

ESC Gas distribution system code of practice review

About us

Friends of the Earth (FoE) Melbourne is a not-for-profit organisation that believes that social and environmental issues cannot be separated from each other. We work with communities throughout Victoria to build a sustainable and socially equitable future, and campaign for a world where environmental protection, social justice and economic welfare for all people go hand in hand. FoE Melbourne is a member of the FoE Australia, which consists of eight local groups around the country as well as thirteen affiliate members. FoE Australia is, in turn, a member of FoE International, which is now active in more than 70 countries and is the largest federation of grassroots environment groups in the world.

Submission principles and summary

Thank you for the opportunity to make a submission on remaking the Gas Distribution Code of Practice to update obligations and harmonise the Code with recent Federal Government commitments and changes in Victorian and Federal Governments' policies as relevant to energy and its impact on the climate. In this submission we advocate equitable access to affordable energy solutions, although we acknowledge the limitations of the Essential Services Commission's powers, along with the scope of this review.

FoE is as concerned about short-term equity issues as we are with the environmental impact of delays to energy transition. Methane is more than 80 times more damaging to the climate over a 20 year period than carbon dioxide¹ – and the coming 20 years are critical in the race to keep global warming below 1.5° to avoid an unliveable climate. One kilo, or 49 megajoules of gas equates to 25 kilos of carbon dioxide in our atmosphere². Alongside this Australians are increasingly impacted by a cost of living crisis driving escalating nonpayment disconnections for some households and creating an economic environment where lower income customers decide to not use gas heating as has increasingly happened over past years³.

Our submission therefore places people and climate in the spotlight, contemplating policy measures that the ESC and State Government may adopt to manage energy in order to meet Government emission reduction targets and Australia's commitment to the Global Methane Pledge⁴, to maintain no more than 1.5° Celsius warming and reduce global methane emissions by at least 30 percent from 2020 levels by 2030.

This submission expects that in the coming decade or two the gas distribution system will be understood to be junk infrastructure and recommends that the Essential Services Commission commence work on a plan to inform the State Government of pathways for its rapid, orderly and equitable retirement within the next 10-15 years.

¹ <https://www.unep.org/news-and-stories/story/methane-emissions-are-driving-climate-change-heres-how-reduce-them>

² <https://www.elgas.com.au/blog/389-lpg-conversions-kg-litres-mj-kwh-and-m3/#:~:text=Convert%20LPG%20kg%20to%20MJ,MJ%20of%20energy%20from%20LPG>

³ https://www.acoss.org.au/media-releases/?media_release=overhaul-of-energy-concessions-needed-as-three-million-households-struggle-to-pay-their-energy-bills

⁴ <https://www.globalmethanepledge.org/>

Scope of the review

In consideration of the above, we believe that the review, indeed all aspects of the Essential Services Commission's jurisdiction, should incorporate consideration of climate impacts of energy provision, use and administration. All levels of government, nationally and internationally have recognised the emerging climate crisis and the rubber hits the road for practical measures to minimise climate impacts within the jurisdiction and administration of government agencies. We encourage explicit mention of climate impact potential for all matters within the ESC's area of control and better reporting on climate burden represented by different options and models.

In the absence of climate impact reporting we believe that the scope of this review is critically deficient.

Gas connections (& disconnections)

The current system of free connections and charged disconnections creates a perverse incentive to connect to, and disincentive to disconnect from the gas distribution system. At a time when both the International Energy Agency and the Intergovernmental Panel on Climate Change have made clear that we cannot afford a single new gas, coal or oil project to avoid the worst impacts of climate change we must reverse the onus in order to discourage new gas connections.

We recommend shifting fees to point of connection and incorporating anticipated costs of both connection and disconnection to the connection fee, abolishing disconnection costs for landowners.

Information about changes in the types of gas supplied

Friends of the Earth Melbourne strongly advocate open disclosure of any changes in the type of gas supplied through the gas distribution network. This information should be supplied to gas customers through advanced notice from their retailer and be prominently displayed on their billing advice.

Prior to considering augmenting the mixture of gases in the distribution system we urge an open period of public consultation preceded by clear community service announcements informing the public about the types of gas to be used and the potential risks associated. All discussion papers informing the public consultation must include a cost/benefit analysis, the risks associated with the proposed gas mixture and clear information about any possible requirement for appliance upgrades for customers.

At the time of writing we do not have a clear picture of the leakage of methane behind the meter. We have no clear picture of the functional state of existing appliances in homes and businesses and the extent to which these leak methane. Were hydrogen, a finer gas than methane and therefore more prone to leakage, be introduced into the distribution system the risk of heightened leakage behind the meter would be exacerbated.

Therefore where finer gases are under consideration for introduction into the distribution system we strongly advocate for assessment, household by household, of the suitability of existing appliances to safely use – without leakage – any finer gas blends. Where appliances are found to be unsuitable to manage hydrogen blends without leakage households should be given the opportunity to access subsidised appliance upgrades, with a strong preference for electric appliances powered by renewable energy.

This submission does not anticipate that sufficient hydrogen or biogas will be produced in the foreseeable future to supplement the distribution system. We expect that any hydrogen produced will be prioritised for high heat, hard to shift off gas industry and chemical feedstock, or for export. We expect that biogas will be produced in insufficient quantities to maintain current distribution system demand.

Should the gas distribution network be supplemented with hydrogen or biogas in future we advocate informing the customer through the following methods:

- A state government funded public information campaign, including date of commencement, the type of gas and anticipated percentages of any blend and how the gases are sourced (for instance brown/blue/green hydrogen or biogas from landfill/sewerage, etc.), alongside GHG emissions disclosure
- Customers to be informed by mail/email directly explaining in detail the date of commencement, the type of gas and anticipated percentages of any blend and how the gases are sourced, alongside GHG emissions disclosure
- First page disclosure on all gas bills of the types of gas used, percentages and associated GHG equivalents

In addition to the above we advocate more detailed information on the ESC website for people who are interested in knowing more about the gas that is being delivered to their homes and businesses.

