

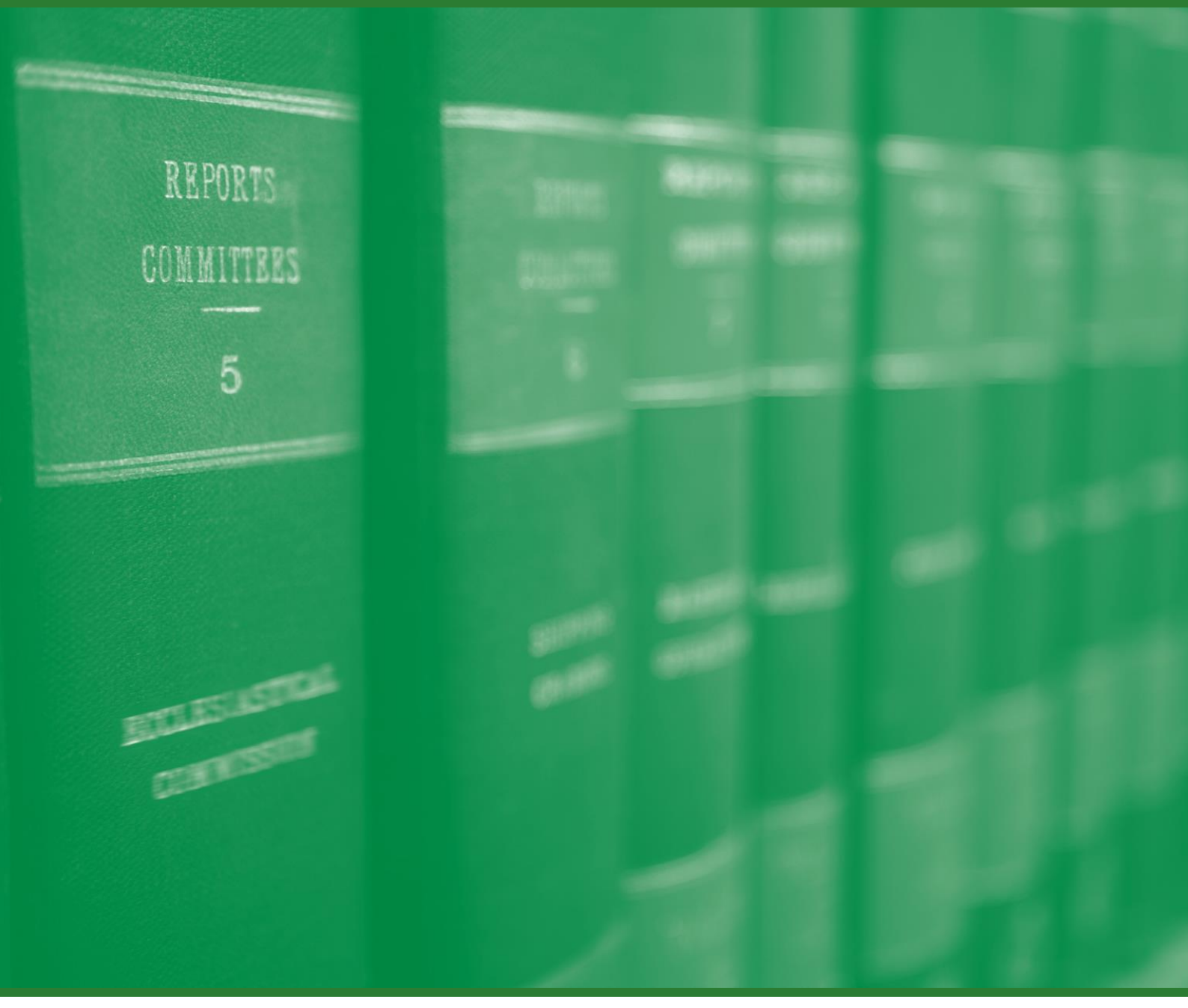


LEGISLATIVE ASSEMBLY OF NEW SOUTH WALES

State and Regional Development Committee

REPORT 2/55 – NOVEMBER 2014

DOWNSTREAM GAS SUPPLY AND AVAILABILITY IN NSW





LEGISLATIVE ASSEMBLY

STATE AND REGIONAL DEVELOPMENT COMMITTEE

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The motto of the coat of arms for the state of New South Wales is "Orta recens quam pura nites". It is written in Latin and means "newly risen, how brightly you shine".

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Membership

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DEPUTY CHAIR	The Hon. Robyn Parker MP, Member for Maitland (from 14 May 2014, Deputy Chair from 19 November 2014) Mr Adam Marshall MP, Member for Northern Tablelands (from 10 September 2013, Deputy Chair from 23 October 2013 until 19 November 2014) Mr Chris Spence MP, Member for The Entrance (until 10 September 2013)
MEMBERS	Mr Clayton Barr MP, Member for Cessnock (from 14 May 2014) Mr Robert Furolo MP, Member for Lakemba (from 14 March 2013 until 14 May 2014) Mr Daryl Maguire MP, Member for Wagga Wagga (until 14 May 2014) Mr Greg Piper MP, Member for Lake Macquarie (from 21 March 2013)
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Terms of Reference

That the Committee inquire into and report on downstream gas supply and availability in NSW, and in particular:

- (a) the adequacy of transmission pipeline systems and distribution networks for future downstream gas needs and supply challenges;
- (b) barriers to the expansion of downstream gas supply and distribution networks;
- (c) the effectiveness of competition in the downstream gas market and consumer pricing implications;
- (d) the effectiveness of existing protections for consumers and measures to facilitate access to gas connection and supply; and
- (e) possible measures to encourage gas network operators to extend existing distribution networks, including financial incentives of licence obligations, particularly in regional centres that do not have access to reticulated gas.

For the purposes of this inquiry “downstream” refers to gas operations that take place after exploration, production and processing phases and concern the delivery of gas to consumers.

Chair's Foreword

This inquiry and indeed this report, is primarily about equity between the cities and the country.

For a long time people in regional NSW have not had access to the same level of services, infrastructure and opportunity that city dwellers so often take for granted.

There have been many examples of this over the years – ranging from health services, to roads.

Thankfully that gap is now closing. However, one service that those in cities have enjoyed for years is access to reticulated gas – for both domestic and commercial use. For many in regional NSW, gas for homes and businesses is only available by way of tanks or cylinders and that can, in some cases, make its use prohibitively expensive.

Access to gas not only gives consumers more choice about where their energy can be sourced – it can also be a key driver of economic development in the regions.

It needs to be said that the question of where future gas supplies for NSW are to be sourced is well outside the scope of this inquiry. The focus of the Committee's work has been downstream gas supply (that is, the delivery of gas to end-users). The sourcing of gas is an upstream supply issue that other inquiries and other reports have examined (and indeed continue to address). As noted above, the focus of this report is inequality of services.

In the compilation of this report, the Committee has examined closely Victoria's "Energy for the Regions" program. We've liked what we've seen.

