



**Submission:**

**Evoenergy's Gas Network 2021-26 Access  
Arrangement Proposal to the Australian  
Energy Regulator**

**August 2020**

# 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.

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

An ACT Government funded initiative.

Initiative of



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## Acronyms

|         |  |
|---------|--|
| ACTCOSS | ACT Council of Social Service Inc.                 |
| AGN SA  | Australian Gas Networks South Australia            |
| AER     | Australian Energy Regulator                        |
| CCP24   | AER's Consumer Challenge Panel                     |
| CESS    | Capital Expenditure Sharing Scheme                 |
| ECA     | Energy Consumers Australia                         |
| ECRC    | Evoenergy's Energy Consumer Reference Council      |
| GN21    | Evoenergy's gas network 2021-26 access arrangement |
| SACOSS  | South Australian Council of Social Service         |

## Introduction

The ACT Council of Social Service (ACTCOSS) welcomes the opportunity to provide feedback to the Australian Energy Regulator (AER) on Evoenergy's access arrangement proposal for its ACT (and surrounding areas) gas distribution network for the period from 1 July 2021 to 30 June 2026 (Evoenergy's GN21 plan).

## 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 as part of the ACT Energised Consumers Project. This submission has been informed by engagement with ACT energy consumers and community organisations, including through monthly meetings of the ACT Energy Consumer Policy Consortium. The Consortium 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 the development of Evoenergy's GN21 plan as critical in determining how the future of gas can contribute to a just transition.

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

## Our engagement in Evoenergy's GN21 plan development

ACTCOSS has received funding from Evoenergy to support their engagement with vulnerable energy consumers in developing the GN21 plan. While this submission has been informed in part by work performed through this funding, it has been produced independently of our funding arrangement with Evoenergy.

The primary focus of our engagement has been to engage with and advocate for the interests of vulnerable, low-income, and other at-risk gas consumers in the ACT in the development of Evoenergy's GN21 plan. 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 long-term 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 development of Evoenergy's GN21 plan. This submission builds on and has been informed by the following engagements to date:

- Submission on the *Evoenergy Gas Network 2021 Draft Plan*<sup>1</sup>
- ACTCOSS's GN21 Energy Consumer Advocacy Workshop and subsequent workshop outcomes report funded by Evoenergy<sup>2</sup>
- Presenting evidence and observing at Evoenergy's 2019 Citizens' Jury
- Participating in Evoenergy's GN21 Draft Plan Deep Dive discussions with local consumers and consumer representatives (Part A), and with consumer advocates (Part B)
- Bi-monthly meetings of Evoenergy's ECRC
- Meetings with Evoenergy
- Monthly meetings of the ACT Energy Consumer Policy Consortium as part of the ACT Energised Consumers Project
- Meetings with ECA, TRAC Partners, the AER Consumer Challenge Panel (CCP24), and the South Australian Council of Social Service (SACOSS).

In developing this submission, ACTCOSS has benefited from numerous discussions with CCP24, ECA, and TRAC Partners who have provided expert advice on Evoenergy's GN21 plan 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 proposal. This has provided a useful point of comparison. While our views on some issues differ, we are broadly supportive of the submissions to the AER on Evoenergy's GN21 plan by CCP24 and ECA, including the technical report prepared by TRAC Partners for ECA.<sup>3</sup>

## Outline of key issues

ACTCOSS believes that Evoenergy's GN21 plan is tracking well towards being capable of acceptance by the AER. In April 2020, ACTCOSS made a

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- 1 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>>.
  - 2 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>>.
  - 3 TRAC Partners, *ECA response to Evoenergy's 2021-26 access arrangement proposal*, Technical report for Energy Consumers Australia, ECA, Sydney, 2020, available at, <<https://energyconsumersaustralia.com.au/wp-content/uploads/ECA-response-to-EvoEnergy's-2021-26-access-arrangement-proposal.pdf>>.

submission to Evoenergy on their Draft Plan. Most of the issues we raised in that submission remain as our key concerns in relation to Evoenergy’s GN21 plan (see Table 1).

