Submission to the Economic Regulation Authority on the

Access Arrangement for the Mid-West and South-West Gas Distribution System

27 November 2023

The Western Australian Council of Social Service Inc. (WACOSS) welcomes the opportunity to make a submission to the Economic Regulation Authority on ATCO Gas's proposed revisions to the Access Arrangement for the Mid-West and South-West Gas Distribution System (AA6).

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

It is crucial that the Economic Regulation Authority considers as part of its decision-making process, the impacts that the various components of ATCO's access arrangement proposal will have on consumers who are on low incomes or are experiencing other forms of hardship, marginalisation and vulnerability.

WACOSS knows and accepts that there is uncertainty in the immediate future of fossil gas as we respond to developing government positions on supporting decarbonisation and the transition away from fossil fuels. We do not consider, however, that there should be any uncertainty around the long-term future of fossil gas – it categorically does not have one. As such, this access arrangement must centre the need to manage and mitigate the risks and costs for consumers now and into the future.

It is critical that as part of this access arrangement, that ATCO is not taking measures to increase demand on the network. Consumers need to be shielded from gas network asset risk they are unable to manage or respond to effectively.

This should include avoiding investment that accommodates network growth. Asset stranding risk may be more appropriately managed by requiring new customers to fully fund any works to expand the network. Increases to overall operational costs should also be avoided. Likewise, investment into 'renewable gases' programs should be rejected. Instead, mechanisms should be explored that encourage or require gas businesses to identify areas of declining demand or inefficient network utilisation as a basis for managed network retreat.

Stakeholder Engagement

WACOSS welcomes the engagement by ATCO and their external consultant during the preparation process of this access arrangement. We consider that best practice consultation by networks and distributors requires them to engage in deliberative processes whereby they can reach negotiated outcomes with consumers on specific aspects of the proposal. This requires networks to be willing to compromise when they have a different view to consumers, and to be open to new ideas and information. Consumers need to be presented with balanced and relevant information to ensure they are able to provide informed feedback and are not directed towards particular answers. Engagement should also be continuous and not only occur during access arrangement processes. WACOSS considers that the consumer engagement by ATCO has not yet reached this level of best practice.

Cost Recovery for Disconnections

WACOSS is concerned by the scale of ATCO's proposed cost for the permanent disconnection service. A $1,184.80 fee would act as a significant barrier for low-income households who wish to electrify. WACOSS considers that it would be prudent for the ERA to scrutinise this charge closely to determine if this is the most efficient cost for this service.

In the majority of circumstances where a gas appliance needs to be replaced, analysis indicates it is more economic to replace it with an electric appliance.[1] As such, when the gas appliances belonging to low-income households reach the end of their lives, it is likely to be in their interest to purchase an electric replacement. A significant disconnection fee, however, means that these households could be required to pay the fixed costs of two networks, no matter whether they use appliances reliant on that energy source or not.

WACOSS would encourage alternative methods to allocate the costs of permanent disconnection be explored that reduce barriers for low-income households to transition off gas and to minimise undesirable distributional impacts. WACOSS suggests that ATCO should engage with the WA Government to discuss potential subsidies for some or all customers for this cost.

Network Tariff Structures

WACOSS recommends that any consideration regarding changing network tariff structures must be based on a thorough examination of the impacts that this would have on consumers living on low incomes or who are experiencing other forms of vulnerability.

Tariffs that encourage gas use are not desirable, but the impacts for those who are vulnerable to energy hardship and stress must be mitigated before any alternative tariff structure is implemented. Customers with high energy needs would see higher network prices should a shift away from declining block tariffs be passed through. Customers who are renters would have no capacity to respond to the price signals from changing the tariff structure.

Energy concessions are typically provided, for eligible customers, through their electricity bill and so do not reduce the price of their gas bill. While it could be considered that the concession on the

[1] Renew, *Affordable energy choices for WA households* (Report, 2021).

electricity bill means that those customers would have more money remaining to cover gas charges, they remain susceptible to the hardship and distress that can arise from significant bill shock when receiving a high gas bill. Changes to gas network tariffs should be accompanied, therefore, by necessary protections for customers who are experiencing or are vulnerable to energy hardship and stress, before there is any move to full implementation.

Investment in Renewable Gases

WACOSS does not consider it appropriate for ATCO to be able to recover any of the costs associated with its hydrogen blending trials and enabling renewable gas program through the access arrangement. We are concerned that this proposal seeks to push unnecessary and inefficient costs onto customers.

