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Gas Distribution Network Tariffs Review 2023

AGL welcomes the opportunity to provide comments on the Australian Energy Regulator's (**AER**) Review of Gas Distribution Network Tariffs. We note that the issues being raised through this review will continue to create challenges as the transition to net-zero emissions progresses. While the regulatory framework is flexible and the transition is ongoing, there is an important role for governments to continue to set clear policy direction on the future use of gas to deal with related safety and equity issues for customers that may arise.

AGL is a leading integrated essential service provider, with a proud 185-year history of innovation and a passionate belief in progress. We deliver 4.3 million gas, electricity, and telecommunications services to our residential, small, and large business, and wholesale customers across Australia. We operate Australia's largest electricity generation portfolio, with an operated generation capacity of 11,208 MW across the National Electricity Market (**NEM**). We have the largest renewables and storage portfolio of any ASX-listed company, having invested $4.8 billion over two decades in renewable and firming generation.

Transformation in the energy system and the explicit policy goal of reaching net zero emissions by 2050 creates considerable uncertainties in future gas demand expectations. The decline of gas demand is expected to accelerate, but there is uncertainty as to how quickly that will happen, what the path to small customer electrification will look like.

The issues paper considers the appropriateness of weighted average price caps and declining block tariffs in the context of amendments to the National Energy Objective to include emissions reductions and jurisdictional policies to encourage gas customers to transition to electricity. We note that submissions to the AER in recent access arrangement reviews have called for changes to declining block tariffs. Stakeholders consider there is an inconsistency between weighted average price cap regulation and declining block tariffs applied to gas networks on the one hand, and jurisdictional policies to transition away from natural gas consumption on the other.

A key issue throughout this review process will be in striking a balance between risk placed on consumers and risk placed on distribution networks in the energy market transition. If future access arrangement periods see a winding down of gas networks, there could be fewer customers to shared fixed costs of the network over time. This could result in customers that cannot afford to electrify facing higher bills, raising equity concerns. AGL recommends that the AER consider the issues highlighted within the context of ensuring that customers who may be still reliant on gas are paying no more than necessary for a safe, reliable and secure supply. Therefore, we recommend that the AER does not pursue revenue caps as we do not consider that extreme changes in demand that creates the potential for stranding risk is likely for the foreseeable future. Therefore, we do not see compelling reasons for any move at this time from a weighted average price cap (the price cap) to a revenue cap now. AGL is of the view that that the acceleration in the rate of deprecation is the appropriate method to meet the likelihood and expected costs of any such stranding.

AGL strongly supports the implementation of these reforms in a staggered fashion over several years. As the AER notes, gas distribution network haulage tariffs are currently dominated by declining block structures. As retailers pass through distribution costs to end consumers, any changes would be directly reflected in overall bills for gas customers. For ease of transition, we recommend the AER look to develop a proposal that sees a reduction in the large variances within declining block tariffs, with a view to progressing to flat tariffs over time. This transition could start with encouraging those with low barriers to exit gas in the first phase. Distributors will require advance notice of the AER's changes in thinking on tariff variation mechanisms and tariff structures to inform their own stakeholder engagement prior to their individual access arrangement reviews. As such, a detailed transition plan for all access arrangement determinations over the next 5 to 10 years will be fundamental to ensuring the safety, security and reliability of gas networks.

An additional issue for the AER's consideration which was discussed in the final decision for AusNet's Access Arrangement Determination 2023-28 for a hybrid cost recovery method for abolishment of gas supply. In the course of AusNet's review, the AER became aware that some customers who are choosing to move away from gas are avoiding a higher charge by seeking temporary disconnection measures designed for short-term pause of supply over the safer, permanent removal of connection assets. As such, the AER made a decision that while paths to electrification are still uncertain and to reduce the price difference between the two disconnection services, that there be an upfront cost of $220 for connection abolishment and the remainder to be shared between all customers. The AER noted that this was not a long term solution and will put upwards pressure on haulage tariffs in the 2023-28 period until a more sustainable solution is identified. This will be a key consideration for the AER within this review and future determinations if, in future periods, we see further decline in demand and an increase in customers leaving the network, the upwards pressure on tariffs for remaining customers will only grow.

If you have any queries about this submission please contact Emily Gadaleta, Regulatory Strategy Manager at egadaleta@agl.com.au.

Yours sincerely,

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