Submission to Jemena Gas Networks' Draft 2020 Plan

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Level 5, 175 Liverpool Street, Sydney NSW 2000
Phone: 61 2 8898 6500 • Fax: 61 2 8898 6555 • www.piac.asn.au

About the Public Interest Advocacy Centre

The Public Interest Advocacy Centre (PIAC) is an independent, non-profit legal centre based in Sydney.

Established in 1982, PIAC tackles barriers to justice and fairness experienced by people who are vulnerable or facing disadvantage. We ensure basic rights are enjoyed across the community through legal assistance and strategic litigation, public policy development, communication and training.

Energy and Water Consumers' Advocacy Program

The Energy and Water Consumers' Advocacy Program (EWCAP) represents the interests of low-income and other residential consumers of electricity, gas and water in New South Wales. The program develops policy and advocates in the interests of low-income and other residential consumers in the NSW energy and water markets. PIAC receives input from a community-based reference group whose members include:

- NSW Council of Social Service;
- Combined Pensioners and Superannuants Association of NSW;
- Ethnic Communities Council NSW;
- Salvation Army;
- Physical Disability Council NSW;
- St Vincent de Paul NSW;
- Good Shepherd Microfinance;
- Affiliated Residential Park Residents Association NSW;
- Tenants Union;
- Solar Citizens; and
- The Sydney Alliance.

Contact

Miyuru Ediriweera
Public Interest Advocacy Centre
Level 5, 175 Liverpool St
Sydney NSW 2000

T: (02) 8898 6525
E: mediriweera@piac.asn.au

Website: www.piac.asn.au

Public Interest Advocacy Centre

@PIACnews

The Public Interest Advocacy Centre office is located on the land of the Gadigal of the Eora Nation.

1. Introduction

PIAC welcomes the opportunity to provide input to Jemena Gas Network's Draft 2020 Plan and commends Jemena for the engagement of consumers and consumer advocates they have conducted ahead of their initial proposal to the Australian Energy Regulator.

PIAC staff have engaged with Jemena on various issues related to the 2020-25 access arrangement as part of Jemena's customer council, as observers at the numerous rounds of deliberative engagement which Jemena have run throughout NSW, as part of a deep dive along with other consumer advocates in February, and through one-on-one meetings with Jemena staff on more specific issues. This submission builds on and complements these interactions.

2. Principles

2.1 Gas as a 'fuel of choice'

In 2014, the Alternative Technology Association (ATA, now Renew) found that due to improvements in common household electrical appliances, connecting new gas supply was no longer an economic option for residential consumers when efficient electric options are available.[1] These findings also held true when ATA redid the analysis in 2018 and concluded that:

> To continue to promote reticulated gas to new Class 1 dwellings is to lock most of those new home buyers into significantly higher energy costs for the medium to longer term.
>
> …
>
> Continued expansion of reticulated gas to most greenfield developments across the NEM fails [the National Gas Objective] on at least two important counts:
>
> - The infrastructure delivered could not, by any credible measure, be considered 'efficient investment'; and as such
> - such programs are clearly no longer in the 'long term interests of consumers', with particular reference to price.[2]

These findings have also been supported through analysis by the Grattan Institute, Melbourne Energy Institute, AEMO and other independent researchers. They are evidenced by a trend away from connecting new homes to gas and many existing gas homes moving appliances to electricity.

Given this, PIAC contends that significant investment in new gas pipelines to connect households to the gas system is likely to be inherently inefficient and, arguably, not in consumers' long-term interests.

Industry claims that gas is a 'fuel of choice', and therefore subject to competitive pressures from electricity. For many consumers this is simply not the case. For some consumers, the cost of changing household appliances from gas to electricity may be too high, while for renters it is a decision they cannot make. For households that only use gas for cooking and hot water, the fixed service charge is a greater portion of their bills than for similar households with both gas and electricity (i.e. dual fuel customers). Furthermore, it is estimated that dual fuel customers pay up to $900 a year in fixed charges, with gas supply

1 ATA, *Are we still cooking with gas?*, November 2014, 5.
2 ATA, *Household Fuel Choice in the National Energy Market*, July 2018, 7.

charges for some networks comprising approximately 54% of the bill.[3] These customers, who remain connected to gas because of inability to switch, will be the most affected by the consequences of any changes to the economic coverage of pipelines.