The Committee believes that this is a model that could be adopted in NSW. In a reflection of the inherent informality of country people, the program has been dubbed by some members of the Committee as "Gas for the Bush". The moniker highlights the importance of the issue to regional NSW.

May I take this opportunity to thank all Committee members for their diligent work in the compilation of this report. Those members are: Mr Clayton Barr MP, Mr Adam Marshall MP, the Hon. Robyn Parker MP and Mr Greg Piper MP.

I would also like to thank those previous members of the Committee who also made a valuable contribution to the inquiry: Mr Daryl Maguire MP, Mr Robert Furolo MP and Mr Chris Spence MP.

Acknowledgement must also be made of the many individuals and organisations who made submissions to the inquiry. Their input has been highly valued.

The Committee has also greatly appreciated the support of the hard-working Parliamentary staff who have assisted us so diligently on this inquiry. They are: Ms Elaine Schofield, Director; Mr Rohan Tyler, Inquiry Manager, Ms Emma Wood, Research Officer, and Mr James Newton, Committee Officer.

It is hoped that this report is another step along the road to bridging the equity gap between the cities and country NSW.

I commend it to you.

A handwritten signature in black ink, appearing to read 'Andrew Gee', with a horizontal line extending to the right from the end of the signature.

Andrew Gee MP
Chair

Executive Summary

Key issues

The Committee set out to examine the availability and supply of downstream gas in NSW, with a particular focus on making natural gas available to rural and regional areas of the State. The main objectives of the inquiry were to examine the adequacy of current gas infrastructure, and to identify measures to extend existing gas distribution networks. The Committee also considered the effectiveness of competition and consumer protection in the downstream gas market.

The key issues examined by the Committee have been grouped in the report under the following headings:

- The NSW gas industry;
- Benefits and adequacy of gas transmission and network infrastructure;
- Barriers to gas network expansion;
- Gas for the Bush;
- Additional measures to encourage gas network expansion; and
- Competition and consumer protection.

Adequacy of current infrastructure and barriers to expansion

The majority of inquiry contributors highlighted the benefits of networked gas to investment, employment, the environment and living standards in regional NSW, though the Committee noted that large parts of NSW are currently not connected to a gas network.

Inquiry evidence raised the following factors as barriers to expanding existing gas networks:

- the cost of infrastructure;
- falling demand for gas;
- regulatory requirements; and
- uncertainty over NSW's future gas supply.

To assist with measures to extend the State's gas networks, an accurate assessment of current infrastructure was considered timely. To this end, the Committee recommended that a detailed analysis be undertaken of current transmission pipeline and distribution capacity in order to accommodate anticipated changes in the supply of, and demand for gas.

Gas for the Bush

A significant barrier to any expansion of gas networks is the cost of infrastructure. Throughout the course of the inquiry the Committee was made aware of the support that the Victorian Government provides to expanding Victoria's gas networks. Under its Energy for the Regions program, the Victorian Government has committed \$100 million to the rollout of natural gas to communities across regional and rural Victoria.

Numerous inquiry participants cited the Energy for the Regions program and recommended that the NSW Government develop a similar program. The Committee agreed with this general viewpoint and recommended that a funding scheme be established to support the expansion of gas networks to identified areas in regional NSW. In developing such a scheme the Committee determined that consideration should be given to the feasibility of cost effective gas distribution alternatives such as the CNG delivery solution used in Victoria.

Additional measures to encourage gas network expansion

As mentioned above, barriers to expanding the State's gas networks include regulatory requirements and the declining demand for gas. In relation to the first point, the Committee heard that unnecessary administrative, financial and logistical barriers imposed by regulatory and policy settings acted as a disincentive for expanding gas networks. To address this, the Committee recommended that a review be undertaken of the regulatory and policy framework for the gas network industry, with the objective of removing unnecessary barriers to expanding gas networks and ensuring customer connection to gas. In conducting the review, input should be sought from industry stakeholders, such as network operators, gas retailers and consumer groups.

The falling demand for gas was also raised as a barrier to expanding gas networks. The Committee heard that gas is considered a discretionary fuel and often the logistical difficulties and costs associated with updating appliances and connecting households to gas is a deterrent for potential gas consumers. The Committee sought to overcome this barrier by recommending that a marketing strategy be developed, in partnership with network operators and gas retailers, to promote the benefits of natural gas.

In addition, the Committee would like to see large scale gas consumers, such as industrial gas users and gas fired power stations, encouraged to relocate to regional areas where, it is anticipated, their large scale gas consumption will drive investment in new gas networks and transmission pipelines. To facilitate this, the Committee recommended that consideration be given to developing an incentive scheme to promote identified regional areas as locations for large scale gas consumers, such as industrial gas users and gas fired power stations.

List of Recommendations

- RECOMMENDATION 1 _____ 33
 Gas for the Bush. The Committee recommends that the NSW Government considers establishing a funding scheme to support the expansion of gas networks to identified areas in regional NSW. The funding scheme should consider the feasibility of cost effective gas distribution alternatives, such as the CNG delivery solution, when developing projects.
- RECOMMENDATION 2 _____ 33
 The Committee recommends that the Minister for Resources and Energy undertakes a detailed analysis of the adequacy of existing transmission and distribution infrastructure to accommodate anticipated changes in the supply of, and demand for gas.
- RECOMMENDATION 3 _____ 43
 The Committee recommends that the Minister for Resources and Energy and the Minister for Trade and Investment conduct a review of the regulatory and policy framework for the gas network industry, with the objective of removing unnecessary barriers to expanding networks and ensuring customer connection to gas.
- RECOMMENDATION 4 _____ 43
 The Committee recommends that NSW Trade and Investment develops a marketing strategy, in partnership with network operators and gas retailers, to promote the benefits of natural gas and to encourage consumer uptake of gas.
- RECOMMENDATION 5 _____ 44
 The Committee recommends that the Minister for Trade and Investment considers developing an incentive scheme to promote identified regional areas as locations for large scale gas consumers, such as industrial gas users and gas fired power stations.

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Glossary

AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
AGL	AGL Energy Ltd
APPEA	Australian Petroleum Production & Exploration Association
APIA	Australian Pipeline Industry Association
CENTROC	Central NSW Councils
CNG	Compressed Natural Gas
COAG SCER	Commonwealth of Australian Governments Standing Council on Energy
DWGM	Declared Wholesale Gas Market
ENA	Energy Networks Association
ERAA	Energy Retailers Association of Australia
GSOO	Gas Statement of Opportunities
IPART	Independent Pricing and Regulatory Tribunal
JGN	Jemena Gas Networks
LNG	Liquefied Natural Gas
LPG	Liquefied Petroleum Gas
MSP	Moomba-Sydney pipeline
NCC	National Competition Council
NERR	National Energy Retail Rules
NGL	National Gas Law
NGR	National Gas Rules
NSW	New South Wales
STTM	Short Term Trading Market
TAFE	Technical and Further Education

Chapter One – Introduction

- 1.1 This chapter provides an overview of the inquiry process and the structure of the report, as well as a brief description of the scope of the inquiry.