Customer obligations

We recommend making customer obligations and prohibitions explicit in the code. Customers have the right to clear and accessible information regarding their obligations. Further, making this specific information available to customers acts as a reminder to customers of the dangers of gas and tampering with gas infrastructure.

We advocate no new gas connections statewide except where there is no alternative to provide for cooking, hot water or heating options. If this option is not possible we propose charging a connection fee that covers the full anticipated cost of connection and disconnection at end of use. This measure is encouraged as a disincentive for new customer connections.

Removing duplication with other regulatory instruments

Friends of the Earth supports removing Part D of Schedule 1 of the code to harmonise with other states and territories.

Removal of Schedule 3

We anticipate the day when these standards are unnecessary and are instead replaced with new Australian standards for the wholesale removal of the distribution system. We support removal of Schedule 3

Disconnection, reconnection and abolishment

FoE support clarifying the distinction between disconnection and abolishment for customers and being explicit about distributor, retailer and consumer obligations in distribution system connections, disconnections and abolishment. We believe that the gas distribution system should be, if not impossible, then extremely difficult to connect to and the pathway to disconnection or abolishment of meters should be extremely easy and without charge to the customer.

We advocate that in the case of nonpayment disconnections customers be provided with information about such government subsidies as are available at the time to assist in transition to more affordable, efficient and renewable energy and appliance alternatives to incentivise fuel switching from gas to clean electric options.

Where new customers join the network or open a new account with a different retailer we advocate making all charges and obligations clear alongside information about clean energy alternatives, energy upgrades and the potential health and climate impacts associated with gas use.

Guaranteed service levels

This submission supports setting clear, quick timeframes for compensation to customers for breaches and to the extent that this is possible, penalties for failures to comply to those timelines. We welcome a review of the compensation amounts and associated penalties for breaches.

Unaccounted for gas benchmarks

“The UAFG benchmarking process is a mechanism to facilitate the financial reconciliation between energy retailers and distributors. Retailers are required to purchase sufficient gas to cover customer consumption and actual UAFG. An annual reconciliation between gas distributors and retailers is then carried out to settle financial obligations to each other, based on whether actual UAFG is over or under the benchmarks.”

- Gas Distribution System Code of Practice: Issues Paper (2023)

In consideration of the positions explained by the Intergovernmental Panel on Climate Change, the International Energy Agency, Federal and Victorian Governments recognition of climate change and associated emissions reduction targets and the recent Australian Government's commitment to the Global Methane Pledge, this rationale for the purpose of UAFG benchmarks is critically inadequate.

UAFG is the one area of fugitive gas emissions which is measured with any clarity. Methane is a highly concentrated greenhouse gas with over 80 times the climate impact over the pivotal next 20 years for potential climate change mitigation as carbon dioxide. This is an area that Friends of the Earth has referenced in our previous submission to the Unaccounted For Gas benchmark review.

The only thing we know with any confidence about fugitive gas emissions is that they are under-recognised and unmeasured prior to entering the distribution system and behind the meter. Therefore it is of the greatest importance that we give full recognition to the climate impact of methane leakage from the distribution network, and penalise it accordingly.

It can no longer be considered a purely economic matter to recognise the shortfall between gas entering the system and that which is metered upon delivery to customers. To reiterate what we consider to be most salient points of our submission on UAFG benchmark reviews:

- Any leakage is unacceptable
- Any leakage must therefore be penalised, with penalties levied against distribution companies
- Rather than replacing the older, more compromised sections of the distribution networks we should consider those most problematic sections as the first priority of network abandonment as we prepare the transition away from gas
- Customers on each network should be offered randomised methane leakage testing behind the meter in order that the Essential Services Commission can better understand leakage at point of end use.

Name and structure of the code

Friends of the Earth supports the concept of simplifying the structure of information contained in the code to better harmonise with that already in place for electricity retail and distribution and also commends changing the name to the less tautological "Gas Distribution Code of Practice".

Enforcement, compliance and reporting

Friends of the Earth advocates the setting of penalties for breaches with a sufficiently high threshold for the minimum number of penalty points assigned such that it provides a disincentive for breaches, rather than simply being the price of doing business badly for distribution companies.

Civil penalties should be raised alongside criminal penalties for breaches, poor conduct including reporting failures and other noncompliance. The Longford Gas Plant fire and the more recent Shepparton gas explosion on 2 May 2023 demonstrate an immediate display of the worst of what can go wrong when safeguards are not observed and leakage is not managed. What is less obvious in the immediate term is the demonstration of climate impacts, although as time goes on this is harder to ignore.

Submission to the ESC Gas distribution system code of practice

We therefore advocate a combination of criminal charges for failures to deliver methane in a safe, leak free and reliable manner coupled with civil penalties for shortfalls in service delivery including timely disconnection and abandonment upon customer request or disconnection/abandonment charges over a certain, reasonable threshold for outgoing customers.

We support any inclusion of civil and criminal penalties into the code and any future updated service agreements. Further we urge that any variations on existing licencing agreements with distributors be put out to public consultation for community input.

Friends of the Earth Australia commends the Essential Services Commission for its history of genuine consultation including comprehensive briefings and direct stakeholder engagement. We appreciate the opportunity to comment on proposed changes and updates to Codes of Practice and other system and management reviews.

We make ourselves available for any questions or clarifications that might be sought by the Essential Services Commission and give approval for this submission to be made public.

Freja Leonard
No More Gas campaign coordinator
Friends of the Earth Melbourne
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