simple terms, tariffs are determined by dividing cost (forecast revenue) by total demand (GJ/day per consumer for each tariff class). This means that a decrease in forecast demand leads to an increase in tariffs, and vice versa. Forecast demand also affects forecasts for opex and capex (new connections) which inform our decision on the total revenue requirement.²⁸

Due to the fundamental importance of the demand forecasts – including their ultimate influence on customer bill impacts and affordability – and given the significant reduction (and declining trend) in forecast demand in Evoenergy's revised GN21 proposal, ACTCOSS recommends that the AER rigorously assess the methodology used to forecast customer numbers and gas demand for the 2021-26 period, including the validity of assumptions and the reliability of data.

Regulatory depreciation and asset lives

The ACT Government's commitment to phase out fossil-fuel gas in the ACT presents a clear risk for Evoenergy not being able to recover the costs of its investments if the gas network does not have a useful life beyond 2045 – i.e.,

²⁶ ACT Government, *Parliamentary & Governing Agreement*, op. cit.

²⁷ TRAC Partners, *Technical report: response to AER draft decision & Evoenergy revised access arrangement proposal – 2021-26*, prepared for Energy Consumers Australia, TRAC Partners, 2021, p. 18.

²⁸ AER, *Draft decision*, op. cit., p. 24.

stranded asset risk. A key concern for ACTCOSS is how Evoenergy's revised GN21 proposal responds to stranded customer risk alongside stranded asset risk – i.e., the risk of certain gas customers being stuck on the gas network due to barriers to transitioning and, as a result, facing higher gas prices as network cost recovery is sped up and spread over a smaller customer base.

In response to these risks, Evoenergy's initial GN21 proposal sought to shorten the asset lives for three categories of new investments as follows:

- high pressure mains from 80 years to 50 years (c. 2071-76)
- medium pressure mains from 50 to 30 years (c. 2051-56)
- medium pressure services from 50 to 30 years (c. 2051-56).

Evoenergy has advised that this proposal would add \$1 per year to customers' gas bills.²⁹

Evoenergy presented this as an initial step aimed at addressing both the stranded asset and stranded customer risk in a fair and equitable manner, arguing that:

By ensuring that the customers who receive the benefits pay a fair share of the cost, our proposal will go some way to address the concerns raised that vulnerable groups of customers will be harmed. Without a reduction in asset lives, these customers who are unable or prefer not to switch from gas will be left paying for connection capex. Reducing the asset lives will ensure that existing customers (who received 100 per cent of the benefits) contribute towards the costs before they disconnect.³⁰

The AER's draft decision was to:

- accept Evoenergy's proposed shorter standard asset lives for pipeline assets in the ACT region
- not accept Evoenergy's proposed shorter standard asset lives for pipeline assets in the NSW region; accordingly, we have created three new asset classes for pipeline assets located in the NSW region of Evoenergy's gas network and maintained the longer standard asset lives for these new asset classes.

While noting that 'there is currently not enough evidence to say that all assets would be stranded by 2045', the AER sees shorter standard asset lives for new pipeline assets in the ACT as 'a prudent, responsible and precautionary first step to protect the long-term interests of Evoenergy's gas consumers from asset stranding risk'.³¹

²⁹ CommunicationLink, *Evoenergy stranded asset risk deep dive workshop – September 2020: Outcomes report*, CommunicationLink, Canberra, 16 October 2020, p. 9, [Evoenergy GN21 Revised Proposal Attachment 4.1], <https://www.aer.gov.au/system/files/Evoenergy%20-%20Communication%20Link%20-%20Attachment%204.1%20-%20Stranded%20asset%20risk%20deep%20dive%20report%20-%20January%202021.pdf>

³⁰ Evoenergy, *GN21 Overview*, p. 24.

³¹ AER, *Draft decision*, op. cit., pp. 40 & 10.