Therefore, PIAC does not consider that expenditure on the marketing of gas or the provision of appliance rebates is necessarily in the long-term interests of individual consumers. In its advice to the AER on the access arrangement proposals by the Victorian gas networks, the Consumer Challenge Panel noted:

> By its nature, the proposed marketing campaign in large part represents a transfer of wealth (or cross subsidy) from one group of Victorian residential gas consumers to another. It is therefore imperative that the proposed expenditure by each network business has the support of its residential customers.[4]

2.2 Risk allocation between consumers and business

In general, PIAC considers that risk should be allocated so that those exposed to risks have the ability and incentive to manage them. This is particularly important in the regulated network segments of the energy supply chain. Under the current regulatory frameworks, any network investment costs have been borne by consumers – i.e. socialised – through a regulated fee, regardless of actual asset utilisation or benefits accrued. PIAC does not consider this to be an appropriate allocation of risk. Instead, risk should be shared between consumers and businesses based on an assessment of which party has the ability and incentive to manage it.

To address this, we support incentivising pipeline service providers to use the speculative capital expenditure account with appropriate return on the risk associated with that expenditure. However, we remain concerned about the operation of this mechanism. PIAC is particularly concerned about this risk as it relates to distribution networks' supply of residential consumers. For example, when a distribution pipeline service provider builds a network to supply a residential development, they may wish to invest in extra capacity to ensure they can serve future gas demand in that area. Given the changing economics of residential gas demand,[5] this investment would be inherently speculative.

2.3 Consumer engagement

PIAC commends the consumer engagement which Jemena has conducted in the lead up to preparing its initial proposal for the 2020-25 access arrangement. This has included:

- use of Jemena's customer council of consumer representatives, of which PIAC has been a member;
- multiple rounds of deliberative engagement with a broad, representative group of consumers across NSW;
- targeted workshops with more select groups of consumers – in particular the workshops held entirely in language with the support of the Ethnic Communities Council of NSW;
- a deep dive for consumer advocates in February on the Draft 2020 Plan; and
- bilateral meetings on specific issues.

[3] St Vincent de Paul Society, Queensland Energy Prices July 2016: An update report on the Queensland tariff-tracking project, 2016, 21-23.

[4] Consumer Challenge Panel, *Consumer Challenge Panel Sub-Panel CCP11: Response to proposals from AGN, AusNet and Multinet for a revenue reset/access arrangement for the period 2018 to 2022*, March 2017, 57.

[5] Alternative Technology Association, *Are We Still Cooking with Gas?*, November 2014.

Not only has this engagement been broad and comprehensive, but it also commenced early – over 18 months before the initial proposal was due to the AER.

3. Specific issues in Jemena's plan

3.1 Boundary metering and embedded networks

PIAC supports Jemena's intent in proposing to minimise its capital expenditure through the use of volume boundary metering for new high-rise sites with centralised hot-water systems. Any measure which leads to more efficient network expenditure and helps to manage the potential risk of growing RAB is worthy of consideration.

Under Jemena's proposal, the high-rise site would become an embedded gas network, with a third-party (the Embedded Network Operator) owning, operating and maintaining the infrastructure within the high-rise site. While this reduces the amount of money that Jemena must spend to connect new high-rise sites (and hence benefits all Jemena's customers), the ultimate impact on the households within the site depends also on the costs from the Embedded Network Operator. Embedded networks have been a concern in the electricity market and has been the subject of several recent submissions by PIAC and an ongoing review by the AEMC. Therefore, PIAC recommends Jemena continue to work with the AEMC and other stakeholders to ensure that the prospective customers who would be served by volume boundary metering continue to receive appropriate protections and support.

3.2 Accelerated depreciation

As noted earlier, PIAC considers as a foundational principle that risk should be allocated so that those exposed to risks to have the ability and incentive to manage them. Jemena's proposal to use accelerated depreciation for new network investments to address potential future asset stranding risk is a prime example of where this principle can be applied. Under Jemena's proposal, consumers in the near term will pay more for these assets rather than Jemena in the future. In other words, it represents a transfer between consumers in the short-term and Jemena's shareholders in the longer term.

