

## Submission to the Essential Services Commission Gas Distribution Code of Practice draft decision

21 December 2023

### Dear Essential Services Commission:

Environment Victoria is the leading not-for-profit environmental advocacy organisation in Victoria. We welcome the opportunity to make a submission to the Gas Distribution Code of Practice draft decision released on 15 November 2023.

### Introduction

Environment Victoria strongly supports the Essential Services Commission's efforts to modernise the Gas Distribution Code of Practice and align it with existing Victorian policy and the long-term interest of consumers.

Victoria has legislated ambitious 2035 emissions reduction and renewable energy targets (respectively 75-80% and 95%)<sup>1</sup> and is the only state to have prepared a Gas Substitution Roadmap.<sup>2</sup> Phasing out and replacing gas with efficient electric appliances has been shown to reduce carbon emissions, improve energy affordability and to deliver better health outcomes.<sup>3</sup>

The existing regulatory regime assumed that gas distributors would operate indefinitely. As a result, Victoria is poorly prepared to deal with the challenges associated with the transition away from fossil gas.

The process of winding down and decommissioning of the gas grid could have significant negative equity impacts if not managed properly. A diminishing base of costumers means that remaining customers would bear higher costs to keep a functioning network, with those households with less capacity to choose (such as renters) being particularly vulnerable.

Further, the Victorian gas network asset base is valued at nearly \$6 billion<sup>4</sup> (and unless investment is restricted, its value will keep increasing), as a regulated asset questions arise on whether investors, customers or taxpayers should bear the cost of stranded assets.

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<sup>1</sup> [https://www.climatechange.vic.gov.au/\\_data/assets/pdf\\_file/0028/635590/Victorias-2035-Climate-Target\\_Driving-Real-Climate-Action.pdf](https://www.climatechange.vic.gov.au/_data/assets/pdf_file/0028/635590/Victorias-2035-Climate-Target_Driving-Real-Climate-Action.pdf)

<sup>2</sup> <https://www.energy.vic.gov.au/renewable-energy/victorias-gas-substitution-roadmap>

<sup>3</sup> <https://environmentvictoria.org.au/2023/07/19/its-a-gas-how-ditching-gas-this-winter-can-cut-heating-bills-by-75/>

<sup>4</sup> <https://www.aer.gov.au/publications/reports/performance/state-energy-market-2020>

Finally, the physical decommissioning of most of the gas network will incur significant costs and there is currently no clear way to fund this process.

The proposed modernisation of the Gas Distribution Code of Practice is an effort in the right direction, as it seeks to increase transparency and to remove incentives for new gas connections which negatively impact the existing user base.

### **Amending gas regulations**

As gas appliances have a useful lifetime of 10 to 15 years, preventing new gas connections is key to achieving a timely and orderly transition from gas.

Victoria has taken a step in the right direction by announcing a ban on gas connections for new homes from January 2024. Nevertheless, this new rule will take some time to reduce the number of new connections as constructions that do not require a planning permit will be able to keep connecting to the network, and those that need a planning permit but whose application was lodged prior to 1 January 2024 will also be able to connect to the gas network.

In the absence of a comprehensive ban on new residential gas connections it is crucial for gas network regulations to be consistent with a progressive wind down of the gas network.

### **Addressing inefficient incentives for new gas connections**

We support the Essential Services Commission proposal to require new customers to bear the full cost of new connections up front. Existing regulations established to incentivise new gas connections allow for new customers to join the network without upfront costs, putting an inefficient and unfair burden of the cost on existing customers.

In effect, for the 2023-2028 period Victorian gas distributors have forecast large capex sums in new gas connections. Ausnet forecast expenditure of \$220.7 million on new connections and augmentation of the network,<sup>5</sup> AGN \$226 million<sup>6</sup> and Multinet \$96 million.<sup>7</sup> In total, this means that \$542.7 million will be charged to Victorian gas users over the 2023-2028 period for connections that will be abolished in less than two decades.

