16 June 2023

Warwick Anderson
General Manager, Network Pricing
Australian Energy Regulator

Sent via email

Review of gas distribution network reference tariff variation mechanism and declining block tariffs

Dear Mr. Anderson,

Energy Networks Australia (**ENA**) appreciates the opportunity to respond to the Australia Energy Regulator's (**AER**) Issues Paper exploring the gas distribution network tariff variation mechanism and tariff structures.[1]

ENA is the national industry body representing Australia's electricity transmission and distribution and gas distribution networks. Our members provide more than 16 million electricity and gas connections to almost every home and business across Australia.

ENA welcomes this review's transparent and central discussion of the issues; however, it does not need to – and should not – reach any fixed 'one sized fits all' answer. As identified in the Issues Paper, there are many balancing issues and trade-offs at play, and customers should be thoroughly consulted on, and informed of the consequences of, their risk sharing and tariff preferences through individual access arrangement processes rather than reaching any mandated national approach through this review.

In a period of substantial further changes, the impacts of which are highly difficult to foresee across the diversity of network types and characteristics, maintaining flexibility of approach provides the best chance of promoting decisions that are resilient to and manage risks, sustain trust, and ultimately promote the long-term interests of consumers.

Customer engagement and input in future reviews will be critical

Gas networks operate across a range of different market contexts that can make different arrangements suitable. This flexibility was recognised in the design of the National Gas Rules, and fully utilising this feature is appropriate now given the greater potential degree of uncertainty over network market developments within jurisdictions.

As the AER observes in its Issues Paper, there are differences in the way that risks are shared under the different tariff variation mechanisms ('form of control'), including a weighted average price cap, revenue cap or hybrid approaches.

Customers should be thoroughly consulted on, and informed about, their risk sharing preferences and consequences, which is best achieved in interactive and longer-form Access Arrangement development

[1] AER, *Review of gas distribution network reference tariff variation mechanism and declining block tariffs: Issues paper for stakeholder feedback*, May 2023.

Energy Networks Australia www.energynetworks.com.au
Unit 5, Level 12, 385 Bourke Street Melbourne VIC 3000
P: +61 3 9103 0400 E: info@energynetworks.com.au
Energy Networks Association T/A Energy Networks Australia
ABN: 75 106 735 406

processes between networks and their customers. These are able to be revisited across different review periods based on any material developments.

The AER's Better Resets Handbook (**Handbook**) also expects gas networks to develop high quality proposals that are driven by genuine engagement with consumers, noting that this will lead to regulatory outcomes that better reflect the long-term interests of consumers.

As highlighted in the Handbook, consumer engagement should be a continuous business-as-usual process, not a one-off process only undertaken in preparing for regulatory proposals, which allows for within period engagement on key issues such as the proposed tariff variation mechanism. Any material change to the tariff variation mechanism will need to be consulted on thoroughly with a network's customers before a change is proposed.

Gas demand is getting more complex over time

Forecasts of gas demand are independently reviewed and approved by the AER as part of each Access Arrangement. For each period, gas networks take actual demand into consideration to improve forecasting accuracy.

The Issues Paper notes a range of drivers for initiating the review, but there is a need to be clear what problem any specific approach chosen may be seeking to solve, as well as to understand how the responses to these different problem statements might interact. It is not clear that a change to the tariff variation mechanism will solve any potential issues with gas demand forecasting.

Recent outperformance of gas demand forecasts is relatively well understood and is driven by factors such as colder than average weather and the impact of COVID-19 on consumption patterns. Importantly, it is not a safe assumption that forecasting risk has always been and will always be one-sided. In prior decades, for example, due to weather variations, gas networks under recovered their expected revenue.

Gas demand (connections and volumes), instead, is likely to become increasingly difficult to forecast, and the level of this difficulty is itself is likely to vary on a jurisdictional basis, and therefore can have consequential impacts on price volatility dependent on the form of control. This further supports engagement through individual Access Arrangements rather than imposing any mandated or preferred tariff variation mechanism across most Australian gas networks.

Flexibility in tariff setting should be retained

Any potential changes to tariff block structure should not be considered in isolation and, to avoid unintended consequences, potential changes to tariffs should be considered alongside a range of other factors.

The Access Arrangement process was designed to facilitate a wholistic consideration of factors such as revenues, the weighting of fixed vs. variable pricing, and splits between residential and other segment pricing. Tailored transition paths, developed in collaboration with a network's customers, would also need to be established to facilitate any potential material changes to tariffs.

This review, therefore, should not unduly restrict the menu of potential tariff approaches that networks engage on with customers. The diversity of consumer preferences across jurisdictions, market and operating considerations may appropriately give rise to different solutions on a network-by-network basis.

In addition, ENA supports the AER's view that it is likely to be factors beyond the tariff variation mechanism and tariff structure that will govern the emergence or crystallisation of any stranding risks. Different network circumstances mean stranding risks are best addressed in proposals and decisions shaped by consumer engagement through future Access Arrangement processes.

If you wish to discuss any of the matters raised in this letter further, please contact Lucy Moon, Head of Regulation, at lmoon@energynetworks.com.au.

Yours sincerely,

Garth Crawford
General Manager, Economic Regulation