ACTCOSS supports Evoenergy’s decision to cease network expansion in new developments in the ACT in the 2021-26 access arrangement period. Our view is that the same decision could also apply to market expansion in the NSW component of Evoenergy’s network, as well as expansion of the network in ‘brownfield’ sites in existing suburbs. Otherwise, Evoenergy’s GN21 plan responds well to the ACT Government’s policy of net zero emissions by 2045, as well as taking positive steps to address affordability concerns raised by consumers. The GN21 plan delivers a welcome reduction in network prices by about 4% in 2021-22, followed by stable prices for the remaining four years.

Evoenergy’s consumer engagement identified clear community advocacy for them to support their vulnerable customers through all elements of a transition. We welcome Evoenergy’s commitment to work with stakeholders to understand and consider the needs of vulnerable customers and what they can do to help as they develop their transition roadmap. We encourage Evoenergy to undertake work now to ensure that their revised access arrangement proposal is based on an adequate understanding and consideration of the needs of vulnerable customers.

This submission starts by outlining ACTCOSS’s focus on the future of gas in a just transition to net zero greenhouse gas emissions in the ACT. It then discusses four key issues that we believe require further attention: responding to stranded asset risk; forecast gas demand; incentive schemes; and tariffs. We also identify three additional factors likely to have an impact between now and when Evoenergy will submit its revised access arrangement proposal to the AER in January 2021, namely: the impact of COVID-19; the forthcoming *ACT Sustainable Energy Policy 2020-25*; and the 2020 ACT Election.

**Table 1 Key issues, recommendations, and questions**

| <b>Issue</b>                      | <b>ACTCOSS Recommendations and Questions</b>  |
|-----------------------------------|---|
| Vulnerable customers              | ACTCOSS recommends that Evoenergy’s GN21 plan should be informed by an evidence base on vulnerable customers that can provide insights into: which customers are vulnerable; what makes these customers vulnerable; the impact of the GN21 plan on these vulnerable customers; and what specific measures Evoenergy could include in the GN21 plan to support vulnerable customers and improve their circumstances over the 2021-26 period. |
| Responding to stranded asset risk | ACTCOSS recommends that Evoenergy provide a more detailed cost/benefit analysis of the key scenarios for accelerating depreciation. Ideally this would include a distributional analysis or other assessment of equity outcomes with a focus on impacts on vulnerable gas consumers.  |

| Issue                             | ACTCOSS Recommendations and Questions   |
|-----------------------------------|---|
| Responding to stranded asset risk | ACTCOSS provisionally recommends – pending the outcome of further stakeholder engagement – that the application of accelerated depreciation to new and existing assets (capital expenditure) be the subject of a wider AER consultation process rather than part of the consideration of Evoenergy’s GN21 plan. |
| Responding to stranded asset risk | 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.   |
| Incentive schemes                 | ACTCOSS recommends that Evoenergy undertake further consumer engagement on the Capital Expenditure Sharing Scheme (CESS) that is informed by more detailed information about performance measures, Evoenergy’s baselines and historical performance against these measures, and industry benchmarks.            |
| Tariffs                           | ACTCOSS recommends that Evoenergy respond to consumer feedback by undertaking an analysis of equity and sustainability impacts of declining block tariffs to ensure there is alignment with the key themes of Evoenergy’s consumer engagement.  |
| Forecast gas demand               | How does the Evoenergy’s GN21 plan fit within the legislated target of a 50-60% reduction in greenhouse gas emissions (from 1990 levels) by 2025?   |

## Our focus: the future of gas in a just transition to net zero emissions in the ACT

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 will focus 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 Evoenergy’s GN21 plan 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.



## Net zero emissions targets and actions in the ACT

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.

These staged targets provide important context which is missing from Evoenergy’s GN21 plan. 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 natural gas and transport given the achievement of 100% renewable electricity in late 2019.

While only indicative, the ACT Government has undertaken modelling that suggests that to achieve these targets there would need to be ‘around 60,000 existing households not connected to gas by 2025, increasing to 90,000 in 2030 and all houses by 2045’.<sup>4</sup>

As shown in Table 2 below, there are 10 measures in the *ACT Climate Change Strategy 2019-25* aimed at reducing emissions from natural gas, including supporting consumers to transition from natural gas to electricity. Table 2 provides a more comprehensive list than that provided in Evoenergy’s GN21 plan, which includes only the first three measures. This longer list provides a clearer indication of the ACT Government’s intentions and actions to transition away from natural gas within Evoenergy’s GN21 plan period of 2021-26.

