



**CONSERVATION
COUNCIL** ACT REGION

Submission to the Australian Energy Regulator (AER): Evoenergy revised 2021–2016 gas access arrangement proposal

February 2021

The Conservation Council ACT Region is the peak non-government environment organisation for the Canberra region. Since 1981, we have spoken up for a healthy environment and a sustainable future for our region. We harness the collective energy, expertise and experience of our more than 40 member groups to promote sound policy and action on the environment.

We campaign for a safe climate, to protect biodiversity in our urban and natural areas, to protect and enhance our waterways, reduce waste, and promote sustainable transport and planning for our city. Working in the ACT and region to influence governments and build widespread support within the community and business, we put forward evidence-based solutions and innovative ideas for how we can live sustainably.

At a time when we need to reimagine a better future, we understand that the changes we need will only happen with the collective support of our community.

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Introduction

The Conservation Council ACT Region welcomes this final opportunity to comment on Evoenergy's revised 2021–26 access arrangement proposal (GN21 plan).

The Conservation Council supports a rapid phase-out of gas over the next ten years as a way to support meeting the ACT's interim emission reduction targets, and as a meaningful response to the urgency of the climate change crisis. Further discussion can be found in the Council's submissions regarding Evoenergy's gas network 2021–26 access arrangement ([April 2020](#) and [August 2020](#)), the [ACT Government's Draft Variation 373](#) (March 2020), the [ACT Sustainable Energy Policy 2020-25 Discussion Paper](#) (October 2019) and our [ACT 2020 Election Priorities](#).

Evoenergy's response to ACT Government's policy direction and the climate emergency

The Parliamentary and Governing Agreement for the 10th Legislative Assembly of the Australian Capital Territory established between the ACT Labor and ACT Greens Members sets out a clear policy direction to “phase out fossil-fuel-gas in the ACT by 2045 at the latest”, commits to incentives and supports for Canberra gas users to switch to electricity, and outlines initial dates for cessation of new gas infrastructure.

We welcome Evoenergy's revised GN21 taking these policy measures into account with revised demand forecasts, reduced capital expenditure and market expansion, and shortened asset depreciation timeframes.

Evoenergy observes that ACT Government policy "is by far the strongest mandate among Australian jurisdictions to reduce natural gas use" and it is clear that Evoenergy's business proposal for the ACT's gas network over the next five years is being curtailed by specific Government policies. Although Evoenergy is “prepar[ing] to transition the network to meet the ACT Government's target to achieve net zero emissions by 2045”, it is not clear that Evoenergy has internalised a strategic objective to respond with urgency to the climate emergency so clearly outlined by the global scientific community. Phasing out the gas network obviously conflicts strongly against business-as-usual commercial imperatives to maintain network services and generate profits from assets. However, the Conservation Council reminds Evoenergy and the AER that we must achieve a rapid decarbonisation of all human systems if we are to keep Earth habitable for humans and other species. We can say with great certainty and simplicity that the most effective way to rapidly decarbonise gas consumption is to stop extracting, making and using it. This means that all stakeholders in the ACT's gas network must commit to an urgent and proactive transition off gas.

There are significant opportunities for Evoenergy as a company in this space, given their unique position as the operator of both the gas and electricity networks, and therefore well-placed to manage the transition of customers from one to the other.

Forecasting falling demand

It is understood that forecasting demand is a complex undertaking with a high degree of unresolvable uncertainty. The revised GN21 demand forecast incorporates the effects of the specific dates in the Parliamentary and Governing Agreement: no new gas mains to future stages of greenfield residential development from 2021–22 and infill developments from 2023. The impact on gas demand of other measures, such as the uptake of zero-interest loans for appliance electrification, are more difficult to predict.

The Conservation Council recommends regular public reporting of demand, new connections and disconnections over coming years so that all stakeholders can gain greater insight into the effect of policy measures and consumer behaviour trends. Studies of past technology uptake trends suggest that the shift from gas to electricity may initially be slow, and then accelerate from early adopters to mass adoption as awareness of policies and electric options becomes more widespread. What is unclear is how far along this journey gas consumers are in the ACT, and then when the rapid uptake / transition will take place. However, it would be fair to assume that recent public debates have served to highlight the transition, and that the ongoing high cost of gas for consumers will provide an incentive to hasten the transition.

Capex, new connections and meter replacement

The Conservation Council is pleased that Evoenergy responded to both community consultation and the ACT Government policy direction by revising market expansion capex down from \$34.8m in the initial draft GN21 plan in February 2020 to \$26.3m in its June submission to the AER, then down again to just \$11.7m in its revised GN21 plan in January 2021, most of which is allocated to the NSW market. This effectively halts market expansion in the ACT “while [Evoenergy] explore[s] ways to achieve” the ACT Government’s net-zero emissions target.