CONDUCT OF THE INQUIRY

- 1.2 On 2 April 2013 the Legislative Assembly State and Regional Development Committee (the Committee) resolved to accept a referral from the former Minister for Resources and Energy, Mr Chris Hartcher MP, to conduct an inquiry into gas supply and availability in NSW. The full terms of reference are set out at page iv of this report.

- 1.3 Contributors to the inquiry provided evidence by way of written submissions, oral evidence taken at a public hearing, and written answers to questions arising from the hearing. In addition, the Committee conducted two site visits and two private briefings.

Submissions

- 1.4 The Committee called for public submissions by advertising in the *Sydney Morning Herald* on 17 April 2013, and *The Land* on 18 April 2013, and by writing to key stakeholders on 16 April 2013. The closing date for submissions was 31 May 2013.
- 1.5 The Committee subsequently resolved to extend the closing date for submissions until 21 June 2013, and notified regional communities of this extension in the following newspapers from 29 May to 2 June 2013:
- *Armidale Express*
 - *Ballina Shire Advocate*
 - *Bowral Southern Highland News*
 - *Broken Hill – Barrier Daily Truth*
 - *Dubbo Daily Liberal*
 - *Newcastle Herald*
 - *Nowra Shoalhaven News*
 - *Taree Manning Great Lakes Extra* and
 - *Wagga Daily Advertiser*.
- 1.6 The Committee received 64 submissions from a range of authors, including government agencies, local governments and regional organisations of councils, gas network operators and retailers, peak body organisations and private individuals. A full list of submissions can be found at Appendix One. Submissions

published by the Committee can be accessed at the Committee's webpage:
<www.parliament.nsw.gov.au/stateandregionaldevelopment>.

Public hearing

- 1.7 The Committee held a public hearing at Parliament House on 18 November 2013, where evidence was taken from representatives of the gas network sector and the peak body for the gas transmission sector. A full list of the witnesses who appeared before the Committee can be found at Appendix Two. The transcript of evidence can be accessed at the Committee's webpage:
<www.parliament.nsw.gov.au/stateandregionaldevelopment>.

Private briefings and inspections

- 1.8 The Committee inspected the AGL Energy Limited (AGL) Camden Gas Operations Field Office on 16 September 2013 and was briefed on gas production and its local operations. As part of the inspections, the Committee also visited adjacent sites accompanied by AGL representatives.
- 1.9 On its visit to Melbourne on 15 and 16 June 2014, the Committee received a private briefing on the Victorian Government's Energy for the Regions program. The briefing was conducted by representatives from Regional Development Victoria, SP AusNet and the City of Greater Bendigo.
- 1.10 The Committee then travelled to Caroline Springs, Victoria to inspect Plumpton City Gate, a gas network asset owned and operated by SP Ausnet, accompanied by representatives from SP AusNet and Regional Development Victoria. A full list of participants and a report of the Melbourne visit can be found at Appendix Three.
- 1.11 On 22 May 2013, the Committee was briefed by representatives from NSW Trade and Investment on the structure of gas supply networks and distribution processes in NSW, and other matters related to the inquiry.
- 1.12 The Committee received a further briefing on 24 March 2014 from representatives of EnergyAustralia, Santos Limited (Santos) and AGL on a range of related issues.

STRUCTURE OF THE REPORT

- 1.13 The report is structured to reflect the inquiry's terms of reference and summarises the evidence under the following headings:

- The NSW gas industry;
- Benefits and adequacy of gas transmission and network infrastructure;
- Barriers to gas network expansion;
- Gas for the Bush;
- Additional measures to encourage gas network expansion; and
- Competition and consumer protection.

SCOPE OF THE INQUIRY

- 1.14 In considering the matters to be canvassed as part of the inquiry, the Committee determined that its scope would be limited to the downstream gas sector. This covers operations that take place *after* the exploration, production and processing phases, and specifically addresses the delivery of gas to consumers.
- 1.15 It should be noted, however, that where relevant to the terms of reference, the report also cites evidence relating to the upstream gas sector.

STATE AND REGIONAL DEVELOPMENT COMMITTEE
INTRODUCTION

Chapter Two – The NSW gas industry

INTRODUCTION

- 2.1 This chapter provides an overview of the gas industry in NSW. It looks at the gas supply chain, existing gas networks and the current regulatory framework. The chapter also covers the challenges facing NSW with regard to its future gas supply.

THE NSW GAS INDUSTRY

- 2.2 Natural gas is Australia's third largest energy source after coal and uranium.¹ In NSW, 80% of gas is consumed by industry and electricity generation, with the remainder being used by residential customers.²
- 2.3 Gas is seen as a lower cost energy alternative to electricity and an important ongoing energy source, due to its lower carbon emissions compared to coal based electricity.³
- 2.4 There are three gas markets in Australia, largely based on geography: the western market (Western Australia); the northern market (Northern Territory); and the eastern market (ACT, NSW Queensland, South Australia, Tasmania and Victoria). The eastern market is physically the largest and most interconnected gas market in Australia.⁴

The nature of gas

- 2.5 Natural gas, which primarily consists of methane, can be conventional or unconventional. Conventional gas is extracted from large underground chambers, where the gas is trapped in porous sandstone below a dense layer of impermeable rock, having migrated there from a source rock.⁵
- 2.6 Unconventional gas occurs in three types, namely: coal seam gas, shale gas and tight gas. Coal seam gas and shale gas arise where the natural gas remains in the source rock, while tight gas forms within a poor quality reservoir.⁶
- 2.7 Both conventional and unconventional gas can be converted into Liquefied Natural Gas (LNG). This is gas that has been cooled until it forms a liquid and can be easily transported long distance in tankers.⁷

¹ NSW Parliamentary Research Service, *Gas: resources, industry structure and domestic reservation policies*, Briefing Paper No. 12/2013, p. 1.

² Submission 64, NSW Trade and Investment, p. 1.

³ Submission 64, NSW Trade and Investment, p. 1.

⁴ NSW Parliamentary Research Service, *Gas: resources, industry structure and domestic reservation policies*, Briefing Paper No. 12/2013, pp. 6-7.

⁵ NSW Parliamentary Research Service, *Gas: resources, industry structure and domestic reservation policies*, Briefing Paper No. 12/2013, p. 4.