**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 ACT Government, *ACT Climate Change Strategy 2019-25*, Environment, Planning and Sustainable Development Directorate, Canberra, ACT 2019, p. 39, viewed at, <<https://www.environment.act.gov.au/cc/act-climate-change-strategy>>.

| No.  | Goal  | Action   | Timing    |
|------|---|--|-----------|
| 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   |
| 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 |

## ACT Government commitment to a just transition to net zero emissions

Several the measures in Table 2 are targeted at supporting low-income households to transition from natural gas to electric appliances and systems. 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.<sup>5</sup>

...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.<sup>6</sup>

As shown in Table 2, 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’. 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’.<sup>7</sup> The ACT Energised Consumers Project led by ACTCOSS is a key partnership initiative to support this, and in 2020-22 a key focus of the project will be the future of gas in a just transition to net zero emissions in the ACT.

## Community advocacy for Evoenergy to support vulnerable customers

Over the 2021-26 period of the GN21 plan, Evoenergy will also produce a transition roadmap for achieving net zero emissions by 2045. We welcome Evoenergy’s commitment, in response to consumer feedback, to ‘work with stakeholders to understand and consider the needs of vulnerable customers and what we can do to help as we develop our transition roadmap’.<sup>8</sup>

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

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5 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>>.

6 ACT Government, *ACT Climate Change Strategy 2019-25*, Environment, Planning and Sustainable Development Directorate, Canberra, ACT 2019, p. 47, viewed at, <<https://www.environment.act.gov.au/cc/act-climate-change-strategy>>.

7 ACT Government, *ACT Climate Change Strategy 2019-25*, Environment, Planning and Sustainable Development Directorate, Canberra, ACT 2019, p. 7, viewed at, <<https://www.environment.act.gov.au/cc/act-climate-change-strategy>>.

8 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. 17, viewed at, <<https://www.aer.gov.au/networks-pipelines/determinations-access-arrangements/evoenergy-access-arrangement-2021-26/proposal>>.

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).

#### Box 1 Overarching themes identified in Evoenergy's consumer engagement<sup>9</sup>

##### 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.

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<sup>9</sup> Evoenergy GN21 Overview, p. 14.

This submission highlights key areas where we believe further work is needed now – as a critical part of the GN21 plan – to better understand and consider the needs of vulnerable consumers.

***ACTCOSS recommends that Evoenergy’s GN21 plan be informed by an evidence base on vulnerable gas consumers that can provide insights into: which customers are vulnerable; what makes these customers vulnerable; the impact of the GN21 plan on vulnerable customers; and what specific measures Evoenergy could include in the GN21 plan to support vulnerable customers and improve their circumstances.***

Participants in ACTCOSS’s GN21 Energy Consumer Advocacy Workshop held in August 2019 were interested in finding out whether Evoenergy has data on gas customers experiencing hardship in the region, including data from the ACT Civil and Administrative Tribunal (ACAT) and the Energy and Water Ombudsman NSW (EWON).<sup>10</sup> There is no evidence in Evoenergy’s GN21 plan that such data about vulnerable customers has been gathered, analysed or used to inform Evoenergy’s decision making.

The development of an evidence base on vulnerable gas consumers would be particularly useful in informing Evoenergy’s GN21 plan in relation to responding to stranded asset risk, forecasting demand, and assessing the equity impacts of tariffs.

## **Responding to stranded asset risk**

The ACT Government has stated that ‘avoiding investment in infrastructure and appliances that will lock in emissions from natural gas will be critical for meeting long-term [net zero emissions] targets’.<sup>11</sup> Over the 2021-26 period of the GN21 plan, Evoenergy and ACT Government will both be developing plans to achieve zero emissions from gas use by 2045. Evoenergy’s transition roadmap ‘will look at options including closing our gas network; using our network to transport renewable gas; or a combination of these and/or other possible options’.<sup>12</sup>

The option of ‘closing our gas network’ presents the scenario that by 2045 the ACT’s gas network infrastructure will become unused – a stranded asset. In the context of stranded asset risk for Evoenergy’s gas network, a vulnerable gas consumer includes anyone who would face significant barriers to transitioning from natural gas – those most at risk of becoming stranded customers. For example, gas customers who are private renters would be vulnerable due to the split incentive between landlords and tenants where transitioning from gas to electric systems represents a cost for the former and a potential benefit for the

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10 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, p. 8, viewed at, <<https://www.actcoss.org.au/publications/advocacy-publications/report-gn21-energy-consumer-advocacy-workshop-outcomes>>.

