



Draft Gas Distribution System Code of Practice Submission to Essential Services Commission

December 2023

The Brotherhood of St. Laurence (BSL) welcomes the opportunity to provide a response to the Essential Services Commission's (ESC's) draft Gas Distribution System Code of Practice (the Code). The Code regulates aspects of Victoria's gas system that will be particularly important for managing an optimal, equitable and affordable transition away from gas through the state's transition away from gas.

BSL's response to the draft Code represents the interests of households vulnerable to energy stress. Low-income households and renters will face an unacceptable risk of rising gas network prices during the transition from gas unless the regulatory framework governing gas network businesses is adapted to address specific affordability and equity concerns. This is likely to affect most low-income households in Victoria, as over 70% of the state's households use the gas network (ESC 2023). In *Enabling electrification*¹, our recent study of financially stressed households' usage and perceptions of gas, we found that most surveyed households supported a transition from gas and were primarily motivated by cost savings (Bryant et al. 2022).

We welcome the initiative to review the Code, and note that ongoing revision – and coordination with other regulators and market bodies – will likely be needed to meet the challenge of managing a transition away from fossil gas.

This submission follows from a more detailed submission made by BSL to the Code Review's initial discussion paper in June 2023.

1 Do you agree with the proposed introduction of upfront charges for new gas connections? Are there any implementation costs, advantages or disadvantages to the options considered that we should take into account? Please discuss.

Charging customers upfront for new gas connections is an important and low-cost measure to avoid adding to the risk of rising gas network prices facing gas users. Currently, the cost of extending the network to new users is borne by all consumers (including low-income households), as it is added to the regulated asset base (RAB). Recent decisions by the Australian Energy Regulator (AER) have acknowledged that the RAB is at risk of stranding – and gas users have been charged higher rates as a result. User-pays connection charges will avoid growing the RAB, and therefore avoid exacerbating the implications of the stranding risk for existing gas users.

¹ https://library.bsl.org.au/bsljspui/bitstream/1/13361/3/BSL_LCC_Enabling_electrification_2023v3.pdf

BSL's recent *Enabling electrification* report details the barriers that block low-income consumers from the benefits of electrification and efficiency upgrades along with their exposure to rising network costs (Bryant et al. 2022). This risk underlines the importance of avoiding further unnecessary and inefficient investment in the gas networks' regulated asset base – and the ESC's proposal to transfer the cost of new connections to those connecting – is an important practical risk-management measure, that should be introduced as soon as possible.

It is important that any portion of the large amount of 'growth capex' allowed by the AER in the most recent Victorian distribution network access arrangements that is now no longer needed or efficient, given the changes to the Code and other developments in the policy environment, is removed from revenue. The ESC has suggested that this be returned via a negative cost pass-through, which we would support.

As BSL has stated elsewhere (BSL 2023), the AER's decision in the most recent access arrangements to grant accelerated depreciation demands particular care to avoid inefficient spending or the approval of unnecessary revenue for gas networks.

We support coordination between regulatory bodies, government and other key stakeholders to overcome potential issues relating to divided responsibilities in the current framework.

2 Should the proposed code be more specific about how distributors calculate the costs of a new connection, as an upfront charge to customers? If so, how?

New connection charges should cover the full cost of a new connection, including augmentation, to avoid expanding the RAB and exacerbating the implications of the stranded asset risk facing gas users, as discussed above.

In principle, the full growth capex allowance of the most recent access arrangement should be recouped from connecting customers rather than being added to the RAB.

3 Do you agree with the proposed implementation of new connection charges to begin from 1 January 2025? Please discuss.

New connection charges should be implemented as early as possible, given their effectiveness in limiting the risks facing consumers, detailed above.

A large amount of the proposed growth investment included in the current access arrangement period was scheduled in the first two years – so a timely implementation of the new charges will be important in effecting change.

4 Do you agree with the proposed definitions and processes for disconnection and abolishment? Please discuss.

The ESC's proposed definitions of abolishment and disconnection are consistent with changes made in the most recent access arrangement decision regarding abolishment.

However, we note a risk associated with the ESC's definition of abolishment as '*permanent* removal of a connection by cutting and capping the service within the street and removal of all above ground assets'.

As the transition away from gas continues in Victoria, some gas mains should be expected to be scheduled for wind-down. The safety prospect of leaving a gas connection disconnected at the meter for a finite period was not assessed in relation to the AER's recent decision on abolishment.

The AER states: 'This is not a long-term solution. [... Energy Safe Victoria] is committed to working with the gas distribution businesses to understand whether other methods may be more appropriate than permanent abolishment in the context of the large number of disconnections that have been forecast as a result of the Victorian government's policy to support electrification, or whether there are any new technologies that may reduce the safety risk' (AER 2023).

There is a risk that the ESC's definition of abolishment will become prescriptive, with the potential unintended consequence of preventing more appropriate solutions.

5 Do you agree with the proposed new provision of information obligations for gas distributors? Please discuss.

Access to information about Victoria's gas networks will be critical in allowing the community to make informed decisions to best plan and manage a beneficial transition away from gas. BSL supports the provision of information obligations proposed in the draft decision.

The requirement that network businesses report regularly on new connections, connection charges – as well as disconnections, reconnections and abolishments – will be particularly important in minimising consumer risks through the gas transition. Understanding customer movements, and their geographical variation will be a key input for good planning.

We also support the proposals for reporting on unaccounted for gas and customer complaint handling.

As the transition progresses, it may become necessary to extend these obligations to additional categories of data. For example, a need may emerge for reporting on the remaining operational life of assets across the network, to inform optimal transition planning – and to allow communities to be involved in planning.

6 Are there any issues with implementing the proposed Gas Distribution Code of Practice that we should consider?

BSL supports the ESC's initiative to review the Gas Distribution Code of Practice to suit the context of the gas transition. As the transition progresses, ongoing adaptation of the regulatory framework will be needed, in order to best realise the advantages of electrification while safeguarding equity and affordability for all gas users.

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