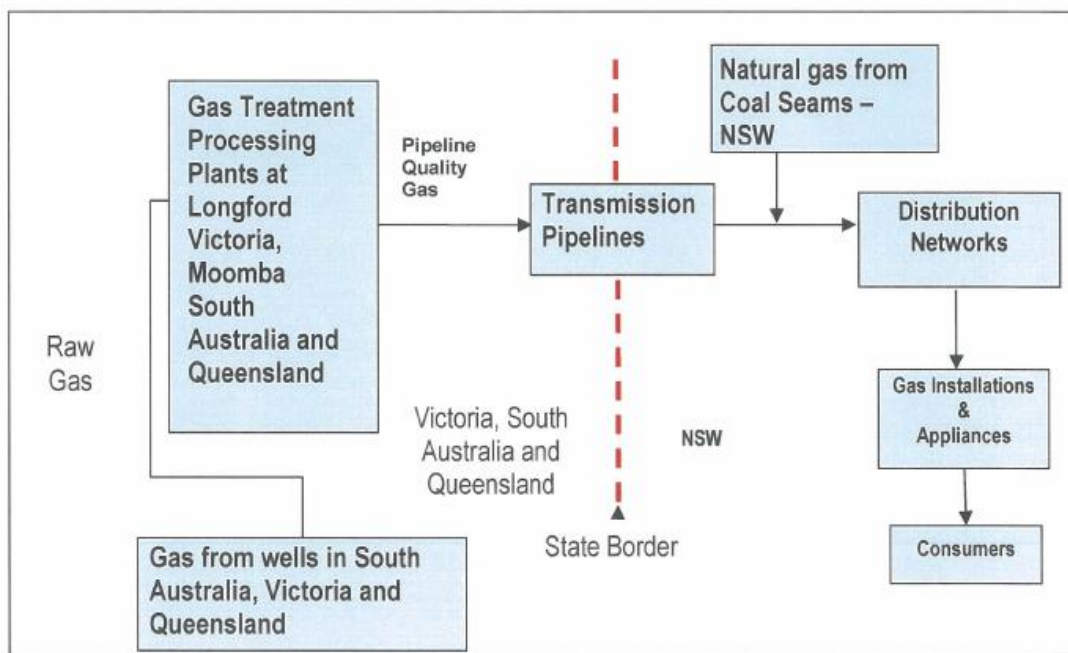
⁶ NSW Parliamentary Research Service, *Gas: resources, industry structure and domestic reservation policies*, Briefing Paper No. 12/2013, p. 4.

Gas supply chain

2.8 In NSW the gas supply chain, as shown in the figure below, consists of a number of entities:

- gas production;
- transmission pipelines;
- distribution networks; and
- retailers.⁸

Figure 1: Gas supply chain



2.9 The above entities are generally involved in what is known as the downstream sector. Downstream activities include processing, distribution, storage, wholesaling and retailing. The upstream sector generally encompasses exploration, development and production of gas.⁹

2.10 As previously discussed, this inquiry is primarily concerned with downstream sector activities involving transmission, distribution and retailing. However, a number of submissions have claimed that it is difficult to look at downstream gas activities without understanding the dynamics and activities of the upstream sector. Consequently, issues relating to the upstream sector are discussed where they are relevant to the terms of reference.

⁷ NSW Parliamentary Research Service, *Gas: resources, industry structure and domestic reservation policies*, Briefing Paper No. 12/2013, pp. 4-5.

⁸ Submission 64, NSW Trade and Investment, p. 2.

⁹ NSW Parliamentary Research Service, *Gas: resources, industry structure and domestic reservation policies*, Briefing Paper No. 12/2013, p. 8.

- 2.13 In the eastern market, APA Group and Singapore Power International (through its subsidiary Jemena Gas Networks) are the principal owners in the transmission sector. The following table outlines ownership of transmission pipelines in this market.¹³

Figure 4: Transmission pipeline ownership

Owner	Number of pipelines	Total length of pipeline (km)
APA Group	10	8,133
APA Group; REST Group	1	680
DUET Group	1	250
Jemena	2	1,424
Origin Energy	1	205
Palisade Investment Partners	1	734
Victorian Funds	1	391
Westside; Mitsui	1	47
Total	18	11,864

- 2.14 Distribution networks enable gas to be transported under lower pressures to residential customers and small to medium sized industrial and commercial customers.¹⁴ As explained by NSW Trade and Investment:

The natural gas distribution network in NSW is the conduit for the reticulation of natural gas and supply to consumers in the State. The greater NSW network is divided into smaller distribution networks and operated by authorised network operators.¹⁵

- 2.15 In 2011-12, there were six authorised network operators in NSW, namely: APT Allgas, Albury Gas Company, ActewAGL, Central Ranges Network (APA Tamworth Networks), Envestra Limited and Jemena Gas Networks.

Retail market

- 2.16 Gas retailers buy gas and package it with network services to customers. They often require long-term contracts with suppliers and also source pipeline capacity to transport the gas to customers through long-term pipeline contracts.¹⁶
- 2.17 NSW enables regulated retail gas prices. Customers have a choice between a standard contract with regulated prices for gas, or entering into a market contract offered by a licensed gas retailer.
- 2.18 The Independent Pricing and Regulatory Tribunal (IPART) is responsible for setting the regulated gas price. This regulated gas price covers approximately one

¹³ NSW Parliamentary Research Service, *Gas: resources, industry structure and domestic reservation policies*, Briefing Paper No. 12/2013, p. 12.

¹⁴ NSW Parliamentary Research Service, *Gas: resources, industry structure and domestic reservation policies*, Briefing Paper No. 12/2013, p. 11.

¹⁵ Submission 64, NSW Trade and Investment, p. 4.

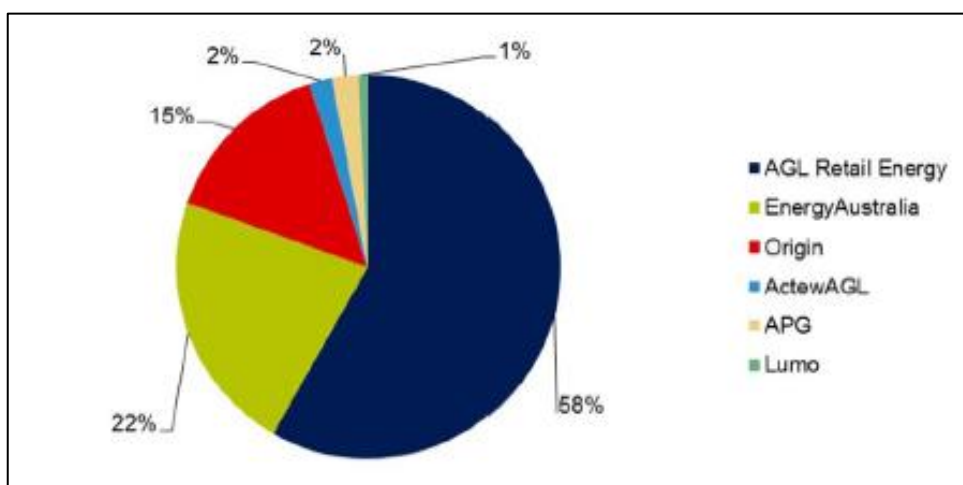
¹⁶ NSW Parliamentary Research Service, *Gas: resources, industry structure and domestic reservation policies*, Briefing Paper No. 12/2013, p. 16.

quarter of residential and small business customers who are charged by the Standard Retailers in NSW. These are AGL, ActewAGL, and Origin Energy.¹⁷

2.19 After July 2013, IPART’s role in licensing, enforcement and compliance of energy retail suppliers was transferred to the Australian Energy Regulator (AER).¹⁸

2.20 As at 30 June 2013, 20 companies held gas retail supplier licences in NSW. Seven of these supplied gas to small retail customers in 2012-13. AGL, Origin Energy and EnergyAustralia hold 95% of the retail residential market, and 98% of the non-residential market in NSW. The following figure shows the individual gas retail suppliers’ share of the residential and non-residential small retail market.¹⁹

Figure 5: NSW residential and non-residential gas retail market at 30 June 2013



Regulatory framework

2.21 The downstream sector is regulated under both National and State legislation. The NSW Parliamentary Research Service has summarised the functions and responsibilities of bodies that play a key role in the regulation of gas in the eastern market:

- **Policy direction:** the Council of Australian Governments Standing Council on Energy (SCER) is the energy market governance body responsible for developing and administering the legislative framework and providing policy direction.