11 *ACT Climate Change Strategy 2019-25*, p. 66.

12 Evoenergy GN21 Overview, p. 1.

latter. A key concern for ACTCOSS is how Evoenergy's GN21 plan responds to stranded consumer risk alongside stranded asset risk – especially for vulnerable gas customers who are at significant risk of being stuck on the gas network due to being unable to transition readily from natural gas and, as a result, would be likely to face even higher gas costs as these are spread over a smaller customer base.

As noted in Appendix 4.3 of Evoenergy's GN21 plan – a report prepared for Evoenergy by Incenta Economic Consulting on responding to stranded asset risk – the ACT Government has already introduced measures aimed at addressing stranded consumer risk that may also impact on Evoenergy's stranded asset risk:

The ACT Government has indicated it will work with retailers to support consumers wishing to switch from gas to electric appliances with tailored programs to smooth the transition. It notes that as customers switch to electricity the price of gas will increase given network costs will be spread across fewer customers. The Government's proposed approach to this issue appears to be to speed up the transition away from gas, including to provide support to lower income customers that use gas to switch. The implication being that customer numbers may be very low much earlier than 2045 such that cost recovery is very difficult. There is no discussion on the implications this will have for the gas pipeline business.<sup>13</sup>

As noted in the GN21 plan,

Evoenergy's approach to the 2021-26 access arrangement period in the face of uncertainty pending the government's decision on the future of the network, is to minimise investment to that necessary to maintain the safety and reliability of the network; plan for no connections in new ACT developments and declining new connections in other areas; and to accelerate depreciation on new, long lived assets.<sup>14</sup>

ACTCOSS supports most of Evoenergy's response to stranded asset risk outlined in the statement above which aligns largely with ACT Government policy and consumer feedback. We are yet to arrive at a final view on Evoenergy's proposal to accelerate depreciation on new, long-lived assets.

ACTCOSS supports Evoenergy's plan for further stakeholder engagement (deep dive workshops) on stranded asset risk as noted in their presentation at the AER's online public forum on the GN21 plan held on 4 August 2020.<sup>15</sup> We welcome this as a direct response to ACTCOSS's submission to Evoenergy on their Draft Plan. ACTCOSS will participate in this further engagement in good faith and with an open mind as to whether we would be able to support

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13 Evoenergy, *Appendix 4.3, Responding to stranded asset risk, Incenta Economic Consulting, Access arrangement information, ACT and Queanbeyan-Palerang gas network 2021-26*, Evoenergy, Canberra, 2020, p. 2, viewed at, <<https://www.aer.gov.au/networks-pipelines/determinations-access-arrangements/evoenergy-access-arrangement-2021-26/proposal>>.

14 Evoenergy GN21 Overview, p. 1.

15 Evoenergy, *Gas network 2021-26 access arrangement proposal*, presentation to AER public forum, 4 August 2020, viewed at, <<https://www.aer.gov.au/system/files/Evoenergy%20-%20Presentation%20to%20public%20forum%20-%20August%202020.pdf>>.

Evoenergy's response to stranded asset risk in the GN21 plan based on the available evidence.

ACTCOSS's view is 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.<sup>16</sup>

We noted that Evoenergy had supported the following Citizens' Jury recommendation in principle:

Recommendation 5: Evoenergy, in consultation with relevant parties (including Government, retailers and consumers), to develop consumer-centred policy to protect consumers from unexpected transition issues; consumers being stranded if critical mass exodus occurs. The purpose of this recommendation is to give consumers certainty.<sup>17</sup>

Our view is that, in response to this consumer feedback, Evoenergy must demonstrate how their proposed response to stranded asset risk would be consumer-centred in relation to the equitable distribution of financial risk.

In relation to this, Evoenergy's GN21 plan states 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.<sup>18</sup>

We are yet to be convinced that: this is the only or best available option; that it provides sufficient protection for vulnerable customers; and that it would result in a fair and equitable distribution of costs.

