Submission to the Essential Services Commission – Review of the Gas Distribution System Code of Practice

(close for submission 4 May 2023)

Lighter Footprints is a community-based group that aims to influence Australian local, state and national decision makers to take the action necessary to halt global warming as a matter of urgency. For over a decade, we have educated, advocated and brought people together in Boroondara and surrounding suburbs to inform the community and promote a clean energy future. We have 3,400 people on our mailing list.

Lighter Footprints welcomes the opportunity to provide feedback on the ESC's review of the Gas Distribution System Code of Practice. In summary we believe that the ESC should use this review to support the direction provided in the Victorian Gas Substitution Roadmap and ensure that the transition away from gas is done in such a way that it:

- Genuinely provides customers with choice and ensures a just transition.
- Reduces artificial growth in the distribution grid thus reducing stranded asset risk for the distribution businesses.
- Results in a significant reduction in Victoria's emissions. Recent estimates indicate that the gas sector contributes about 17 per cent of the state's net emissions.[1]

Unfortunately, the Gas Industry is creating barriers to transition by programs of disinformation and by imposing new charges for customers to leave the business.

The magnitude of these proposed new charges is important to understand. If only 10% of Victoria's two million households and businesses currently using gas[2] were to switch off gas the distribution business would charge these customers approximately $200 million to be able to leave the networks (under proposed charges). This does not represent freedom of choice to us.

We understand that the changes have been made as a result of safety issued that were not considered as safety issues in the past. If safety is indeed an issue and these changes are to stand we recommend that the Distribution Businesses should be forced to correct their past unsafe practices by removing the pipes for all properties disconnected in the last 20 years at their own expense.

Our analysis leads us to recommend that the ESC use this review of the Gas Distribution Code of Practice to make amendments that:

- reduce barriers to transitioning to electricity
- remove the subsidisation of new customers by ensuring that customers pay for

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[1] Source – The Victorian Gas Substitution Roadmap page 20 which was sourced from DELWP analysis of National Greenhouse and Energy Reporting scheme data and Australian National Greenhouse Accounts, 2019

[2] Source – The Victorian Gas Substitution Roadmap page 16

their new connections. This would be equitable (these customers would then be paying to use the network) and would avoid inflating the regulatory asset bases (RABs)
- require new customers to pay for their eventual disconnection from the distribution businesses. The money deposited for this purpose could be used to reduce the RAB and drawn down (increasing the RAB) when the customer disconnects.
- Require that Distribution Businesses (DB's) fund an independent body to provide the analysis required to establish ways to:
    - Reduce the costs of leaving the network; and
    - Managing the stranded asset risk in the distribution businesses.

  We make these recommendations as we believe that the DBs have no interest in providing customers with a low-cost transition away from gas and that they will be relying on government bail-outs when the stranded asset risk eventuates. We believe that a sum of $300k per annum per distribution business would ensure quality, fact-based information is available.
- Require Distribution Businesses to report annually on emissions from the networks, gas leaks and their spend on pipework replacement.

We also believe that there are two reasons why the Unaccounted for Gas (UAFG) benchmarks should be lower than existing benchmarks in the next five-year period. These reasons are:
- We believe that there is evidence that fugitive gas emissions in the coming period should be reducing (taking into account the sums allowed for pipeworks replacement by the AER) and this evidence should be used resulting in smaller benchmarks (noting that leakage represents approximately 40% of UAFG); and
- Both our country and our state have made commitments to lower greenhouse gas emissions. This means that all of us should be doing our fair share to meet existing targets. The gas distribution businesses have the capability to contribute by reducing fugitive emissions and should be required to take action.

An effective way to do this may be to subject the Distribution Businesses to a scheme like the Safeguard Mechanism (or get them included in the Safeguard Mechanism) to provide incentives to reduce emissions.

In the section below we substantiate these points and provide responses to your questions.

Responses to questions raised in the ESC's issues paper

Question 1 - Overall, do you support the scope of our proposed review of the code?

The purpose of this review is to reform the Gas Distribution System Code of Practice to:

- make obligations fit for purpose, allowing effective compliance monitoring and enforcement
- align the code with the national regulatory framework and remove duplication and inconsistencies, and
- support policy developments and the Victorian Government's Gas Substitution Roadmap.

