



20 January 2015

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### **Draft Decision on ATCO Gas Australia's proposed revised access arrangements for the Mid-West and South-West Gas Distribution Systems**

The Energy Supply Association of Australia (esaa) welcomes the opportunity to make a submission to the Economic Regulation Authority (ERA) of Western Australia's draft decision on ATCO Gas Australia's (AGA) proposed revised access arrangements for the Mid-West and South-West Gas Distribution Systems.

The esaa is the peak industry body for the stationary energy sector in Australia and represents the policy positions of the Chief Executives of 37 electricity and downstream natural gas businesses. These businesses own and operate some \$120 billion in assets, employ more than 51,000 people and contribute \$16.5 billion directly to the nation's Gross Domestic Product.

The esaa supports an appropriate regulatory regime to deliver efficiency benefits in gas networks. It is important to regulate these assets in a way that supports the long-term interests of both current and potential gas customers. The development of infrastructure like gas networks should be informed by both efficiency and strategic considerations. The cost of deploying this type of infrastructure is likely to be the lowest in greenfield sites. The ability of consumers in the future to access gas will depend on the decisions made today.

In this context the esaa considers there is a real risk the ERA's draft decision will be detrimental to potential gas consumers in the longer-term, putting it in conflict with the National Gas Objective. In particular, we suggest that the decision to disallow revenue from extending the network in greenfield sites could be short-sighted and a direct impediment to efficient infrastructure investment.

#### **Extending gas networks to greenfield sites**

In the case of expanding a gas network to greenfield sites, and in particular for small customers, there will never be a lower cost opportunity to extend the network than when these are under development. Installing gas mains in shared utility trenches is highly efficient.

The ERA's draft decision to deny AGA the ability to make greenfield connections may ultimately mean that it is no longer economic for new subdivisions to access gas.

Around 90,000 customers could be prevented from accessing natural gas mains as a result of this decision. The determination made today on a specific set of efficiency criteria, is likely to have broader ramifications. It could effectively end expansion of the gas network to residential customers in WA, reducing customer choice in energy supply and exposing a static customer base to a higher proportion of ongoing maintenance and investment costs over time. The esaa considers that this is a strategic decision rather than a regulatory decision and one that requires broader consideration than has been given by the ERA.

In the long-term, the economics of gas could change significantly through changes in gas and electricity prices, the cost differential between electric and gas appliances, and the introduction of new technologies such as natural gas vehicles. Removing cross-subsidies in electricity prices that result from high peak demand, solar PV and air conditioner use could make gas an economic option for some consumers. The ERA does not appear to have considered the potential for these changes to arise in its draft decision.

AGA may have options to build assets outside of its regulated asset base. But these options entail significant commercial risk and there is virtually no opportunity to make a return on these assets due to the nature of the regulatory system. As such, no investment is likely to take place.

These are challenging strategic issues that reach beyond the regulatory terms ascribed to the ERA. The ERA is not charged with considering what is the right energy mix for WA customers in the future. A broader and longer term view that includes the benefits to future and potential customers may produce a different outcome.

Any questions about our submission should be addressed to Ben Pryor, by email to [ben.pryor@esaa.com.au](mailto:ben.pryor@esaa.com.au) or by telephone on (03) 9205 3103.

Yours sincerely

**Matthew Warren**  
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