¹⁷ IPART, *Changes in regulated retail gas prices from 1 July 2014*, June 2014, p. 1.
<www.ipart.nsw.gov.au/Home/Industries/Gas/Reviews/Retail_Pricing/Changes_in_regulated_gas_retail_prices_from_1_July_2014/10_Jun_2014_-_Final_Report/Final_Report_-_Changes_in_regulated_retail_gas_prices_from_1_July_2014_-_June_2014>

¹⁸ Historically the States and Territories have been responsible for regulating retail energy licenses. However, since the National Energy Customer Framework was established, the various State-based retail regimes are being transferred to a single National framework. Once a jurisdiction adopts the National Energy Retail Law and National Energy Retail Rules, the AER becomes responsible for licensing, compliance and enforcement activities. NSW adopted the package of legislation in April 2013. See: IPART, *Customer service performance of gas retail suppliers 1 July 2008 – 30 June 2013*, December 2013, Figure 2.1, p. 4.

<http://www.ipart.nsw.gov.au/Home/Industries/Gas/Licensing/Performance_Statistics/Information_Paper_-_Customer_service_performance_of_gas_retail_suppliers_-_1_July_2008_to_30_June_2013>

¹⁹ IPART, *Customer service performance of gas retail suppliers 1 July 2008 – 30 June 2013*, December 2013, Figure 2.1, p. 4.

- **Market development and rule-making:** the Australian Energy Market Commission (AEMC) is responsible for making and amending the National Gas Rules (NGR) and National Energy Retail Rules (NERR), market development, providing advice to SCER and maintaining the gas pipeline scheme register.
- **Pipeline coverage and form of regulation:** the National Competition Council (NCC) makes recommendations to the relevant minister on coverage applications and deciding on the form of regulation to apply to scheme pipelines (i.e. light or full regulation).
- **Economic regulation and enforcement:** the Australian Energy Regulator (AER) is responsible for the economic regulation of scheme pipelines in the eastern and northern markets, monitoring trading activity in both the Declared Wholesale Gas Market (Victoria) (DWGM) and Short Term Trading Markets (STTMs), monitoring compliance with, and investigating breaches of, the NGR and has a range of functions under the NERR.
- **Market operator:** the Australian Energy Market Operator (AEMO) is responsible for a range of functions including operating, administering and improving the effectiveness of the DWGM and the STTMs, operating and maintaining the Gas Bulletin Board (GBB), preparing the Gas Statement of Opportunities (GSOO), providing planning advice in Victoria and being the retail market operator in NSW, ACT, Queensland, South Australia and Victoria.
- **Appeals bodies:** the Australian Competition Tribunal is responsible for conducting merit based reviews on reviewable regulatory decisions under the National Gas Law (NGL) and NGR while the Federal Court of Australia is responsible for carrying out judicial reviews.²⁰

Future challenges

- 2.22 Due to a number of factors, the eastern gas market is entering a period of transition. This is due to the following developments:
- gas fields currently in production are reaching the end of their economic life;
 - existing long-term gas supply contracts are expiring; and
 - exports of LNG are expected to commence in 2014.²¹
- 2.23 Research suggests that production in the eastern market will have to treble over the next 3-5 years to satisfy both domestic and LNG export demand.²² The challenges facing NSW are particularly acute.
- 2.24 NSW currently imports over 95% of its gas supply from Victoria, South Australia and Queensland.

²⁰ NSW Parliamentary Research Service, *Gas: resources, industry structure and domestic reservation policies*, Briefing Paper No. 12/2013, pp. 50-51.

²¹ NSW Parliamentary Research Service, *Gas: resources, industry structure and domestic reservation policies*, Briefing Paper No. 12/2013, p. 1.

²² NSW Parliamentary Research Service, *Gas: resources, industry structure and domestic reservation policies*, Briefing Paper No. 12/2013, p. 1.

Chapter Three – Benefits and adequacy of gas transmission and network infrastructure

INTRODUCTION

3.1 This chapter examines the benefits of networked gas to regional NSW, discusses the adequacy of the current gas network and canvasses foreseeable challenges to the supply of gas in NSW.

BENEFITS OF GAS TO REGIONAL NSW

3.2 As stated by NSW Trade and Investment, "...the availability of secure and affordable gas supplies underpins investment, employment and living standards in NSW."²³ This view was reinforced by many other contributors to the inquiry, who highlighted two main benefits for gas networks being extended to regional areas:

- Economic benefits: gas is a cheaper alternative to coal based electricity for residential, commercial and industrial purposes, and with the potential to attract industry and businesses to regional areas; and
- Environmental benefits: gas is a cleaner, more greenhouse efficient fuel.

Economic benefits

3.3 A number of submissions cited numerous economic benefits of expanding the gas network. Upper Lachlan Shire Council considered there should be a universal service obligation to supply gas to rural communities to improve competitiveness in international markets.²⁴

3.4 Central NSW Councils (Centroc) also submitted that expanding downstream gas supply to rural and regional areas of NSW would assist smaller communities to develop greater commercial potential and provide incentives for companies to relocate to country towns.²⁵

3.5 The Hunter Business Chamber stressed that the Hunter is home to some of the largest consumers of gas and electricity and that a secure energy supply was critical for these manufacturers.²⁶

3.6 Armidale Dumeresq Council submitted that the Northern Tablelands does not currently have access to gas, which makes business in Armidale uncompetitive compared to other regional cities.²⁷

²³ Submission 64, NSW Trade and Investment, p. 1.

²⁴ Submission 20, Upper Lachlan Shire Council, p. 3.

²⁵ Submission 28, Central NSW Councils, p. 5.

²⁶ Submission 38, Hunter Business Chamber, p. 2.