The scope section of the issues paper identified the following key issues to be reviewed**:**

Obligations on gas distributors to connect new gas customers to the network. The rules currently require gas distributors to connect new customers when requested (provided they meet some basic requirements). A distributor may refuse to connect a customer if the customer's property is too far from the network to make a new connection economically viable. However, a distributor must connect customers requesting a new connection who live within one kilometre from the nearest main pipeline. The current rules also result in new connections being largely subsidised by the wider Victorian gas customer base as residential customers requesting a new connection are usually not required to contribute any amount for the new connection (which is not the case for electricity connections).

New obligations to provide information to customers about changes to the type of gas supplied.
These new obligations would require distributors to notify customers prior to a change in the type of gas supplied and to publish on their websites information about the type of gas that may be supplied through a distribution system. The Australian Energy Market Commission (AEMC) has recently recommended these obligations to be introduced in other states.

Retaining metering requirements for non-declared parts of the Victorian gas network. Recent national rule changes have clarified that the national metering rules (administered by the Australian Energy Market Operator) only apply to declared parts of Victoria's gas distribution network. This means that these national metering requirements do not apply in places such as East Gippsland, South Gippsland, the Grampians, Mildura, and the regional networks operated by Gas Network Victoria. Following these changes, it may be beneficial to clarify the metering requirements in Victoria, including whether the metering requirements in the code should continue to apply to non-declared parts of Victoria's network.

Introducing minimum customer obligations when using the gas network. Under the current framework, unlike for electricity, there are limited obligations for customers to use the gas distribution network in an appropriate manner (such as requirements not to tamper with meters, bypass the gas meter, or to provide safe access for a distributor to inspect or repair parts of the distribution system). Customer obligations could be set out in the code, similar to what is in place for electricity customers.

We have also identified obligations that we consider may require review, either to provide clarity for gas distributors or to remove duplication with other regulations"

In our view this scope only partially addresses how the code can be amended to support policy developments and the Victorian Government's Gas Substitution Roadmap.

We would like to see the scope amended to include the following elements:

- consider changes to the Code to ensure that customers are provided with access to customer choice of energy source without having to pay penalties applied by the Distribution Businesses.
- Consider using the UAFG mechanism to reduce emissions in line with the Victorian Government's targets.
- Consider funding an independent body representing customers and environment groups to provide factual information on the issues associated with fossil gas.
- Consider introducing new reporting requirements for UAFG to ensure that the government and consumers understand emissions from the networks.

Question 2 - Are the proposed criteria in our assessment framework appropriate?

The criteria set out in your assessment framework are as follows:

Promoting the long-term interests of Victorian energy consumers	Assessment criteria
Quality, price and reliability of gas services	Do the proposed code changes provide a clear allocation of roles and responsibilities in relation to the quality and reliability of the supply of gas? Would the proposed code changes have unjustified effects on the price and affordability of gas services?
Incentives for efficiency	Do the proposed code changes promote efficiency in the delivery of gas distribution services? Are the costs and benefits of proposed code changes appropriately allocated between distributors, retailers and consumers?
Appropriate protections for consumers	Do the proposed code changes provide appropriate and effective consumer protections?
Health, safety, environmental and social factors	Do the proposed code changes sufficiently consider any relevant health, safety, environmental and social legislation?
Decarbonisation	Do the proposed code changes support the decarbonisation of the energy market?

Overall, we support these assessment criteria although we would like the Decarbonisation criteria to specifically reference the government's emissions targets and the Victorian Gas Substitution Roadmap.

Question 3 - Do you consider the current connections framework for gas retail customers appropriate? Why or why not?

