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Australian Energy Regulator

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### **Access arrangement proposal (variation) – AusNet Gas Services**

AGL Energy (**AGL**) welcomes the opportunity to make a submission to the Australian Energy Regulator (**AER**) on AusNet Gas Services' (**AusNet**) access arrangement variation proposal. AGL also recognises the extensive consultation process undertaken by AusNet in the development of their proposal.

Proudly Australian since 1837, AGL delivers around 4.3 million gas, electricity, and telecommunications services to our residential, small, and large business, and wholesale customers across Australia. AGL is a strong supporter of electrification and is committed to helping customers make informed decisions about their energy use and providing them with solutions that suit their needs and preferences. An example of AGL's market leading work is the [Electrify Now](#) platform which helps households to understand the potential benefits of electrifying their homes by providing personalised information on the most impactful upgrades. AGL also offers programs to help customers reduce their energy consumption through demand response programs and through participation in AGL's Virtual Power Plant.

AGL acknowledges that the Victorian Government's recent policy announcements will accelerate the state's transition away from gas and that the AER is required to consider AusNet's access arrangement variation proposal under the National Gas Rules. AGL is also cognisant that, in assessing this variation, the AER must consider how to equitably recover gas network costs from consumers while usage declines.

AGL does not support AusNet's proposal to increase their accelerated depreciation from the amount of \$105 million approved by the AER to \$175 million. While gas network usage is set to rapidly decline, particularly in the residential sector, the rate of electrification and the extent of its impact on customer numbers and asset stranding is still uncertain. AGL's view is that further consideration of accelerated depreciation in AusNet's gas network should be deferred to the next regulatory period (commencing in 2028). Adherence to the five-year regulatory period is necessary to provide customers with bill certainty and to provide time for the AER and for governments to consider complementary measures to mitigate the challenges posed by grid defection.

As the AER has noted in other decisions affordability remains a top cost-of-living issue for households. Many customers are facing challenges to absorb higher electricity prices in the current economic climate. Approving AusNet's proposed accelerated depreciation would have a certain and measurable impact on consumer bills at this time when there should be increased weight on protecting customers.

There is a material risk of over recovering gas network costs in this regulatory period. While we acknowledge AusNet's thorough analysis in developing their demand forecasts, the underlying assumptions are subject to change in a rapidly evolving landscape. This is exacerbated by features of the current regulatory regime which incentivise gas networks to under-forecast demand to mitigate their exposure to demand risks. Conversely, it is unclear whether approving accelerated depreciation now would have material positive impacts on future consumers' bills. To meet its regulatory obligations, AusNet will still be required to service and invest in its network in upcoming years and these costs will continue to be passed on to consumers. Furthermore, there is still a level of uncertainty associated with the government policies cited in AusNet's submission – for example, gas appliance bans are currently under consultation and would not apply to all appliances, enabling customers to remain connected to the gas grid.



AGL's view is that it is not appropriate to rely on accelerated depreciation alone to address the grid deflection challenges posed by electrification. Furthermore, the iterative process enabled by access arrangement proposal variations is unsustainable in the context of an accelerated energy transition with high levels of uncertainty. AGL notes that in 2022 Victoria's distribution network businesses submitted addendums to their 2023-2028 gas access arrangement proposals following the release of the Victorian Government's Gas Substitution Roadmap. AusNet is now seeking a variation due to further updates in the Victorian Government's policy agenda. While AGL acknowledges gas networks have limited options available to recover the costs associated with these changes, this approach is limited and transfers the risks of network cost recovery to consumers.

AGL encourages the AER and jurisdictions to work together with industry and consumer groups to address the challenge of cost recovery of gas network costs holistically and with a view to a sustainable recovery over the expected service life. Governments and regulators should seek to strike a balance between the risk placed on consumers and the risk placed on distribution networks in the energy transition. While this work occurs, AGL's view is that the AER should take a conservative approach to accelerated depreciation. Primarily, this would mean deferring its use until the next regulatory period. AGL has also separately expressed its views on policy options to address barriers to electrification – a summary of these can be found in AGL's [website](#). If implemented, some of these policy changes could help mitigate the impacts of grid deflection on the remaining gas users.

If you have any queries about this submission, please contact Andrea Espinosa on 0422 165 705 or [aespinosa2@agl.com.au](mailto:aespinosa2@agl.com.au).

Yours sincerely,

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