Throughout the GN21 process, ACTCOSS's view has been that in pursuing a just transition to net zero emissions it is not fair and equitable to expect consumers to bear the full risk of Evoenergy's response to stranded asset risk. In our submission to Evoenergy on its Draft Plan we noted that:

In order for us to support Evoenergy's approach, we would need to be confident that this approach ensures the equitable distribution of financial risks so that those exposed to risks have the ability and incentive to manage them. A critical question is who should pay – consumers (current or future), shareholders, Evoenergy, or the ACT Government. Our view is that it is not reasonable to expect consumers to bear the full risk of Evoenergy's gas assets becoming stranded due to the perceived climate change mitigation risks.³²

The GN21 process has been unable to build consensus about how to manage stranded asset risk, particularly through the shortening of asset lives. The outcomes report from Evoenergy's Stranded Asset Risk Workshop – which ACTCOSS participated in – highlights the diversity of views on this issue among stakeholders. Evoenergy report that the workshop found:

- a strong theme that the government and Evoenergy should negotiate a financial solution to asset stranding that does not see costs directly passed on to customers
- general support for Evoenergy's accelerated depreciation proposal, except from those who felt the government should pay
- some support for all new assets being depreciated by 2045, but with most more interested in a commitment that alternative uses be explored and discussions with the ACT Government occur first
- little or no appetite for immediate accelerated depreciation of all assets at this stage due to affordability concerns, with many worried that we are simply writing off alternative options
- some feedback that accelerated depreciation was not seen as compatible with continued market expansion
- some concern about vulnerable customer affordability, particularly as overall customer numbers decline.³³

For ACTCOSS, the GN21 process has highlighted the lack of – and urgent need for – a clear and coordinated approach to addressing stranded asset risk in a way that is fair and equitable. Addressing this will be critical to achieving an orderly, well-managed and just transition to net zero emissions.

What is currently missing – and what we hope will emerge over the 2021-26 period – is a comprehensive gas transition strategy for Evoenergy's gas network in the ACT and Queanbeyan-Palerang Region. An example of what such a strategy might include has recently been outlined by the California

³² ACTCOSS, *Submission: Evoenergy gas network 2021 draft plan*, op. cit., pp. 15-16.

³³ Evoenergy, *Revised GN21 plan*, op. cit., p. 8.

Energy Commission.³⁴ Accelerated depreciation can and possibly should be part of an integrated, comprehensive strategy for Evoenergy's gas network.

Under the *ACT Climate Change Strategy 2019-25* the ACT Government has committed to 'develop a plan for achieving zero emissions from gas use by 2045, including setting timeframes with appropriate transition periods for phasing out new and existing gas connections [by 2024]'.³⁵ Over the same period, Evoenergy will be developing its transition roadmap to net zero emissions, 'working closely and collaboratively with the ACT Government, industry and climate change experts, and the community to comprehensively assess the options'.³⁶

The AER notes that it expects 'to have more policy clarity from the ACT Government at the next access arrangement review to re-assess the asset lives for the 2026–31 period'.³⁷ The AER also notes that it has:

...elevated consideration of future gas market issues in our strategic priorities list. We are currently considering how the AER could advance this discussion with consumers, industry, market bodies and government stakeholders.³⁸

ACTCOSS welcomes this and we repeat our recommendation in our previous submission, that the AER and/or the AEMC undertake a fit-for-purpose review of the gas law and rules to see how these might need to be changed to meet the National Gas Objective in the context of governments' net zero greenhouse gas emissions policies.³⁹

The AER recently commissioned a report exploring regulatory approaches to consumer vulnerability.⁴⁰ We would encourage the AER explore regulatory approaches to consumer vulnerability in relation to distribution networks. This seems to be particularly important during a period of significant transition and transformation in distribution networks.

³⁴ California Energy Commission, *The challenge of retail gas in California's low-carbon future: technology options, customer costs, and public health benefits of reducing natural gas use*, Final project report, California Energy Commission, April 2020, pp. 58-59.

³⁵ ACT Government, *ACT Climate Change Strategy 2019-25*, op. cit., p. 10.

³⁶ Evoenergy, *GN21 Overview*, op. cit., p. 13.

³⁷ AER, *Draft decision*, op. cit., p. 40

³⁸ *ibid*, p. 10.

³⁹ ACTCOSS, *Submission: Evoenergy's gas network 2021-25 access arrangement proposal to the Australian Energy Regulator*, op. cit., p.8.