Case study: Allshelter Pty Ltd

- 3.7 Allshelter Pty Ltd (Allshelter) is a manufacturing business located in Lake Cargelligo, NSW producing steel framed covered structures. Allshelter employs 17 people in sales, marketing and administration and another 18 in the factory, all of whom are local residents. Allshelter also provides employment opportunities for indigenous people and apprentices, and outsources 23% of its manufacturing to other companies in regional NSW.
- 3.8 The business has grown to a level where there is limited government assistance, resulting in a struggle to remain viable in the marketplace. As it operates in a small town, any closure or relocation can have a significant impact on the local community.
- 3.9 Recently, Allshelter turned down an opportunity to expand its business to include a powder coating operation. Such an expansion would have been a natural progression for the business and alleviated the need to send its powder coating work up to 200 kms away. The absence of natural gas was a factor in the decision not to proceed with the expansion.
- 3.10 Allshelter Pty Ltd submitted:
- ...the lack of piped natural gas in our town precludes both the development of existing businesses and the opportunities for other organisations to relocate here which is very frustrating when we are so close to the main supply line for the whole state.²⁸

Case study: Bega Cheese

- 3.11 Bega Cheese has operated in the Bega Valley since 1899. Its manufacturing and packing facilities produce exports to over 40 countries. Its retail cheeses represent 40% of all cheese products in the Australian supermarket market.
- 3.12 Bega Cheese submitted that energy cost, supply and delivery are significant factors in the operation of its business.²⁹ The company considered that the lack of supply of natural gas to the region has forced businesses to source fuel from more costly options, which, in turn, has placed some businesses at risk.
- 3.13 Bega Cheese stated that it has had an opportunity to expand its operations with the potential to attract investment from Asia, thereby creating employment and other opportunities for the region. According to the company, a development such as this would require a competitive energy source:
- ...there is a significant economic and development opportunity for Bega and the surrounding townships in the path of a natural gas pipeline. There is predominantly an agricultural and tourist based economy in the region but this could change if a pipeline install reduces the cost of energy intensive manufacture.³⁰

²⁷ Submission 3, Armidale Dumeresq Council, p. 1.

²⁸ Submission 19, Allshelter Pty Ltd, p. 1.

²⁹ Submission 62, Bega Cheese, p. 1.

³⁰ Submission 62, Bega Cheese, p. 2.

Environmental benefits

3.14 A number of submissions raised the environmental benefits of expanding the gas network, including Envestra Limited (Envestra), which made the following point:

The ability to have access to cost competitive sources of natural gas not only provides strong support for economic development but plays an important role in Australia's transition to a low carbon economy.³¹

3.15 Similarly, the APA Group espoused the environmental advantages of using natural gas, as opposed to other traditional energy sources:

Whilst natural gas is a fossil fuel, it is more greenhouse efficient than coal or oil, with its emissions intensity being half that of black coal and a third that of brown coal. It is the cleanest burning of all fossil fuels. It is colourless, odourless, and non-toxic. Natural gas is currently the cleanest commercial form of reliable and scalable base-load generation.³²

3.16 As a further environmental benefit argument, Eurobodalla Shire Council emphasised that electricity produces six times the greenhouse gas emissions per unit compared to mains gas.³³

Case study: Eurobodalla Shire Council

3.17 The Eurobodalla Shire is located on the South Coast of NSW. It has a current permanent resident population of approximately 39,000 people, with a projected growth to 50,000 by 2024. In peak periods, the population can grow to 120,000 due to the Shire being a popular holiday destination.³⁴

3.18 The Eastern Gas Pipeline transports gas from Victoria to NSW, with distribution networks delivering gas to the towns of Orbost, Cann River, Bombala, Cooma and Nowra. Towns in Bega Valley, Eurobodalla and Ulladulla currently do not have access to the gas network.

3.19 Eurobodalla Shire Council submitted that natural gas would provide the following benefits to the region:

- reduced domestic heating and cooking costs;
- reduced emissions of pollutants into the atmosphere;
- enhanced energy security; and
- reduced energy costs for the region's numerous restaurants, clubs and pubs, hospitals and aged care facilities, food processors such as abattoirs and dairy factories, and high schools and TAFE colleges.³⁵

³¹ Submission 33, Envestra Limited, p. 1.

³² Submission 35, APA Group, p. 3.

³³ Submission 37, Eurobodalla Shire Council, p. 3.

³⁴ Submission 37, Eurobodalla Shire Council, pp. 1-2.

³⁵ Submission 37, Eurobodalla Shire Council, p. 3.

Committee comment

- 3.20 The Committee acknowledges the arguments advanced in submissions received from individuals, community groups, local governments and businesses across NSW that networked gas will bring wide ranging benefits to the State's regions.
- 3.21 The Committee agrees that gas will improve regional residents' overall standard of living and provide choice in relation to the source and cost of the energy used. The Committee also considers that gas will make regional industries and businesses more competitive and attract new commercial industries to regional areas.
- 3.22 The Committee is aware that there are numerous barriers to extending existing gas networks, particularly to some areas of regional NSW. This is due to factors such as the high costs of constructing network infrastructure and the requirement for network investments to be economically viable.
- 3.23 However, having considered the evidence received, the Committee is of the view that gas should be considered more as an essential service for all NSW residents than has historically been the case. The Committee considers that, wherever practicable, regional areas should be connected to gas in order to improve the standard of living in local communities and to drive regional economic development.
- 3.24 Consequently, the Committee strongly supports strategies to assist the NSW Government in promoting and assisting the expansion of existing gas distribution networks. This particularly applies in regional areas that would derive wide-ranging benefits from being connected to gas.
- 3.25 Chapters Five and Six will examine measures to promote and support the expansion of existing distribution networks.

ADEQUACY OF EXISTING TRANSMISSION INFRASTRUCTURE AND DISTRIBUTION NETWORKS

- 3.26 As outlined in Chapter Two, the gas supply chain comprises a number of different systems. The upstream sector involves the exploration and production of gas and the downstream sector involves the processing and distribution of gas.
- 3.27 Transmission pipelines generally transport gas to either the entry point of the distribution network or to large industrial users directly connected to the transmission system. Distribution networks supply gas, under lower pressures, to residential customers and small to medium sized industrial users.³⁶

Transmission infrastructure

- 3.28 Overall, inquiry evidence indicated that there is sufficient current capacity in transmission pipelines to meet demand. However, most stakeholders highlighted that the adequacy of transmission infrastructure must be viewed in light of the

³⁶ NSW Parliamentary Research Service, *Gas: resources, industry structure and domestic reservation policies*, Briefing Paper No. 12/2013, p. 11.

foreseeable changes to the supply of gas in NSW. The challenges facing the NSW gas market are discussed in Chapter Two.