However, the revised GN21 has \$28m for “stay in business – meter renewal”, up from \$23.6m in the June 2020 GN21 and \$16m in 2016–21, which appears largely to shift unavoidable costs from capex to stay-in-business. Evoenergy notes that “the AER suggests that it may be prudent at some point to cease market expansion and meter replacement capex, but this is not currently within our control. We are required to continue to incur these costs to comply with regulatory obligations.” Planned meter renewal should be an opportunity to disconnect residences from the gas network in an orderly transition rather than replacing the meter, if enough notice and support is provided to residents/property owners.

It is unclear to what extent Evoenergy consults with property developers and individual home owners/builders/renovators regarding installing versus avoiding gas in new developments and renovations, although Evoenergy’s June submission notes discussion with the ACT Suburban Land Agency. Given the Government’s clear policy direction to phase out gas and the substantial costs involved in later conversion of gas to electric appliances to comply with that policy direction, particularly in multi-unit developments, the Conservation Council suggests that Evoenergy should have a clear and proactive policy now of discouraging new gas connections and reconnections in all developments. The most cost-effective way to reduce emissions from the gas network is to cease making any new connections.

Currently, Evoenergy appears constrained to taking a responsive approach to transitioning customers, disconnecting them from the gas network only upon their request. The Conservation Council would like to see the constraints removed and Evoenergy and the ACT Government take a more proactive approach to shifting households off the gas network.

Evoenergy should engage with the AER, the ACT Government and other stakeholders to address the regulatory obligations that require Evoenergy to replace gas meters and connect applicants who request to join the gas network, and instead provide frank advice to applicants about electrification and the transition away from gas.

Asset depreciation and network cost recovery

Shortening asset lives to recover investment is an understandable commercial necessity. The Conservation Council maintains that depreciation costs rolled into network pricing must not impose disadvantage or hardship on low-income and vulnerable households, a factor that Evoenergy is clearly considering.

At some point, Evoenergy may need to be prepared to write off the remaining value of its assets or find some other means of recovering it, rather than expecting that proportionally increasing network costs can continue to be recovered from a declining customer base.

Regarding Evoenergy's NSW network, the AER notes that Evoenergy's capex and demand proposals are 'business as usual' therefore Evoenergy does not have cause to reduce asset lives. Both Evoenergy and the AER should be aware that although the NSW Government may not yet have specific policies regarding the phase-out of gas, all Australian States and Territories now have net-zero emissions targets by 2050 or earlier, so the requirement to phase-out emissions from gas is now certain, and other jurisdictions, particularly local governments/councils, are already taking note of what the ACT is doing.

Evoenergy should undertake modelling of network viability as the number of customers declines to enable stakeholders to plan for the end date of operation of the network. There needs to be further discussion about how Evoenergy and the ACT Government will manage the reduction and closure of the network, and the transition of residual customers, for instance, on a suburb-by-suburb approach based on the structure or age of the pipe infrastructure.

Evoenergy should also ensure that the new electricity tariff structure does not disincentivise customers switching from gas to electricity. While the Conservation Council appreciates that network tariffs for electricity need to reflect the costs of investment in new technologies, and encourage efficient use of the network, it is important to acknowledge the public benefit of transitioning away from gas.

The ACT Government and Evoenergy should reconsider the commercial relationships and ownership structure with AGL and Jemena as having conflicting interests, purposes and strategic direction from the ACT's legislated zero emissions target. The Conservation Council advocates for divestment of public funds from fossil fuel companies.

Biogas and hydrogen

Both the Parliamentary and Governing Agreement, and Evoenergy's revised GN21 include mention of "a project ... to reduce the emissions intensity of the existing ACT gas network as much as is possible, by injecting zero-emissions gas alternatives".

The Conservation Council understands that Evoenergy is exploring the potential to use biogas and/or hydrogen to replace the small percentage of unaccounted for gas (UAG) that is lost from the network. Although Evoenergy "supports a responsible transition to achieve" the ACT Government's emissions reduction targets, by investigating biogas and hydrogen as a means of continuing to operate the gas network in perpetuity, Evoenergy is not sending a clear signal about its intention to customers or investors. While it is understandable that Evoenergy as a commercial entity wants to continue to derive value from its assets, holding out for this possibility creates confusion— "is the network closing or not", "do I have to switch or not", particularly for new builds "should I install gas or not, will I have to change down the track". Homeowners want certainty. Unsurprisingly, the gas industry generally is talking up the opportunities of utilising biogas and hydrogen to replace fossil gas, perpetuating the misleading messaging that gas is clean and necessary.

Many electric appliances will always be more efficient than any kind of gas that must be burned to provide heat energy. Heat pumps have a coefficient of performance of 3–5 compared to gas appliances which can never achieve more than 1. Biogas is still methane, and still produces carbon dioxide (both GHGs) when burned. A gas network will always result in fugitive emissions. Even at the highest practical concentration of "green" hydrogen (max 20%), this would leave 80% of the gas as GHG-producing methane. Burning gas in homes and businesses will always carry health and safety risks that electric appliances do not.