⁴⁰ E O'Neill, *Exploring regulatory approaches to consumer vulnerability*, A report to the Australian Energy Regulator, Consumer Policy Research Centre, Melbourne, February 2020, https://www.aer.gov.au/system/files/CPRC%20-%20Exploring%20regulatory%20approaches%20to%20consumer%20vulnerability%20-%20AER%20report%20for%20the%20AER%20-%20February%202020_0.pdf

Tariffs

ACTCOSS supported Evoenergy's proposal to simplify tariffs by abolishing unused tariffs, while recommending that they respond to consumer feedback by undertaking analysis of equity and sustainability impacts of declining block tariffs to ensure there is alignment with the key themes of Evoenergy's consumer engagement.⁴¹

As stated in their GN21 draft plan,

Evoenergy has declining usage rates, meaning the price per unit falls the more gas is used. This helps encourage utilisation of the gas network, and minimise the bill impacts of higher usage during peak times of the year.⁴²

The AER's draft decision accepts Evoenergy's proposal to retain its declining block tariff structure and simplify tariff classes and categories.

The AER's draft decision incorrectly indicates that ACTCOSS's submission on Evoenergy's proposal supported the declining block tariff.⁴³ Rather, our submission was amongst those that raised the question of whether:

...declining block tariffs may be inconsistent with the ACT Government's policy to reduce demand for gas. Also, that declining block tariffs raise equity concerns for disadvantaged customers who would typically consume smaller quantities of gas and therefore pay higher per unit network tariffs than customers consuming larger quantities.⁴⁴

In terms of Evoenergy's response the AER observed that,

Evoenergy noted in its 2021–26 access arrangement revisions proposal that similar comments were provided during its own stakeholder consultation process. In response, Evoenergy noted that declining block tariffs benefit all customers by incentivising greater gas consumption and therefore lowering per unit network costs.⁴⁵

The AER's draft decision states that,

We are satisfied that Evoenergy is retaining its declining block tariff as this is consistent with the price cap form of control. We consider the structure of declining block tariffs is well known to Evoenergy's customers and its continuation in the 2021–26 access arrangement will allow customers to respond to the prices within each block (or band) by adjusting their consumption. Doing so will reduce their overall network charges.

⁴¹ ACTCOSS, *Submission: Evoenergy's gas network 2021-25 access arrangement proposal to the Australian Energy Regulator*, op. cit., pp. 20-21.

⁴² Evoenergy, *Evoenergy gas network 2021 draft plan*, Evoenergy gas network 2021-26 access arrangement review, Evoenergy, Canberra, February 2020, p.44, <https://www.evoenergy.com.au/gas-network-draft-plan>

⁴³ AER, *Draft decision Evoenergy access arrangement 2021 to 2026 Attachment 9 Reference tariff setting*, AER, Melbourne, November 2020, p. 10 (fn 22), https://www.aer.gov.au/system/files/AER%20-%20Draft%20decision%20-%20Evoenergy%20access%20arrangement%202021-26%20-%20Attachment%209%20-%20Reference%20tariff%20setting%20-%20November%202020_0.pdf

⁴⁴ *ibid*, p. 10.

⁴⁵ *ibid*.

Evoenergy correctly described the principle underlying both the price cap form of control and application of declining block tariff structures. Interactions between emissions policies and gas network tariffs may be further explored in future gas network determinations or through standalone policy projects but at this time we consider application of price caps and declining block tariffs remains in the long term interest of gas network customers.

We would question the AER's assertion that 'the structure of declining block tariffs is well known to Evoenergy's customers and [allows] customers to respond to the prices within each block (or band) by adjusting their consumption'. Drawing on observations from community service providers who have direct engagement with energy consumers in the ACT, we suspect there is very little awareness of this tariff structure among residential customers.

We share the view expressed in other submissions to the AER that declining block tariffs that incentivise greater gas consumption appear to be inconsistent with the ACT Government's legislation and policies to reduce greenhouse gas emissions from fossil-fuel gas. There is no indication in Evoenergy's revised proposal that it acted on our recommendation to undertake analysis of equity and sustainability impacts of declining block tariffs.

ACTCOSS recommends that the AER further explore the interactions between gas network tariffs, emissions reduction, and social equity as part of its elevated consideration of future gas market issues in its strategic priorities list.⁴⁶

ACTCOSS recommends that Evoenergy further explore the interactions between gas network tariffs, emissions reduction, and social equity as part of producing its transition roadmap during the 2021-26 period.

Conclusion

ACTCOSS commends Evoenergy for their efforts to engage consumers in the development of its GN21 plan. Importantly, Evoenergy's consumer engagement found strong community support for ensuring no one is left behind as part of a just transition to net zero greenhouse gas emissions in the ACT by 2045.