- 3.29 NSW Trade and Investment indicated that, under current arrangements, gas supply in NSW is able to be provided from multiple gas fields via three separate routes. However, NSW Trade and Investment also acknowledged that this does not guarantee security of supply. The loss of one production facility or pipeline will place stress on the others, particularly during winter peak periods.³⁷
- 3.30 The Australian Pipeline Industry Association (APIA) submitted that the current capacity of the transmission pipeline is more than adequate to meet current and future needs. APIA explained that the combined capacity of the three pipelines importing gas into NSW is 800 terajoules per day, with a current winter peak day demand of 600 terajoules per day.³⁸
- 3.31 APIA reiterated this view in evidence to the Committee:
- As we made the point in our submission, currently New South Wales is very adequately served by gas transmission pipelines. The capacity of installed pipelines is currently greater than the typical demand that is experienced in New South Wales, even on a peak day. We have got the Moomba to Sydney pipeline bringing in gas from South Australia and Queensland at the moment and the Eastern Gas pipeline bringing north from Victoria as the two primary sources of gas coming into New South Wales and also the Victorian interconnect coming through Wagga Wagga and the Australian Capital Territory, brings in another regional amount of gas.³⁹
- 3.32 The Industry Association also submitted that demand will not outgrow the capacity of the current transmission pipelines, but rather the source of gas will change and potentially put additional stress on a single transmission pipeline.⁴⁰
- 3.33 AGL Energy Limited (AGL) also considered that the current level of infrastructure was adequate to meet existing and near term future demand in metropolitan and regional centres. However, AGL suggested that if current sources of gas are unavailable, existing infrastructure will be under pressure during peak winter demand periods.⁴¹
- 3.34 The Australian Petroleum Production & Exploration Association (APPEA) submitted that NSW has a sophisticated pipeline structure, which has served the State well to date. However, APPEA highlighted that delivering gas to consumers through pipelines was costly and that there were inherent risks in terms of the reliability of the pipelines. The Association stated that the only way to limit such risks is to have a diversity of gas supply through pipelines and a reliable indigenous supply of gas.⁴²

³⁷ Submission 64, NSW Trade and Investment, pp. 3, 9.

³⁸ Submission 36, Australian Pipeline Industry Association, p. 2.

³⁹ Mr Steven Davies, Policy Advisor, Australian Pipeline Industry Association, Transcript of evidence, 18 November 2013, p. 12.

⁴⁰ Mr Steven Davies, Policy Advisor, Australian Pipeline Industry Association, Transcript of evidence, 18 November 2013, p. 12.

⁴¹ Submission 57, AGL Energy Limited, pp. 1-2.

⁴² Submission 47, Australian Petroleum Production & Exploration Association, p. 3.

3.35 In contrasting evidence, Metgasco submitted that, compared to the USA, the pipeline system in NSW was not well developed. In order to increase transmission capacity, Metgasco proposed that a new transmission pipeline, the Lions Way Pipeline, be constructed in the north east of NSW, which the NSW Government could promote through:

- direct investment and ownership (approximate cost \$150 million); or
- facilitation of the pipeline's construction (approximate cost \$3 million).⁴³

3.36 Metgasco stated that there were precedents for government involvement in such projects, such as the Longford to Melbourne gas pipeline in Victoria and the Moomba to Sydney pipeline.⁴⁴

3.37 The Hunter Business Chamber supported a detailed analysis to determine whether current transmission and distribution systems were adequate for the State's requirements:

If increased supply for Queensland is sourced from Moomba what limits does this place on NSW's own provisions from the Moomba line? If as such, NSW had to source all its supply from Victoria through the Eastern Gas Pipeline how will sufficient capacity be guaranteed to supply and meet needs of both Victoria and NSW? In order for this to occur, significant investment would be required to upgrade and expand the gas processing capacity with typically long development lead times associated.⁴⁵

3.38 The NSW Business Chamber also raised the importance of clarifying NSW gas supply sources, to improve decision making regarding infrastructure adequacy and capacity.⁴⁶

Distribution networks

3.39 Inquiry evidence regarding gas distribution network adequacy mirrors the situation applying to pipeline adequacy. That is, distribution networks were described as being adequate for current and future increased demand for gas.

3.40 Envestra explained to the Committee that their gas networks currently supply gas to approximately 50,000 customers in southern NSW, with the two largest networks in Albury and Wagga Wagga.⁴⁷

3.41 Envestra stated that there were no capacity constraints that would prevent it adding more customer connections to their existing networks and that it would particularly like to work with the NSW Government to increase domestic and industrial connections to its Wagga Wagga network.⁴⁸

⁴³ Submission 60, Metgasco Ltd, pp. 2-3.

⁴⁴ Submission 60, Metgasco Ltd, p. 3.

⁴⁵ Submission 38, Hunter Business Chamber, p. 3.

⁴⁶ Submission 46, NSW Business Chamber, p. 1.

⁴⁷ Submission 33, Envestra Limited, p. 3.

⁴⁸ Submission 33, Envestra Limited, p. 3.

- 3.42 Similarly, the Energy Networks Association (ENA) commented that there is ample capacity within existing gas distribution networks to meet current and future increased gas demand. Citing the examples of Jemena Gas Network's (JGN) and Envestra's distribution networks, ENA submitted that much of NSW's distribution infrastructure is, in fact, under-utilised:

According to JGN [Jemena Gas Networks] there are more than 300,000 homes in NSW that are passed by a gas main and are not connected to natural gas. Envestra, in its submission to this Inquiry, has observed that average capacity utilisation on part of its network is as low as 20 per cent.⁴⁹

Committee comment

- 3.43 Based on the evidence received, there seems to be sufficient existing capacity in transmission pipeline infrastructure and distribution networks to meet current and near future demand for gas. This is, however, predicated on historical sources of gas supply remaining the same.
- 3.44 The Committee notes that current contracts for gas supply to NSW are coming to an end, which appears to have caused some uncertainty among the gas transmission and distribution sectors about the volume of gas that is anticipated to flow through future NSW pipelines. Should current gas sourced from Moomba be diverted to Queensland, this will reduce gas flow on the Moomba to Sydney pipeline and put pressure on the Eastern Gas Pipeline.
- 3.45 An accurate assessment of whether existing transmission and distribution pipelines are adequate to meet all future circumstances is therefore difficult to precisely determine.
- 3.46 A more realistic assessment of the adequacy of existing gas transmission and distribution infrastructure for the future is therefore required. In Chapter Five the Committee makes a recommendation in relation to establishing a funding scheme to support the expansion of gas networks to identified areas in regional NSW. To accompany this recommendation, the Committee recommends that the Minister for Resources and Energy undertakes a detailed analysis of the adequacy of existing transmission and distribution pipelines to accommodate changes in the supply of, and demand for gas.

⁴⁹ Submission 45, Energy Networks Association, p. 2.

STATE AND REGIONAL DEVELOPMENT COMMITTEE
BENEFITS AND ADEQUACY OF GAS TRANSMISSION AND NETWORK INFRASTRUCTURE

Chapter Four – Barriers to gas network expansion

INTRODUCTION

4.1 This chapter discusses the main barriers to expanding NSW’s existing gas networks identified by the inquiry. The barriers comprise a set of interconnected factors involving cost, demand and the regulatory environment governing the operation of the gas industry.

