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9 January 2015

Attention: Tyson Self

Greg Watkinson
Chief Executive Officer
Economic Regulation Authority
PO Box 8469,
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Email:publicsubmissions@erawa.com.au

Dear Mr Watkinson

SUBMISSION TO THE ECONOMIC REGULATION AUTHORITY: ACCESS ARRANGEMENTS FOR THE MID-WEST AND SOUTH-WEST GAS DISTRIBUTION SYSTEM (DRAFT DECISION).

The Urban Development Institute of Australia (WA) is pleased to make this submission to the Economic Regulation Authority on the Draft Decision on required amendments to the Access Arrangements for the Mid-West and South-West Gas Distribution System (**Draft Decision**).

UDIA (WA) is the peak body representing the urban land development industry in Western Australia. UDIA is a membership organisation with members drawn from the development, planning, valuation, engineering, environmental, market research and urban design professions. Our membership also includes a number of key State Government agencies and Local Government Authorities from across the state. Nationally, UDIA represents the interests of thousands of members and includes all the major land development companies, both public and private, and specialist consultancy firms.

Overview

The provision of gas reticulation in new estates has been part of the Western Australian landscape for decades. The draft decision by the ERA will significantly compromise the delivery of gas to Western Australian homes, potentially leading to higher emissions and creating a risk of further increasing the peak load for other energy providers.

Limits of this Submission

UDIA WA is not in a position to determine the commercial viability of the proposed rate of return, detailed pricing of gas, or the safe operation of the network. This submission focuses on the impact of the ERA determination on access to gas for new consumers in areas not currently serviced by gas.

Cost Effective Provision of Infrastructure

UDIA questions the definition of efficiency being utilised by the ERA in relation to connection to gas. The definition appears to be based on proximity rather than the most efficient and effective connection strategy that minimises long term costs with the assumption that the most efficient way to install gas to dwellings is to limit access to those within 20 metres of an existing network.

Efficient delivery of service is achieved when the appropriate services are in place at the time of development, particularly where secondary choices need to be made, ie the types of appliances that will be installed. The life of appliances such as stoves, room heaters and hot water services can span more than a decade with replacement potentially staggered over a significant period. The cost of connection for a single appliance can be a barrier for existing areas with the nexus of access and need sometimes taking decades to synchronise. This means that the consumption of gas in the medium term is compromised at a precinct level as households make decisions based on the combined cost of connection and single appliance replacement. The most efficient way of delivering gas to households is when the uptake of gas usage can be maximised which is during dwelling construction when all of the appliances are selected concurrently. It also means that the consumption of the gas is maximised early in the life of the infrastructure which creates a critical mass of consumption to ensure the effective use of the infrastructure provided.

Further, many developers support the uptake of gas as part of sustainability initiatives by providing subsidies and education for potential consumers. Connection based on proximity to the existing infrastructure is simplistic and should be rejected by the ERA in their review in favour of a more holistic approach to efficiency.

The comments above in no way diminish the importance of brownfield gas connection as this can be coordinated with other service upgrades such as the undergrounding of power services; however proximity is a poor proxy for efficiency. The volume of connections and the whole-of-dwelling approach to appliances should be significant considerations when identifying the most efficient rollout strategy for gas infrastructure.

Benefits of Gas

The potential benefits of gas are more significant than reducing emissions. The availability of gas to domestic premises can lead to a reduction in the peak load for electricity consumption which normally occurs around 8pm. It is the understanding of the Institute that the top twenty percent of infrastructure investment for Western Power accommodates only the top two percent of energy consumption, enabling considerable savings to be made if the peak load is reduced. Gas, when provided in new estates, normally covers many of the activities that add to the peak load including heating and cooking. This reduction in the peak, and the consequential reduction in electricity infrastructure, should also be factored into a holistic consideration of efficiency in the energy market.

Competition in the energy sector

UDIA believes that competition in the energy sector is extremely important and that the market should be able to operate effectively without artificial constraints designed to contain tariffs. By preventing investment in gas infrastructure in new residential developments, opportunities for consumer choice are removed.

Compromising the Future for Short Term Gains

UDIA remains concerned that the draft determination has the potential for short term gains that will create a long term legacy issue. The main cohort to be impacted by the reduction in capital investment will be residents in new developments where the provision of gas is cost effective as the service pits are open and therefore installation costs are limited to the cost of the direct hard infrastructure rather than the make-good and delays of retro-fitting existing areas. At all times it should be remembered that installation of infrastructure in greenfields is substantially lower than the cost of retrofitting infrastructure in existing areas, particularly when the broader impact of partial road closures on congestion is considered.

In a speech given by the ERA to the Energy in WA Conference in August 2013, the ERA said:
"This is about the long term interests of consumers – it is not about an economic regular of the monopoly aspects of the energy market setting a rate of return so low (to keep current prices low) that there is no investment in the future (or vice versa) or a safety regulator setting such high standards that energy becomes unaffordable (or so low that consumers lives are at risk) – there are issues (rather than interests) to be balanced here but again the test is what is in the long term best interests of consumers."

The draft decision is not in the best interests of consumers, it would seem to be that the regulator in this instance is setting a rate of return to keep prices low as a proxy for looking after the best interests of consumers. Indeed the interests of the consumers are not being addressed as the draft decision prevents them from becoming consumers in the first place. The submission by ATCO Gas delivers an initial price reduction of around $9 in real terms for residential (B3) customers. Whilst this is modest compared to the reduction that would occur if the draft decision was implemented, it is certainly at a level which would be accepted by the community. The reduction by thirty percent of the annual price of a network bill for an average residential customer whilst superficially attractive is extremely poor public policy. This is because the cost of retrofitting that infrastructure, when combined with the underutilisation of that infrastructure over the remaining life of existing domestic appliances, would be potentially be three or four times more expensive than greenfields roll out.

Conclusion

UDIA strongly recommends the reconsideration of the current limitation on investment for new residential customers in Greenfield areas. The current draft determination is inefficient, potentially significantly more expensive in the long term, reduces competition and may lead to even greater demands on the overcommitted electricity network. It will also lead to suboptimal utilisation when the areas are eventually reticulated with gas as uptake will be contingent upon the staggered replacement of existing appliances.

Thank you for the opportunity to comment on this important issue. Should you require clarification of any of the matters outlined in this submission, please contact UDIA WA on 08 9215 3400 or email policy@udiawa.com.au.

Yours sincerely

Debra Goostrey
Chief Executive Officer