We have appreciated Evoenergy's efforts to engage with and support vulnerable gas consumers, including through their engagement with ACTCOSS. We welcome Evoenergy's commitment to work with stakeholders to understand and consider the needs of vulnerable customers and what it can do to help as they develop their transition roadmap.

We see a need for a better understanding and consideration of the needs of vulnerable customers to be developed now so that it can inform Evoenergy's work over the 2021-26 period. Developing this understanding will be critical to ensuring Evoenergy's response to stranded asset risk results in a fair and equitable distribution of costs.

⁴⁶ AER, Draft decision overview, p. 10.

ACTCOSS commends the AER for the rigour of its review of Evoenergy's GN21 proposal. We especially value the AER's strong and clear focus on ensuring consumers pay no more than they need for safe and reliable gas services.

Overall, ACTCOSS believes that Evoenergy's GN21 plan is tracking well towards being capable of acceptance by the AER. Our submission has highlighted forecast demand as a fundamental piece of an access arrangement – having flow-on effects in terms of capital expenditure, operating expenditure, asset lives, and ultimately customers' bills. We are confident that the AER will ensure that its final decision is based on the best demand forecast possible under what are very challenging circumstances.

Through our engagement with GN21 it has become clear that there is an urgent need for a comprehensive gas transition strategy for Evoenergy's gas network in the ACT and Queanbeyan-Palerang Region. This will require significant work by ACT Government, Evoenergy, and the AER in consultation with stakeholders. To achieve a just transition, this work will require an equity lens and an understanding of the causes and consequences of consumer vulnerability. ACTCOSS is keen to remain engaged with the ACT Government, Evoenergy, and the AER during the 2021-26 period to ensure Evoenergy's gas network access arrangement for 2026-31 is based on a comprehensive, clear, and coordinated approach to achieving a just transition to net zero emissions in the ACT by 2045.

ACTCOSS contact

We thank the AER for considering this submission. If you would like to discuss any of the issues we have raised, please do not hesitate to contact Mr Geoff Buchanan, Senior Policy Officer (Research & Data), ACTCOSS at geoff.buchanan@actcoss.org.au or call 02 6202 7200.

Appendix 1 Relevant 2020-21 ACT Budget Measures

The 2020-21 ACT Budget announced on 9 February 2021 included the following funding relating to climate change action commitments in the ACT Labor and Greens Parliamentary and Governing Agreement.⁴⁷

Phasing out fossil fuel gas in the ACT and supporting energy grid stability

	2020-21	2021-22	2022-23	2023-24	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Expenses	213	379	131	132	855

The Government will support the development of a long-term plan for the phase out of gas use in the ACT. This includes funding to develop legislative amendments to prevent future gas connections in residential greenfield and urban infill developments. It also covers projects that will advance all-electric infill developments.

Sustainable Household Scheme

	2020-21	2021-22	2022-23	2023-24	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Capital	8,125	31,300	31,300	31,300	102,025
Offset – Capital	-129	-3,745	-6,719	-9,692	-20,285
Net capital	7,996	27,555	24,581	21,608	81,740
Expenses – Cash	645	2,045	1,679	1,718	6,087
Expenses – Non-cash	1,684	5,805	4,877	4,052	16,418
Net cost of services	2,329	7,850	6,556	5,770	22,505

The Government will implement a program of zero interest loans of up to \$15,000 for households and not-for-profit community organisations to assist with the upfront costs of investing in: rooftop solar panels; household battery storage; zero emission vehicles; and efficient electric appliances.

The program will also include an education and communications program focused on energy efficiency and the shift from gas to electric energy.

Detailed design work will be undertaken in early 2021 ahead of the loans being progressively made available to the ACT community from mid-2021.

Vulnerable Household Energy Support

	2020-21	2021-22	2022-23	2023-24	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Capital – Provision	0	12,337	12,337	12,337	37,011
Expenses	219	0	0	0	219
Expenses – Provision	0	125	125	125	375
Net cost of services	219	125	125	125	594

⁴⁷ ACT Government, *ACT Budget 2020-21 Budget Outlook*, op. cit.

The Government is providing funding to undertake policy design work for a \$50 million fund to improve building efficiency and sustainability for social and public housing, low income owner-occupiers and rental properties. A provision has also been established for the balance of the \$50 million fund (including \$12.462 million in 2024-25).