The Conservation Council acknowledges that biogas is a useful energy product, and when collected from sources such as agricultural waste, sewage processing and landfills, can avoid greenhouse gases being released into the atmosphere. Using such biogas on site or within a contained system to generate heat or electricity can be highly efficient and result in cost savings for operators that can then reduce energy imports. However, biogas is simply not needed for residential or light commercial purposes, and using it in the gas network risks creating a "feed the beast" dependence on bio sources.

Evoenergy needs to set out a clear proposal for the concentrations and timeframes, including end dates, for blending biogas into the network. It must identify the sources of biogas and hydrogen to an acceptable standard that ensures end-users and the wider public are clear about the environmental impacts of such production.

In the short-medium term, it would be valuable to customers for Evoenergy to be explicit about its intentions with regards to the future of the gas network.

Community engagement

The public still believes that "natural gas" is "clean", "efficient", "better", "necessary", a "transition fuel" and so on because they are still hearing this message on television and other media, from

the gas industry, appliance retailers and housing developers. This message is outdated, factually incorrect and dangerously misleading. Gas is polluting, environmentally damaging, inefficient compared to modern electric technologies and unnecessary for residential and commercial buildings.

Evoenergy should collaborate with gas retailers, appliance retailers and installers and the ACT Government to communicate with all property developers and customers the imperative to cease using gas, stop advertising gas, and stop selling and installing gas appliances. The gas workforce needs support to retrain, and training institutions should move to prepare workers for electrification.

The Conservation Council has appreciated the opportunity to engage with Evoenergy through the Energy Consumer Reference Council (ECRC). We note that occasionally the meetings did not allow clear space for community representatives to provide input or ask questions, or discuss an item in more depth. We would encourage Evoenergy to be deliberate about inviting all participants to share their views and concerns going forward, and we welcome ongoing community engagement beyond the GN21 process.

Summary and Recommendations

Switching from gas to electricity in buildings is one of the most technologically straightforward actions that the ACT can take to eliminate the 22% of greenhouse gas emissions contributed by stationary energy. No significant behaviour change is required, just clear policy direction, targets and adequate support and communication for users. The ACT should therefore be pursuing this course with a clearly timetabled, ambitious plan to cease all new gas connections immediately, then enact a deliberate and orderly transition of existing customers off the gas network.

The Conservation Council acknowledges the significant exploratory work and consultation undertaken by Evoenergy and its downward revisions of demand forecasts, market expansion and asset depreciation timeframes as a positive step towards the necessary emissions reductions and a more sustainable energy future. The Council also acknowledges the AER's redirection of Evoenergy's plan in response to the Parliamentary and Governing Agreement.

As Evoenergy observes in its response to the AER's draft decision, ACT Government policy "is by far the strongest mandate among Australian jurisdictions to reduce natural gas use", and by association and compliance with that policy direction, Evoenergy is at the forefront nationally – and internationally – of the transition away from fossil gas. The Conservation Council suggests that Evoenergy is in an excellent position to share its learnings and demonstrate leadership in the transition from gas to electricity.

Recommendations for the AER

The Conservation Council ACT Region recommends that the AER:

- Take account that all States and Territories have now set targets for net-zero emissions by 2050 or sooner, creating the necessity for all gas network operators to urgently

reduce emissions from their networks, and factor this into all network access submission reviews;

- Immediately identify regulatory requirements that oblige gas network operators to connect new customers and revise them as required to allow network operators to proactively prevent new connections, plan to disconnect existing customers and phase-out networks;
- Review all submissions for proposed tariffs consistent with 'polluter pays' and equity principles so as to reduce gas consumption and support vulnerable customers;
- Act to prevent gas network operators promoting "natural gas" as a clean, efficient or necessary energy source for buildings;

Recommendations for Evoenergy

The Conservation Council recommends that Evoenergy:

- Plan beyond the GN21 to strategically and proactively phase out the gas network by 2030, or at the least, well before 2045;
- Immediately identify and address regulatory requirements that oblige Evoenergy to connect new customers and prevent proactive disconnection of existing customers
- Cease all new gas infrastructure and all new connections and reconnections in all suburbs, including newly-constructed dwellings and multi-unit buildings in compliance with ACT Government policies;
- Minimise capital expenditure except to maintain safety, and proactively manage depreciation of assets likely to become stranded;
- Reconfigure the electricity network to support a range of dynamic technologies including localised and distributed electricity generation, 'smart' metering, demand management, large and small-scale batteries and electric vehicles as well as to accommodate increased demand due to phase-out of the gas network, without disincentivising the transition off gas;
- Urgently develop and communicate a clear timeline for transitioning customers off the gas network, with priority given to protection of vulnerable customers;
- Not seek to use 'renewable' gas substitutes or emissions reduction offsets to sustain the gas network and thereby perpetuate greenhouse emissions, and make details of any proposals to do so publicly available to ensure community accountability; and
- Revise tariffs consistent with 'polluter pays' and equity principles so as to reduce gas consumption and support vulnerable customers