In the technical report prepared by TRAC Partners for ECA on Evoenergy's GN21 plan, it is noted that:

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

17 Evoenergy, *Evoenergy 2019 Citizens' jury: Evoenergy gas network 2021–26 review response to recommendations*, Evoenergy, Canberra, 2020, p. 11, viewed at, <<https://www.evoenergy.com.au/about-us/about-our-network/gas-five-year-plan/gas-network-consultation-program>>.

18 Evoenergy GN21 Overview, p. 24.

We would have expected a more detailed cost/benefit analysis to assess the impact on today's and tomorrow's customers of the following scenarios:

- Accelerating depreciation of existing and new long-lived assets from 2021 onwards
- Accelerating depreciation of long-lived assets from 2026 onwards
- Accelerating depreciation of new assets from 2021 onwards and for existing assets from 2026 onwards.<sup>19</sup>

**ACTCOSS recommends that Evoenergy provide a more detailed cost/benefit analysis of the key scenarios for accelerating depreciation. Ideally this would include a distributional analysis or other assessment of equity outcomes with a focus on impacts on vulnerable gas consumers.**

In response to questions raised as part of Evoenergy's Deep Dive Part A workshop, Evoenergy stated that its 'ambition as a business is that in time the network will distribute renewable gas'.<sup>20</sup> While we agree with Evoenergy that the GN21 plan is taking place amidst considerable uncertainty, there is potentially a tension between its stated ambition and the proposed accelerated depreciation of new, long-lived assets if this covers new, long-lived assets that would remain useful to distribute renewable gas, and therefore have greater chance of having a life after 2045.

We would otherwise question why the accelerated depreciation of new, long-lived assets does not result in an economic life to 2045 to align with the ACT's legislated net zero emissions target. Evoenergy proposes shortening 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).

A further challenge we face in assessing Evoenergy's proposal to accelerate depreciation on new, long-lived assets is not yet knowing how the ACT Government and Evoenergy roadmaps will align and intersect in terms of responding to stranded asset risk, and the interaction with responding to stranded consumer risk. For example, there may be an arguable case for ACT Government compensation for stranded asset risk for capital expenditure spent until the end of the current access arrangement period. It is unclear what impact ACT Government's part-ownership of Evoenergy might have on the options available. We question the limiting of options to a binary choice between 'removing' (e.g. accelerated depreciation) and 'compensation' as outlined in Incenta's report for Evoenergy on responding to stranded asset risk.

ACTCOSS's view is that Evoenergy's proposal to reduce the asset lives of its new investments must have clear consumer support following further stakeholder engagement. Such consumer support must be based on sufficient evidence and consumer confidence that the proposed approach would deliver a

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<sup>19</sup> TRAC Partners, op. cit., p. 15.

<sup>20</sup> Evoenergy, *Part A Deep Dive Q and A*, Evoenergy, Canberra, 2020, p. 1.



fair and equitable distribution of costs relative to alternative approaches. The evidence base must include an adequate assessment of the impact the proposed approach would have on vulnerable gas consumers, clearly demonstrating that it would be in their long-term interests.

Based on our current understanding and concerns, ACTCOSS would be unlikely to support Evoenergy's proposal to accelerate depreciation for new, long-lived assets as part of the GN21 plan. Evoenergy's GN21 plan proposes this as a small first step that is intended to be followed by a much larger, more significant step in accelerating depreciation of existing assets in the next access arrangement period. Without understanding what impact those bigger steps will have – especially on vulnerable gas consumers – we do not currently have confidence that taking a first step in this direction in Evoenergy's GN21 plan would be in the long-term interests of consumers.

**ACTCOSS provisionally recommends – pending the outcome of further stakeholder engagement – that the application of accelerated depreciation to new and existing assets (capital expenditure) be the subject of a wider AER consultation process rather than part of the consideration of Evoenergy's GN21 plan.**

**ACTCOSS recommends that the AER 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 emissions policies.**

## Forecast gas demand

Compared to Evoenergy's Draft Plan, the GN21 plan is less inconsistent with the ACT's legislated greenhouse gas emissions targets and the *ACT Climate Change Strategy 2019-25* given the reduced forecast of customer numbers and less expansion capital expenditure. Evoenergy's GN21 plan still includes an expansion in customer numbers - customer numbers are forecast to grow by 3% (around 5,000 customers), with a total of 157,300 customers forecast by 2025-26. At the same time, annual gas usage per customer is expected to fall by approximately 16% between 2019-20 and 2025-26, from 42 to 36 gigajoules per customer.

