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Mr Tyson Self
Level 4, Albert Facey House,
469 Wellington St
Perth WA 6000

Via e-mail: publicsubmissions@erawa.com.au

Dear Mr Self

AGL response to ERAWA Issues Paper on ATCO AA

AGL Energy (**AGL**) welcomes the opportunity to respond to the Economic Regulation Authority of Western Australia (**ERAWA**) issues paper on the Proposed revisions to the access arrangement for the Mid-West and South-West Gas Distribution Systems (**ATCO AA**)

AGL is one of Australia's largest energy-led multi-service retailers, providing over 4.3 million electricity, gas and telco services to residential, small, and large businesses, and wholesale customers. We operate Australia's largest electricity generation portfolio, with an operated generation capacity of over 11GW, which accounts for approximately 20% of the total generation capacity within Australia's National Electricity Market.

AGL is also a market leader in the development of innovative products and services that enable our customers to make informed decision on how and when to use their Consumer Energy Resource (**CER**) assets to optimise their energy load profile and better manage their energy costs.

The transformation of the energy system and the explicit policy goal of reaching net zero emissions by 2050 creates considerable uncertainties in future gas demand expectations. While the decline of gas demand is expected to begin at some point, there is uncertainty as to how when that will happen, how quickly that will happen and what the path to small customer electrification will look like.

AGL recognises that this is a period of great uncertainty for Gas Networks and that the energy transition underway which will have a significant impact on ATCO and gas users. A key matter in this review process will be to strike a balance between the risk placed on current consumers and the distribution network and the steps it is necessary for the network to take in preparation for the highly probably reduction in network volumes and users.

AGL provides specific answers to the ERAWA's consultation questions in the Attachment to this letter.

If you would like to discuss any aspect of AGL's submission, please contact me on [redacted] or [redacted].

Yours sincerely,

Mark Riley

Senior Industry Advisor

AGL Energy

Attachment - Consultation Questions

1. Did ATCO provide reasonable opportunities for stakeholders to provide input into the development of its access arrangement proposal? Where stakeholders provided comments/feedback to ATCO, did ATCO give due consideration to and adequately address the comments/feedback?

ATCO provided an opportunity for AGL to engage on the Access Arrangement but do consider that the engagement could have been enhanced with some additional retailer feedback sessions to deal with areas of concern or general development of the Access Arrangement, including areas such as accelerated depreciation and disconnections. In saying this AGL notes that the level of engagement is varying across different Distribution Networks (or groups of networks) at this time.

AGL considers that ATCOs engagement was commensurate with some other network businesses engagement, but at this point in time AGL feels that the Victorian Gas Distribution Businesses have had the greatest engagement during 2021 – 2023 period with 24 formal meetings on individual topics and other informal conversations through their process.

2. How representative are ATCO's customer research findings and are they consistent with stakeholders' understanding of customer preferences?

3. Do stakeholders agree with ATCO's use of the customer research findings in its proposal, and in particular ATCO's use of specific findings from its Voice of Customer Survey to support its additional expenditure and/or higher tariffs?

ATCOs customer research seems consistent with customer research that AGL has seen from other Gas Distribution Networks. Generally the consumer focus is on reliability, safety and price. As such, AGL considers that the customer research is consistent with other findings.

AGL considers that consumer comments regarding Smart Gas Meters do not consider the full suite of services available from such meters. When also factoring in meter reading and billing issues, that customers would be more supportive if it led to more accurate and timely bills (eg monthly billing options). This, together will the variance on Heating Value (a key aspect of gas energy calculations) due to gas blends, makes a stronger case for Smart Meters.

4. Considering the medium-to-long term demand for natural gas within Western Australia and the factors that are likely to impact this demand, how do stakeholders consider the outlook for natural gas demand?
5. In developing its AA6 demand forecast, has ATCO taken the appropriate analytical approach to assess historical data? How well do stakeholders consider that historical trends will explain demand forecasts in AA6 given future uncertainty in gas use?

The 2023 AEMO Gas Statement of Opportunities (**GSOO**) Consumption Forecasts (16 Nov 2023) is still showing a range from broadly consistent consumption through to a growth in consumption through to 2032. The ATCO consumption forecasts are consistent with the AEMO forecasts.

Experience in other Jurisdictions (except Victoria) presently show a strong preference for gas by consumers. Without a policy decision (such as Victoria's) impacting gas usage, AGL would expect gas connections and consumption to continue to grow.

Is ATCO's proposed permanent disconnection service operationally workable in terms of the provisions set out in the standard service agreement (Permanent Disconnection Contract)?