Electrification is the only plausible direction away from using fossil gas in homes. Running electric appliances is four times cheaper than using biomethane, and more than ten times cheaper than using hydrogen. Existing gas appliances can only tolerate a low level of hydrogen before they are unable to operate safely, while hydrogen-ready appliances cannot operate on primarily fossil gas networks. As such, moving to a hydrogen-only or hydrogen-dominant network would require an incredibly abrupt and highly expensive simultaneous switch to take place across households. [2]

Even where it is produced utilising renewable electricity generation for all energy input requirements, hydrogen is an indirect greenhouse gas with significant warming impacts.[3] Increased levels of hydrogen in the atmosphere increase the concentration of greenhouse gases such as methane, water vapour and ozone, in the troposphere and stratosphere.[4] Recent analysis has suggested that when considering relative warming impacts from continuous emissions in the near term, hydrogen is 100 times more potent than CO_2 emission over a 10-year period.[5]

This is of significant concern due to the unintended leakage that occurs across the entire hydrogen gas value chain, as well as where it is deliberately purged and vented.[6] The small size of hydrogen molecules mean that it can be difficult to contain, particularly where systems were originally designed for larger molecules such as methane. The lack of data being collected on hydrogen leaks means that is not possible to know exactly how much is being emitted through the supply chain and to accurately assess the climatic impacts from increasing the use and production of hydrogen.[7]

[2] Jay Gordon and Kevin Morrison, *Renewable gas campaigns leave Victorian gas distribution networks and consumers at risk*, Institute for Energy Economics and Financial Analysis (Report, 17 August 2023).
[3] Richard Derwent et al, 'Global environmental impacts of the hydrogen economy' (2006) 1(1) *Int J of Nuclear Hydrogen Production and Applications* 57-67.
[4] Nicola Warwick et al, *Atmospheric implications of increased Hydrogen use* (2022) Department for Business, Energy & Industrial Strategy, UK Government.
[5] Steven Hamburg and Ilissa Ocko, 'For hydrogen to be a climate solution, leaks must be tackled', *EDF Voices* (Web Page, 2022).
[6] Frazer-Nash Consulting, *Fugitive hydrogen emissions in a future hydrogen economy* (2022) Department for Business, Energy & Industrial Strategy, UK Government.
[7] Ilissa Ocko and Steven Hamburg, 'Climate consequences of hydrogen emissions' (2022) 22(14) *Atmospheric Chemistry and Physics* 9349-9368.

Accelerated Depreciation

WACOSS does not support the proposal from ATCO to accelerate depreciation. We consider that this proposal inappropriately transfers to customers the risk and costs of stranded assets resulting from a decline in demand for gas. Further, households and particularly those on low incomes, are under exceptional financial pressure in the present environment and so every effort should be made to avoid unnecessarily increasing the costs that they are facing.

Network businesses are best placed to respond to the risks associated with falling demand. As such, it is critical that they demonstrate that they are taking the necessary and sufficient action required to address these risks before there is any consideration of transferring this risk to consumers through accelerated depreciation.

The revenue and pricing principles state that providers should be offered a 'reasonable opportunity to recover at least the efficient costs', rather than a right to recover all costs. To determine what is reasonable, networks should be identifying and mitigating the risks that a decline in demand poses.

WACOSS does not consider that the proposal from ATCO, which would result in increased investment in capex and opex, new connections to the network and 'enabling renewable gas' projects, in any way demonstrates that it is taking sufficient action to mitigate stranding risks. Instead, ATCO should be exploring opportunities to respond to this risk by determining where it is possible to reduce opex and capex to be appropriately positioned for a future of falling demand for gas.

We note the comment by ATCO that they believe that accelerating depreciation will 'smooth the intergenerational impact of a transition from a traditional natural gas-based network to a renewable gas-ready network of the future'. This claim should be utterly rejected. As the Brotherhood of St Laurence succinctly stated in response to similar claims by Victorian network businesses:

> 'Accelerated depreciation is not consistent with a hydrogen future. There is no equity argument for today's customers to pay down the network early so that future customers can enjoy a hydrogen future.'[8]

Revenue and Price Paths

WACOSS considers that a smoother price path than that proposed by ATCO would be preferable. It is typically easier for consumers to respond to price movements that are introduced gradually. Should the price increase be passed through, it risks creating a price shock for the consumer. For a low-income household, this can increase the challenges of managing their already stretched income by needing to accommodate this step change.

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

Contact Details

For further enquiries on this submission please contact:

Graham Hansen
Senior Policy Officer
graham@wacoss.org.au
08 6381 5300