While PIAC is generally supportive of the analysis Jemena has done in arriving at its proposal and the engagement it has conducted to minimise negative impacts on consumers we suggest that doing the "least bad" version of accelerated depreciation doesn't necessarily make it good.

We urge Jemena to think outside the current regulatory framework and consider whether it is really reasonable to expect consumers to foot the bill for the full risk that Jemena does not have an attractive product in the future.

3.3 CESS

In general, PIAC supports the judicious use of incentive schemes for regulated network businesses. We look forward to working with Jemena, the AER and other stakeholders on developing an appropriate Capital Expenditure Sharing Scheme (CESS) for the 2020-25 period.

3.4 Energy Charter

The Energy Charter is a voluntary, principles-based disclosure regime that can be applied to all businesses across the gas and electricity supply chains. The Charter is intended to embed customer-centric culture and conduct in energy businesses, so as to create tangible improvements in price and service delivery.[6] PIAC has also been actively involved in the formation of the Energy Charter both through being a member of the End User Consultative Group.

We note that Jemena was one of the founding signatories to the Charter. However, we can find no firm reference to the Charter or Charter outcomes in the Draft 2020 Plan. We recommend Jemena demonstrate how its proposals for the 2020-25 access arrangement relate to and work towards meeting its undertakings under the Charter.

3.5 Appliance rebates/incentives

In its draft plan, Jemena notes that:

> Our marketing program is focussed on encouraging the sale and installation of natural gas appliances by establishing natural gas as a highly desirable energy option. It does this by promoting natural gas and working with alliance partners to promote the sale of gas appliances via incentive payments.[7]

PIAC has a number of concerns regarding the use and implementation of rebates and incentives to encourage the purchase or replacement of gas appliances. As noted earlier in Section 2.1, gas has strong substitution potential with electricity and the point of purchasing or replacing household appliances is the strongest point for most consumers to choose whether to use gas or electricity. Therefore, it is essential that consumers make fully informed decisions regarding their choice of fuel and that this must not be influenced by distortionary rebates or incentives.

For instance, replacing a gas cooker with an electric induction cooktop may be the most economically rational decision for a particular household due to the combination of upfront capital cost and expected electricity prices compared to gas prices. However, due to overly generous and untested incentives or rebates for gas appliances, the household may instead choose to purchase a lower-efficiency gas appliance. Therefore, while it may improve the gas bill for the particular household, it does not minimise the total energy (i.e. electricity and gas) bill and so fails to fully address the affordability pressures many households currently face.

PIAC encourages Jemena to address the following questions:

- How is Jemena testing to ensure the appliances purchased via the rebates or incentives are energy efficient?
- How is Jemena testing to ensure the appliance(s) chosen is economically efficient for the purchaser, especially noting the potential for an electric alternative?
- How is the cost being recovered for these incentive payments?
- Which consumers are receiving these incentive payments – are low-income/vulnerable households with low efficiency appliances making use of these where it is economically efficient for them to do so?

3.6 Opex productivity

As noted in a number of processes, PIAC considers that one of the central purposes of the network regulation framework is to replicate the pressures of a competitive market on NSPs. In a competitive market, businesses plan for continuous productivity improvement. In such a market, firms are required to constantly reduce costs through productivity improvements or

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6 See the Energy Charter website: https://www.theenergycharter.com.au/about

7 Jemena, *Draft 2020 Plan*, January 2019, 62.

face losing market share and, eventually, going out of business. Therefore, as noted in our submission to the AER's opex productivity review, it is inconsistent with the overarching goal of the regulatory framework that NSPs would not face a requirement to improve operating productivity. This is an outcome which PIAC and consumers cannot accept.[8]

As such, PIAC welcomes Jemena committing to deliver operating expenditure savings of 0.5% per annum through the 2020-25 period.

[8] PIAC, *Submission to Forecasting productivity growth for electricity distributors draft decision*, December 2018.