6. Is ATCO's proposed cost of $1,184.80 (ex-GST) for the permanent disconnection service reasonable, noting that other charges may also be payable (such as a fee for the removal of gas metering equipment)?

AGL has previously commented on the ATCO disconnection processes. AGL supports these processes being encompassed but is not in agreement with ATCO splitting the service into two components and having some costs passed on to Retailers to attempt to recover those from parties who are no longer retailer customers (ie the Meter Deregister Service). AGL has experienced a small number of these and because of the split costs the consumer is frustrated that they have requested and paid for a service from ATCO but get invoices from the retailer for an associated service at a different time.

AGL considers that if ATCO is to offer the service directly, then it should be a complete service, and not a mixed service with a second party involved in the invoicing, particularly as the Retailer will not have a customer by the time the service is completed.

If the meter has previously been plugged, and the customer has finalised their retail contract, regardless of whether the retailer is the FRO for the site, a Retailer faces substantial hurdles recovering any costs at this point, especially if the customer has handed the activities to a builder (which the retailer will not be aware of).

Another aspect of the service is the high price of the service. AGL has been in discussions with many Gas Networks around the high costs of such services, which often lead to illegal removal of meters or abandonment of the gas usage, with no customer, but ongoing charges levied against the retailer, who is unable to recover those charges.

To this end, the AER has approved the Victorian Distribution Networks splitting the Permanent Disconnection (or Abolishment) charges so that the relevant user has a fee capped at a $220 charge and the remained of the costs are recovered through network fees. This is to encourage builders and others to properly request a service, rather than facing ongoing illegal disconnections, which impose safety risks and extensive follow up work for the network and retaileri. This split was an outcome sof discussions raised by AGL during the Victorian Gas Network AA workshops.

7. If the national gas objective is amended in Western Australia to incorporate a specific emissions reduction objective, is ATCO's current and proposed declining block tariff structure consistent with the new objective, and should an alternative tariff structure be considered which may better meet the new objective?

A key issue throughout this review process will be in striking a balance between risk placed on consumers and risk placed on distribution networks in the energy market transition. If future access arrangement periods see a winding down of gas networks, there could be fewer customers to shared fixed costs of the network over time. This could result in customers that cannot afford to electrify facing higher bills, raising equity concerns.

AGL recommends that the ERAWA consider the issues highlighted within the context of ensuring that customers who may be still reliant on gas are paying no more than necessary for a safe, reliable and secure supply. Noting that customers with gas appliances often have little ability to adjust control or substitute their usage (eg hot water, cooking) consideration of customer impact from the structure of a gas network tariffs it may be more reasonable to have a flat block tariff implemented over a period to minimise bill shock rather than an inclining tariff.

Should an alternative tariff variation mechanism to the weighted average price cap be considered if the amended national gas objective to incorporate a specific emissions reduction objective is adopted in Western Australia?

8. Should the level of the proposed tariff increase excluding accelerated depreciation affect the ERAWA's consideration of accelerated depreciation?

A key issue throughout this review process will be in striking a balance between risk placed on consumers and risk placed on distribution networks in the energy market transition. If future access arrangement periods see a winding down of the gas network, there could be fewer customers to shared fixed costs of the network over time. This could result in customers that cannot afford to electrify facing higher bills, raising equity concerns. AGL recommends that the ERAWA consider the issues highlighted within the context of ensuring that customers who may be still reliant on gas are paying no more than necessary for a safe, reliable and secure supply.

Therefore, we do not see compelling reasons for any move at this time from a weighted average price cap (the price cap) to an alternative mechanism. AGL is of the view that that the acceleration in the rate of deprecation is the appropriate method to meet the likelihood and expected costs of any such stranding.

9. Are the underlying long-term assumptions used for ATCO's scenario analysis appropriate? If not, which assumptions are more relevant?
10. Is ATCO's proposed investment to allow renewable gases in its network appropriate and timely, having regard to the government policies and climate targets applicable in Western Australia, and gas users' emissions requirements and cost expectations?
11. Is there user demand for renewable gases now and into the future? Further, given the availability and cost of supplying renewable gas will influence customers' demand, how should ATCO manage uncertain customer demand in its timing of its renewable gas expenditure?

Given the rapid movement across the energy sector at this time, and the key drivers for Net Zero by 20230 in many areas, AGL is supportive of ATCO starting the processes to allow renewable gases to be included as part of the service offering. AGL has participated in tow different discussions with WA government on the future of renewable gases and sees this as part of the near future.