The apparent lack of alignment between Evoenergy's GN21 plan and the ACT's legislated target of a 50-60% reduction in greenhouse gas emissions (from 1990 levels) by 2025 remains a concern for ACTCOSS. We expect that the forthcoming *ACT Sustainable Energy Policy 2020-25* and the ACT Government's 2024 deadline for determining transition periods for phasing out new and existing gas connections will see the establishment of targets to significantly reduce natural gas customer numbers from current levels over the next 5-10 years.

In our submission to Evoenergy on their Draft Plan we asked whether developers would want to install gas connections to new suburbs in the ACT now that it is not mandated. We are also keen to know whether developers will

want to install gas connections in existing suburbs – especially in new medium-density/high-rise developments. We are particularly concerned about how this might contribute to stranded asset/customer risk.

Evoenergy note in their GN21 plan 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.<sup>21</sup>

We have concerns that developers ongoing choice of gas may result in a significant number of stranded gas customers in medium-density/high-rise developments where they are likely to face significant barriers to transitioning from natural gas to electricity if required or preferred.

Evoenergy also note that:

Whether or not to connect new customers in reticulated areas is not a decision over which Evoenergy has discretion. We must comply with the access regime set out in the [National Gas Law] and the Rules. As an open access network, we are required to make connection offers and provide third parties with access to our network.

In almost all cases, we must undertake connections without asking for a capital contribution toward the cost. We can only impose connection charges when expected revenue is less than the capex required for the connection. Almost all connection applications pass this test. Even if we assume that the gas network will be inactive in 2045, new connections in areas of existing network coverage would still clear this hurdle since:

- it is unlikely that a new connection would disconnect within 10 to 15 years — the typical life of gas appliances; and
- as connection costs are low, it takes on average only seven years for a connection to yield more revenue than the capex incurred.

ACTCOSS is concerned this obligation combined with developers' preference for gas might result in customer numbers increasing above the GN21 plan forecast of 3% and requiring more capital expansion than Evoenergy has forecast for the 2021-26 period.

Evoenergy's consumer engagement found strong community advocacy for support for vulnerable gas consumers as part of a responsible transition. In response, Evoenergy has committed to work with stakeholders to understand and consider the needs of vulnerable customers and what we can do to help as we develop our transition roadmap. In forecasting gas demand, we see value in Evoenergy's forecast gas demand including baseline data on the number and types of vulnerable gas customers. This data could then guide forecasts, track impacts over time, and inform support or mitigation measures for vulnerable

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<sup>21</sup> Evoenergy GN21 Overview, p. 25.

customers in line with the overarching themes identified in Evoenergy's consumer engagement.

## Capital Expenditure Sharing Scheme

In the GN21 plan, Evoenergy proposes to 'introduce a new Capital Expenditure Sharing Scheme (CESS), based on the designs recently approved by the AER in Victoria and NSW'.<sup>22</sup> Evoenergy state that:

We believe the proposed CESS is in the long-term interests of our customers and will help further improve the efficiency of our capital expenditure program, keeping downward pressure on bills. In developing our proposal, we consulted widely with customer and community groups with a focus on ensuring the proposed CESS reflects customer priorities for network safety and reliability.<sup>23</sup>

In our submission to Evoenergy on their Draft Plan we noted that we saw value in there being a strong incentive for Evoenergy to maintain high performance standards, and therefore minimise impacts of outages for affected customers. We also noted that:

We are uncertain about the value of Evoenergy adopting a Capital Expenditure Sharing Scheme (CESS) under GN21 ... It is unclear whether customers want or would benefit from the proposed CESS. Evoenergy's Deep Dive Part A workshop sought feedback from stakeholders on the most appropriate performance measures and weightings for the CESS. This skipped the key step of seeking feedback from stakeholders on whether a CESS should be adopted ... it would be useful to provide stakeholders with further information about performance measures, baselines, and benchmarks.

We noted that if a CESS is to be adopted it is essential that:

- The metrics represent decisions that Evoenergy has under its control
- The metrics/weightings reflect the importance to or impact on customers (customer-centred)
- The targets are set at levels that truly represent achievements beyond business as usual such that the scheme does not simply represent a 'easy wins' or 'low-hanging fruit' for Evoenergy
- The scheme is designed such that it is generally symmetric – i.e. the quantum of incentive payment and the probability of meeting the target is such that Evoenergy has a close to equal likelihood of earning a positive payment as a negative one.