Lighter Footprints does not consider the current connections framework for gas retail customers to be appropriate for the following reasons:

- Free connections and being required to pay for disconnection is inherently wrong – particularly when customers are not informed of disconnection charges when they join the network.
- The current system of free connections effectively incentivises gas when an all-electric home is cheaper to run and has reduced emissions.
- Charging for disconnections is a hindrance to electrification and is not in line with one of the aims of the Victorian Gas Substitution Roadmap to remove barriers to electrification.
- The economic feasibility test is flawed:
    - It assumed that the new customers do not contribute to the cost of the network (return of and return on capital) for up to 20 years. This transfers the burden of funding the network to older customers;
    - The test is based on an estimate of usage – and most builders know what to submit to get a free connection.
    - The test assumes that the customer will continue on the network with existing demand for up to 20 years and assumes:

- Gas water heating is not replaced with heat pump hot water heating;
- Gas heating is not replaced with reverse cycle air conditioning or heat pump ducted heating.

Question 4 - What options should we consider when reviewing the connections framework for gas retail customers?

The options that should be considered are as follows:

- Reducing the disconnection charge
  - This could be done by not requiring the disconnection to happen in the street. The network should still have the obligation to ensure the pipe from the street to the property is safe.
  - Another option to consider is making new customers pay the disconnection fee when they join. The distribution businesses could use the up-front fee to reduce their RAB and could increase their RAB when the customer disconnects.
- Making customers pay for connection costs thus removing subsidies build into the economic feasibility calculation.
  - The ESC should remove the economic feasibility calculation.
  - If this is not possible the ESC should amend the economic feasibility calculation to consider no more than 5 years of tariff revenue, down from 20 years. However, there appears to be no sound logic as to why any tariff revenue should be used to pay for connections.

It is our opinion that if changes are not made, when the network loses customers and costs rise the new customers (less than 20 years connected) will not contribute and the burden will fall on longer duration customers – creating a request for government support.

Question 5 - Do you agree with the introduction of obligations to provide information to customers about changes in the type of gas supplied?

Yes. We also recommend that customers should have the option to disconnect from the network without charge if they have concerns regarding the changes to the type of gas being supplied.

Question 6 - Are there other options to introducing equivalent obligations proposed for the National Energy Retail Rules that we should consider?

Not that we are aware of.

Question 7 - Should we remove the overlap of metering obligations in the code and in Part 19 of the National Gas Rules?

Yes.

Question 8 - What options to the regulation of metering requirements for non-declared distribution systems should we consider?

We have no comment to make.

Question 9 - Do you consider that the current arrangements for deemed distribution contracts and customer obligations results in uncertainty for customers and industry that is burdensome or harmful?

We have no view on this matter.

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Question 10 - Should we include customer obligations and prohibitions in the code?

We have no view on this matter.

Question 11 - Do you have any views on the removal of Part D of Schedule 1 from the code?

We support the implementation of zonal heating values and agree that Part D of Schedule 1 of the code should be removed resulting in regulation of heating values to be the responsibility of AEMO's Wholesale Market Metering Procedures (Victoria).

Question 12 – Do you have any views on the removal of Schedule 3 from the code?

We have no view on this matter.

Question 13 – Are any clarifications needed in relation to disconnection and reconnection obligations?

We note that Australian Gas Networks and Multinet are proposing a specific 'service abolishment – residential' ancillary reference service for $950.00 in their revised access arrangement proposals to the AER. AusNet is proposing a 'meter and service removal' ancillary reference service for $822.44 in their revised access arrangement proposal to the AER.

We believe that the distribution networks are attempting to create barriers to electrification which is contrary to the aim of the Victorian Gas Substitution Roadmap to remove barriers to electrification. We believe that this is:

- Against the long-term interests of Victorian Energy Consumers;
- Is a disincentive for customers moving to more efficient energy sources; and
- Does not provide protections for consumers who were never informed of such charges when they joined the networks.

We also believe that there is no contractual obligation for customers to pay for the Distribution Networks to tidy up their networks once they are no longer customers.

Question 14 - Should we specify clearer timeframes for when Guaranteed Service Levels payments must be made?

We support the specification of clearer timeframes for when GSL payments must be made as otherwise customers can be kept waiting for long periods of time and may not bother to pursue their rightful claims.

Question 15 - Are there any further consequential changes to the code required due to the recent amendments to the National Gas Rules relating to distribution connected facilities?

We have no view on this matter.

Question 16 - What factors should we account for when considering our role in the framework for setting unaccounted for gas benchmarks in Victoria?