The question of uptake and usage for renewable gases is still in the infant stage in Australia, with many businesses and governments developing products and services for this source of energy. However, there are trail projects with Hydrogen appliances, which are available in other countries such as Japan, and newly developed appliances being tested for renewable gas usage. AGIG has stated their goal is to be 100% Hydrogen by 2040.

The various scenarios that ATCO (ACIL Allen) has proposed have been used elsewhere and provide a reasonable description for four possible scenarios. Similar descriptions are being used by other gas networks to examine possible future directions.

12. In considering the emissions reductions outcomes from ATCO's renewable gas proposals, what factors are relevant to the ERAWA in understanding the net reduction to emissions?

No comment at this time.

13. Which of ATCO's "future of gas" scenarios is more probable than others and why?
14. Should ATCO be able to receive some accelerated depreciation during AA6 and for what reasons?
15. With increasing uncertainty, should the economic lives of ATCO's assets remain unchanged? Is it sufficient to adjust the depreciation schedule to account for uncertainty? Should the economic lives for new assets be different to existing assets?

This is very difficult to respond to, as the direction may change based on a government policy decision, such as Victoria's. While the WA government is promoting closure of coal power stations by 2030, it is reasonable that ATCO should take some steps to accommodate a policy driving emissions reductions. More, this may be considered an appropriate strategy for any good corporate citizen.

AGL notes that ATCO is taking some steps to prepare for a policy change in relation to gas usage, and considers this a prudent course of action, for a distribution network at this time.

16. In an environment of uncertainty and with a plausible scenario that utilises the distribution gas pipeline less in the future, does the current straight-line depreciation schedule still provide a reasonable opportunity for ATCO to recover costs?

At this time, some accelerated depreciation is understood and a prudent and sensible approach considering that an Access Arrangement is a 5-year proposal.

17. In an environment of possible reducing gas volumes, does the accelerated depreciation proposal promote intergenerational equity as advanced by ATCO?

Some accelerated depreciation at this time has been accepted by the AER for other gas networks as being appropriate given the broad and significant changes sweeping through the energy industry at this time.

18. Is targeting a stable long-term levelised price per gigajoule over the life of the pipeline in the long-term interest of consumers?

Stable pricing is preferable for all parties, as it allows longer term contracts to be developed for provision of energy, which in turn provides a more stable input cost for commercial businesses and energy production and more streamlined budgeting for residential users.

19. How should the outcomes of the "future of gas" scenarios be interpreted where customer numbers and gas demand are increasing instead of declining? Should accelerated depreciation be provided in such scenarios?

While current projections for customer numbers and demand may be increasing, the potential for a sudden change as a result of a policy shift can lead to a dramatic downturn (eg Victoria). As such, this period is one for prudent measures to be taken to position the gas network for any of the possible future scenarios, in preparation for a policy shift or a consumer change.

20. Given the multiple plausible "future of gas" scenarios with varying outcomes, what method could be used to determine an amount for accelerated depreciation? For example, taking the scenario with the highest accelerated depreciation, averaging all scenarios, or taking the mid-point between selected scenarios.

AGL notes that this period is one of high uncertainty for Gas Distribution businesses across Australia. The Victorian Gas Networks have a clear policy position from the Victorian Government, but the NSW networks face greater uncertainty with local government policy not aligning to State government policy. In WA, there is a clear policy to reduce emissions, which is being driven through the closure of coal power stations, which will put greater strain on the WA Electricity Network. While there is no policy directed at the Gas Networks, it is reasonable to accept that there will be long term impacts on the network.

21. What are stakeholder views on ATCO's proposed AA6 price path, including the impact of the proposed step change on price stability over the AA6 period?

AGL is concerned with the proposed step change arising from ATCOs pricing path and has frequently argued for a more consistent glide path. In saying this, AGL notes that without the step change, the prices at the end of AA6 will be much higher.

Noting that this is a time of unprecedented change, and every decision will have consequences, AGL is aware that all energy businesses must make decisions at this time to prepare for a challenging future.

22. Noting ATCO's proposed $78 increase to the annual average distribution network bill for the average residential (B3) customer, is the magnitude of the increase a concern to retailers and residential customers? Do other (larger) customers have concerns on the magnitude of tariff increases for them?

In the current economic environment, any price increase and the impact on end users (residential and business) is of concern to a retailer. However, in saying this, the opposing outcome would be an even higher network charge in the future. Making trade-offs at this time is necessary and consideration needs to be given to the access arrangements which will follow this one.

[i] See AER Final Determinations for Victorian Gas Distribution Networks