Submission to the Economic Regulation Authority on

Access Arrangement for the Mid-West and South-West Gas Distribution System (second consultation round)

5 July 2024

The Western Australian Council of Social Service Inc. (WACOSS) welcomes the opportunity to make a submission to the Economic Regulation Authority on the Access Arrangement for the Mid-West and South-West Gas Distribution System.

WACOSS is the peak body for the community services sector in Western Australia and works to create an inclusive, just and equitable society. We advocate for social and economic change to improve the wellbeing of Western Australians, and to strengthen the community services sector that supports them. WACOSS is part of a network consisting of National, State and Territory Councils of Social Service, who advance the interests of people on low incomes and those made vulnerable by the systems that have been put in place.

Introduction

WACOSS submitted a response to ATCO's initial access arrangement proposal on 27 November 2024. This second submission responds to the Economic Regulation Authority's (ERA) draft decision and ATCO's revised access arrangement proposal.

WACOSS supports the ERA draft decision to reject ATCO's proposal for accelerated depreciation and investment into 'renewable gases' program, and to reduce ATCO's proposed tariff increases. WACOSS urges the ERA to similarly reject ATCO's revised proposal for accelerated depreciation, investment into 'renewable gases' programs and ATCO's significant tariff increases. ATCO's revised proposal does not take sufficient steps to mitigate asset stranding risk or reduce expenditure and inappropriately passes substantial costs onto consumers which will contribute to the already significant cost pressures facing Western Australian households.

Investment in Renewable Gases

WACOSS opposed ATCO's proposal to invest in hydrogen readiness and renewable gas and recoup these investments from consumers. The ERA draft decision rejected ATCO's proposal for investment in renewable gas and hydrogen readiness. ATCO's revised proposal includes investment in 'renewable gas' programs, albeit less than originally proposed. WACOSS maintains that electrification is the only plausible way to remove fossil gas from homes and that this access arrangement should not allow ATCO to recover any of the costs associated with its hydrogen blending program and renewable gas program.

Accelerated Depreciation

WACOSS welcomes the ERA's decision to reject ATCO's proposal for accelerated depreciation. WACOSS does not support the revised proposal from ATCO for accelerated depreciation. As outlined in our previous submission, we consider this inappropriately transfers the costs and risk of stranded assets to consumers. To effectively and equitably manage the transition away from gas, gas networks need to engage in long term planning which mitigates the risks for consumers and is consistent with a fossil gas free future. This includes avoiding investment that encourages network growth and investment that is not cost efficient.

Despite the ERA draft decision reducing forecast capital expenditure, ATCO's revised proposal includes capital expenditure higher than originally proposed by ATCO as well as operational expenditure significantly higher than that in the ERA draft decision. The revised proposal also includes investment in renewable gas. The ERA, in its draft decision, determined this proposed program was not currently feasible, nor cost efficient.

The revenue and pricing principles state that networks should be offered the *reasonable opportunity to recover at least the efficient costs.* This does not give a right to recovery of all costs. As argued by the Brotherhood of St Laurence, *a 'reasonable' opportunity to recover investment should be understood as a requirement to limit consumer risks.*[1] ATCO's proposal to accelerate the end of useful life of their infrastructure is not consistent with their increased capital expenditure and inefficient investment in renewable gases. These investments add to the size of the asset base at risk of stranding, therefore not limiting consumer risk. Passing the asset stranding risk cost onto consumers is inappropriate, particularly when little mitigation action has been taken.

Tariff Increase and Tariff Structure

WACOSS remains concerned about the impact of a one-off price increase on consumers on low incomes and in energy stress, as compared to a smoother price path. A one-off increase approach could cause bill shock, pushing consumers into arrears. Further, WACOSS is concerned by the use of tariff increase to signal to consumers to reduce (or not increase) their gas consumption. While tariffs that encourage gas use are not desirable, the impacts of increased tariffs on consumers in energy stress need to be mitigated. Tariff increase as a method to reduce gas use has an inequitable impact on consumers on low incomes as they typically have less control over their energy source (more likely to be renting) and are likely already taking steps to reduce their consumption as part of their budgeting, sometimes to the detriment of their health and wellbeing. As outlined in our previous submission, changes to network tariffs should be accompanied by protections for customers who are experiencing or may experience energy stress.

WACOSS does not support ATCO's revised tariff proposal. The 2025 price change is dramatically higher than the ERA draft decision, followed by a yearly increase above CPI. This tariff increase is driven, in part, by the proposal for accelerated depreciation and increased capital expenditure, which includes investment in renewable gases programs. As outlined above and in our previous submission, WACOSS does not support either of these proposals. While the WA State Government sets the limit for retail tariffs, ATCO's revised proposed tariffs would put considerable price pressure on retailers, which is likely to result in less discounts for consumers and other increased fees to recoup retailer losses. Western Australians, particularly those on low incomes, are already facing extraordinary cost pressures. People across WA are already adapting their living standards to try to

[1] Brotherhood of St Laurence, *2023-2028 Victorian Gas Distributors' Access Arrangement* (Submission, September 2022).

meet their basic needs, including through reducing food intake and reducing energy use in their households. These changes increase inequity across a range of social determinants of health. The increased tariff proposed by ATCO is likely to increase cost pressures on consumers which will disproportionately impact people on low incomes and in energy stress. It is inappropriate for consumers on low incomes and in energy stress to bear the brunt of ATCO's increased expenditure and failure to take steps to mitigate the revenue implication of long-term declining gas demand.

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