**ACTCOSS recommends that Evoenergy undertake further consumer engagement on the CESS that is informed by more detailed information**

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<sup>22</sup> Evoenergy GN21 Overview, p. 34.

<sup>23</sup> Evoenergy GN21 Overview, p. 34.

## about performance measures, Evoenergy's baselines and historical performance, and industry benchmarks.

Evoenergy states there was broad stakeholder support for retaining the Efficiency Carryover Mechanism incentive scheme for operational expenditure

and the introduction of the CESS. We suggest that further engagement is needed to ensure consumers have a clear understanding of how these incentive mechanisms work – including if/how they work in the consumers' interests.

## Tariffs

ACTCOSS supports Evoenergy simplifying tariffs by abolishing unused tariffs as part of the GN21 plan.

Evoenergy's Draft Plan noted that:

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.<sup>24</sup>

In our submission to Evoenergy on the Draft Plan we noted our interest in Evoenergy undertaking analysis of declining block tariff impacts in relation to:

- Equity outcomes – Evoenergy presented data to the Energy Consumer Reference Council (ECRC) meeting on 31 October 2019 that indicated that while low-income gas consumers have lower gas usage per quarter, the impact of the declining usage rate is not likely to be inequitable. There remains a concern that the declining usage rate is not progressive and may not equally benefit low-income households who have lower gas usage per quarter. We would value more detailed analysis of the declining usage rate in relation to equitable outcomes for low-income households.
- Sustainability outcomes – the declining usage rate appears to work against ACT Government policy objectives in relation to reducing greenhouse gas emissions from natural gas consumption. A tariff structure where the unit price of gas is reduced as consumption increases beyond appears to incentivise higher consumption levels and hence emissions.

In the GN21 plan, Evoenergy notes that this feedback was received from multiple stakeholders to which their response is: 'Evoenergy is not proposing to change its current declining block structure'.<sup>25</sup> Further justification of this response is provided in *Attachment 10: Reference Services and Tariffs*:

- Use of a declining block structure reflects the requirements of the [National Gas Objective] as it promotes the efficient use of the natural

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<sup>24</sup> Evoenergy, *Evoenergy gas network 2021 draft plan*, Evoenergy gas network 2021-26 access arrangement review, Evoenergy, Canberra, February 2020, p.44, viewed at, <<https://www.evoenergy.com.au/gas-network-draft-plan>>.

<sup>25</sup> Evoenergy GN21 Overview, p. 21.

gas services and is in the long term interests of consumers of natural gas

- A declining block tariff reflects the declining costs of meeting incremental demand as there are economies of scale that come with greater demand
- It is in the interests of all customers to improve the utilisation of the network as it spreading our fixed costs wider puts downward pressure on all customers' prices
- We consider that this is an appropriate price signal for customers where the marginal costs of supplying additional unit is materially lower than the average costs, encouraging increased network utilisation
- Consistent with other gas distribution businesses in Australia, Evoenergy is proposing to maintain a declining block usage charges.<sup>26</sup>

Evoenergy's response does not adequately address the consumer feedback. Consumer feedback did not request the removal of declining block tariffs, it sought an assessment of their alignment with consumer expectations around equity and sustainability outcomes. These consumer expectations are captured in the key themes of Evoenergy's consumer engagement as outlined in the GN21 plan:

- Environmental sustainability
- Responsible transition
- Safe and reliable service
- Affordability and fairness.

**ACTCOSS recommends that Evoenergy 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.**

## Other impacts on Evoenergy's GN21 plan

We note that there are a few things that will have the potential to impact on Evoenergy's GN21 plan significantly before Evoenergy submits its revised access arrangement proposal in January 2021 and when the AER publishes its final decision in April 2021. These include:

- The impact of COVID-19

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<sup>26</sup> Evoenergy, *Attachment 10: Reference services and tariffs*, Access arrangement information, ACT and Queanbeyan-Palerang gas network 2021-26, Submission to the Australian Energy Regulator, Evoenergy, Canberra, 2020, viewed at, <<https://www.aer.gov.au/networks-pipelines/determinations-access-arrangements/evoenergy-access-arrangement-2021-26/proposal>>.