We have a number of comments to make on UAFG under the headings of transparency and efficiency.

Transparency

We believe that there needs to be greater transparency regarding UAFG. The distribution businesses refer to reduced leakage of methane and reduced emissions while at the same time they are asking for UAFG benchmarks to remain the same.

We set out below information from the industry on reducing gas emissions.

On 6 August 2021 the Australian Gas Infrastructure Group (AGIS) made a submission to the Hon. Lily D'Ambrosio MP, Minister for Energy and Minister for Environment and Climate Action regarding the Victorian Gas Substitution Roadmap ("the Gas Roadmap") in which they stated:

> **In the short term, the gas networks can contribute materially to emissions reduction through the mains replacement programs which are reducing fugitive methane emissions**
> We are investing to significantly reduce our emissions today. Mains Replacement Programs (MRP) in AGN and MGN have a significant effect on our fugitive emissions. The AGN MRP is scheduled for completion in 2022, with significant emissions reductions already achieved as a result. To give a sense of the scale of these programs, the ongoing MGN MRP, due for completion in 2032, could avoid cumulative scope 1 emissions by over 600,000 tonnes between now and 2032. Accelerating the MRP for completion before 2030 could add to this cumulative total by avoiding an additional 115,000 tonnes of CO2-e between now and 2032. Further detail is found in Attachment C.

In their submission AGIP provided the following tables showing reductions in fugitive emissions:

Figure 1: Estimated fugitive emissions reductions as a result of cast iron MRP for MGN

Source: AGIG analysis

Table 1: Estimated fugitive emissions reductions comparing current MRP, accelerated MRP and no MRP for MGN

However, the gas distribution businesses all requested that the UAFG benchmarks remain the same and this was allowed. This is not an acceptable state of affairs.

Transparency Recommendation

We recommend that the distribution businesses should be required to produce an annual report stating:

- The level of UAFG for the previous year
- The amount of UAFG representing leakage
- The level of emissions that this represents in methane levels and CO2 equivalent; and

- The capital investment in pipeworks replacement in the previous year.

Once we have regular reporting of numbers it should be possible for us to understand the emissions and reasonable UAFG benchmarks.

UAFG benchmarks as a driver for efficiency
Currently there are no drivers for the distribution businesses to reduce leakage which is a great concern and counter to the Climate Act 2017 (Vic).

UAFG recommendation

We recommend that the ESC should change the rules regarding UAFG to include an incentive to reduce leakage allowing the UAFG benchmarks to be reduced on an annual basis at the next review.

It is our belief that implementing our recommendations would protect the customer interests by:
Providing information regarding capital spend on pipeworks replacement and the impact of that spend;

- Providing details of emissions from the networks and gas leaks;
- Providing assurances that gas emissions from the network are being reduced;
- Allowing consumers and industry experts to assess whether it is sensible and economic to inject hydrogen into the gas network.

Question 17 - What factors should we consider when assessing whether or not to assign obligations in the code as civil penalty requirements?

We have no view on this matter.

Question 18 - Do you have any views on our proposed approach in relation to compliance and performance reporting obligations?

We have no view on this matter.

Question 19 - Can you identify any other changes we may need to make as a consequence of remaking the Gas Distribution System Code of Practice?

The significant changes that we are recommending are changes that:

- reduce barriers to transitioning to electricity;
- remove the subsidisation of new customers by ensuring that customers pay for their new connections. This would be equitable (these customers would then be paying to use the network) and would avoid inflating the regulatory asset bases (RABs)
- require new customers to pay for their eventual disconnection from the distribution businesses. The money deposited for this purpose could be used to reduce the RAB and drawn down (increasing the RAB) when the customer disconnects.
- Require that Distribution Businesses to fund an independent body to provide the analysis required to establish ways to:
    - Reduce the costs of leaving the network; and
    - Managing the stranded asset risk in the distribution businesses.
- Introduce a mechanism where UAFG benchmarks are lowered introducing an incentive to reduce emissions.
- Require Distribution Businesses to report annually on emissions from the networks, gas leaks and spend on pipeworks replacement.

Question 20 - Are there any other issues we should consider as part of this review?

We have no other issues to raise.

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