Billing households up front the full costs for connecting to the gas network following a user(polluter)-pays principle is the minimum change needed to signal the economic, environmental and societal cost associated with expanding the gas network amidst a climate crisis and a transition away from gas.

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<sup>5</sup> <https://www.aer.gov.au/system/files/ASG%20-%20Gas%20Access%20Arrangement%20review%202024-28%20-%20Revised%20Proposal%20-%202024%20January%202023%20-%20PUBLIC.pdf>

<sup>6</sup> <https://www.aer.gov.au/system/files/AGN%20-%20Revised%20Final%20Plan%202023-28%20-%20Overview%20-%20PUBLIC.pdf>

<sup>7</sup> <https://www.aer.gov.au/system/files/MGN%20-%20Revised%20Final%20Plan%202023-28%20-%20Overview%20-%20PUBLIC.pdf>



Among the options proposed for dealing with connection charges we share the Essential Services Commission preference for Option 2 ‘Requiring customer contributions to cover the costs of new connections’.

Further, as pointed out by the Essential Services Commission, imposing the full costs up front to new gas users, rather than being a hard imposition on the gas network, would create consistency with the regulations for water and electricity networks.

### **Commencement date for new connection charges**

The Essential Services Commission proposes commencing the new connection charges in January 2025, nine months after the final decision is made. This is an excessively generous timeframe for what is essentially an administrative adjustment and will place unfair and avoidable costs on consumers. As comparison, Victoria’s ban on gas connections for new homes—a far more significant reform in terms of industry adjustment required—was introduced five months ahead of commencement. We propose that the commencement date is moved forward to July 2024 to minimise impacts on consumers.

### **Removing the obligation for gas distributors to connect new customers**

Clause 3 ‘Connections and Augmentation’ of the Code of Practice establishes the obligation for gas distributors to connect new customers under certain circumstances.<sup>8</sup>

In addition, distributors must connect potential new customers residing within a one-kilometre radius from distribution mains. While this requirement made sense in an ever-expanding gas network, it is now in conflict with the interests of gas customers and Victoria’s climate targets.

Environment Victoria strongly advocates against permitting any new residential and commercial gas connections in Victoria. Acknowledging that this matter falls outside the current consultation's scope, we welcome eliminating the obligation of gas distributors to connect new customers within a one-kilometre radius from distribution mains as a positive and progressive step in the right direction.

### **Additional provision of information obligations**

Victorian households face significant challenges to making informed decisions about gas due to insufficient access to information on critical topics such as unaccounted for gas, new connections and associated charges, as well as disconnection, reconnection, and abolishment procedures.

The lack of readily available and comprehensive information poses a barrier for gas users in making informed decisions about connecting or remaining on the gas network. Access to clear and detailed information is crucial for consumers to understand the implications of their choices, exercise their rights, and navigate the complexities of gas services.

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<sup>8</sup> <https://www.esc.vic.gov.au/sites/default/files/documents/Gas%20Distribution%20System%20Code%20of%20Practice%20-%20version%2016.pdf>

It is imperative that gas users and stakeholders are empowered with easily accessible information to enhance transparency, improve decision-making, and ensure a fair and informed relationship between consumers and service providers.

We support the Essential Services commission proposal for gas distributors to provide this information and to notify consumers of any potential future changes to the type of gas supplied through their networks. Further, we expect that the Essential Services Commission will publish quarterly data on Guaranteed Service Levels, unaccounted for gas and the number of completed abolishments.

#### **Future work**

We welcome the Essential Services Commission's intention to work on key topics such as (i) Removing barriers and improving processes for customers who wish to permanently disconnect from the gas network; and (ii) Reviewing technical requirements for operating gas networks to account for decreasing gas demand. Providing the right answers to these challenges will be vital in facilitating a fair, timely, and safe transition away from gas in Victoria.

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