- The forthcoming *ACT Sustainable Energy Policy 2020-25*
- The 2020 ACT Election.

## COVID-19

Evoenergy notes that forecasts have not been able to be adjusted to assess the impacts caused by COVID-19 and that therefore they will incorporate any COVID-19 related adjustments into their revised proposals that they will submit in response to the AER's draft decision.

TRAC Partners have identified two options for the AER should consider to ensure procedural fairness is afforded to consumers:

- Option 1 – the AER could require any COVID related adjustments to be submitted by the businesses prior to the Draft Decision and open up a round of mini consultation on these adjustments before the draft decision is issued. Then the AER's draft decision can take into account both the COVID related adjustments and any submissions consumers make in response.
- Option 2 – the AER could maintain the status quo until after submissions have been received in response to the revised proposal submitted in response to the Draft Decision. The AER could then issue a preliminary position paper on the COVID related adjustments and request submissions from consumers on its position. Following consideration of these submissions, the AER would then make its final decision.<sup>27</sup>

The impact of COVID-19 on vulnerable gas consumers is also of significant concern. COVID-19 has increased the number of gas consumers who are in vulnerable circumstances due to lower income and/or higher energy use. The impact of COVID-19 on gas consumer vulnerability may have some influence on consumer views on some elements of the GN21 plan that will push prices upwards. For example, this weigh against Evoenergy's proposal to accelerate depreciation on new, long-lived assets if it would result in higher gas bills.

## ACT Sustainable Energy Policy 2020-25

The ACT Government is expected to release the *ACT Sustainable Energy Policy 2020-25* soon. Based on the *ACT Sustainable Energy Policy 2020-25 Discussion Paper* released last year,<sup>28</sup> we anticipate that this policy document will include details that will need to be considered in Evoenergy's GN21 plan.

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<sup>27</sup> TRAC Partners, op. cit., p. 30.

<sup>28</sup> ACT Government, *ACT Sustainable Energy Policy 2020-25 Discussion Paper*, Environment, Planning and Sustainable Development Directorate, Canberra, 2019, viewed at, <<https://www.environment.act.gov.au/energy/act-sustainable-energy-policy-2020-25>>.

## 2020 ACT Election

The 2020 ACT Election will be held on 17 October 2020. The outcome of the 2020 ACT Election may result in changes to ACT Government commitments over the next four-year term of the Legislative Assembly that could impact on Evoenergy's GN21 plan. While there is currently tri-partisan support from ACT Labor, ACT Greens, and Canberra Liberals for achieving net zero greenhouse gas emissions in the ACT by 2045, it is uncertain how the next ACT Government will approach the future of gas.

## Conclusion

ACTCOSS commends Evoenergy for their efforts to engage consumers in the development of the GN21 plan. Evoenergy's consumer engagement found strong community support for Evoenergy's GN21 plan to support vulnerable gas consumers as part of a just transition to net zero greenhouse gas emissions in the ACT by 2045.

We especially appreciate 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 better inform Evoenergy's GN21 plan. This understanding is particularly necessary to informing Evoenergy's response to stranded asset risk, ensuring that this response results in a fair and equitable distribution of costs.

This submission has also identified a need for the AER to undertake a fit-for-purpose review of the National 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 emissions policies.

Overall, ACTCOSS believes that Evoenergy's GN21 plan is tracking well towards being capable of acceptance by the AER, but further development and/or consumer engagement is needed in relation to:

- Responding to stranded asset risk
- Forecast gas demand
- The Capital Expenditure Sharing Scheme (CESS)
- Tariffs.

Our submission has also identified three additional factors that are likely to have an impact between now and when the AER is expected to publish its final decision in April 2021, namely:

- The impact of COVID-19

- The forthcoming ACT Sustainable Energy Policy 2020-25
- The 2020 ACT Election.

ACTCOSS looks forward to further engagement in the Evoenergy's gas network 2021-26 access arrangement review. Our engagement will continue to focus on ensuring the final GN21 plan is in the long-term interests of vulnerable gas consumers and contributes to a just transition to net zero greenhouse gas emissions in the ACT.

## **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](mailto:geoff.buchanan@actcoss.org.au) or call 02 6202 7200.