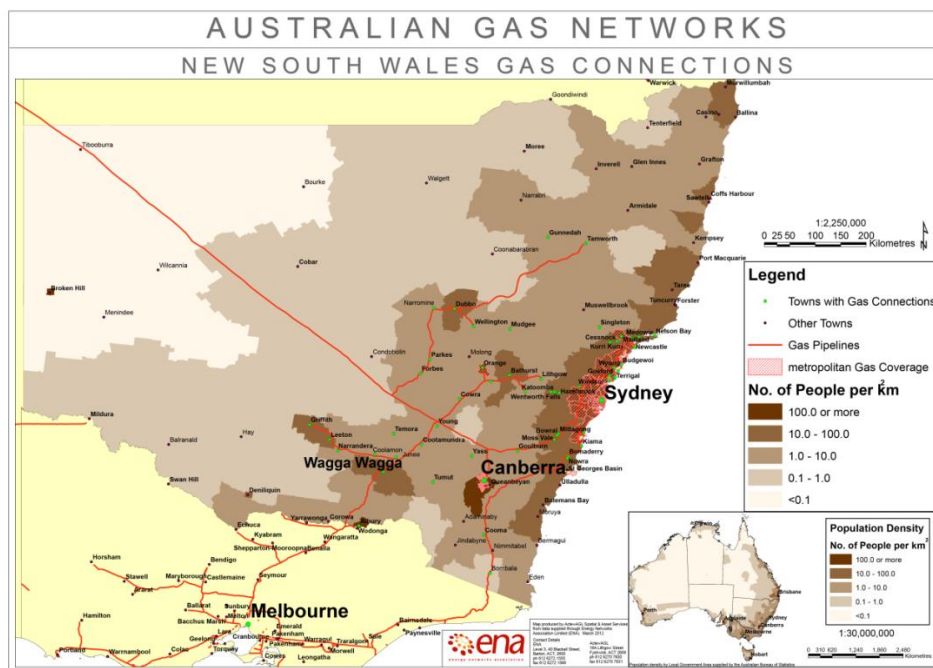
BACKGROUND

4.2 In its submission, NSW Trade and Investment submitted that large parts of NSW were not connected to a gas network and constructing new distribution infrastructure was often not cost effective for small consumers:

Significant portions of northern NSW do not have access to reticulated gas. Further, within the established gas distribution areas in NSW, some streets do not have the gas pipes required to supply customers on that street. Installing these pipes will be expensive and, in many cases, not economic for most small consumers.⁵⁰

4.3 The Energy Networks Association (ENA) also highlighted the fact that there are numerous regions with relatively high populations across NSW that are not currently connected to gas. The following figure illustrates the current gas connections across the State.⁵¹

Figure 6: NSW gas connections



⁵⁰ Submission 64, NSW Trade and Investment, p. 3.

⁵¹ Submission 45, Energy Networks Association, pp. 2, 5.

- 4.4 The ENA submitted that proximity to existing pipelines determines the likelihood of establishment of a gas network. On this basis, the ENA argued that it is not economically viable to connect all regional and metropolitan areas of NSW to a gas network.⁵²
- 4.5 Similarly, Metgasco stated that it is not economically viable to connect all areas of the State to a gas network, due to factors such as geography and terrain.⁵³

Regulatory framework

- 4.6 Gas distribution networks typically involve large capital projects and significant infrastructure, which can give rise to a natural monopoly industry structure. As such, most networks in Australia are regulated, to ensure that gas can be distributed on reasonable terms and conditions.⁵⁴
- 4.7 The National Gas Law (NGL) and National Gas Rules (NGR) provide the regulatory framework for the gas pipeline sector. In NSW, the Australian Energy Regulator (AER) is the regulator under this framework.
- 4.8 Under the NGL and NGR, a pipeline provider must periodically submit an access arrangement to the AER for approval. An access arrangement sets out the terms and conditions under which third parties, such as gas retailers, can use a pipeline. The access arrangement must specify at least one reference service sought after by a significant part of the market.⁵⁵
- 4.9 NSW Trade and Investment described the existing regulatory framework and commented on how it impacts upon investment in pipeline infrastructure:
- gas distribution network prices are regulated by the AER to protect customers from paying unreasonable costs for inappropriate or unnecessary network expansions;
 - in order to obtain a reasonable return on a new expansion or extension, the network owner must demonstrate to the AER that the extension is financially viable;
 - network owners demonstrate financial viability by determining whether revenue over 20 years will cover upfront capital costs. If this is unlikely, the network operator can seek contributions from customers to make up the shortfall; and
 - given that the expected gas usage of a residential customer is small and unlikely to demonstrate the financial viability of an extension, it is desirable

⁵² Submission 45, Energy Networks Association, p. 3.

⁵³ Submission 60, Metgasco Ltd, p. 2.

⁵⁴ Australian Energy Regulator, *State of the Energy Market 2009*, p. 280.

<www.aer.gov.au/sites/default/files/State%20of%20the%20energy%20market%202009%C3%A2%E2%82%AC%E2%80%9Dcomplete%20report.pdf>

⁵⁵ Australian Energy Regulator, *State of the Energy Market 2013*, p. 111.

<www.aer.gov.au/sites/default/files/Complete%20report%20A4.pdf>

that a significant number of households and/or industrial users seek connection to the gas network.⁵⁶

- 4.10 NSW Trade and Investment highlighted recent changes to Chapter 12A of the NGR which are designed to assist customers to connect to a gas network. The changes enable retail gas customers to engage directly with gas network operators about options for getting connected.
- 4.11 However, NSW Trade and Investment commented that the regulatory changes did little to address the issue of capital expenditure needed to expand networks to new locations and the provision of infrastructure for unserved areas within existing networks.⁵⁷

NETWORK BARRIERS

- 4.12 Inquiry evidence raised the following factors as barriers to expanding existing gas networks to regional NSW, and other areas not currently connected to gas:
- the cost of infrastructure;
 - falling demand for gas;
 - regulatory requirements; and
 - uncertainty over NSW's future gas supply.

Infrastructure costs

- 4.13 Envestra Limited (Envestra) commented that the most considerable barrier to expanding its own gas networks are the costs associated with building new network infrastructure. According to Envestra, these costs are exacerbated in many regional areas due to the distances from existing pipeline infrastructure.⁵⁸
- 4.14 Envestra stated that investor concerns over forecast increases in the price of wholesale gas and the trend for declining consumption of gas were further barriers to network expansion.⁵⁹
- 4.15 Greater Taree City Council also submitted that cost is the main barrier to expanding gas distribution networks. The Council argued that such costs could, however, be mitigated by use of incentives or subsidies.⁶⁰
- 4.16 Similarly, the ENA submitted that the primary barrier to expanding the gas network is economic viability. The Association argued that a combination of infrastructure costs and the requirement to demonstrate sufficient demand has restricted gas distributors' capacity to expand their networks:

⁵⁶ Submission 64, NSW Trade and Investment, pp. 10-11.

⁵⁷ Submission 64, NSW Trade and Investment, p. 12.

⁵⁸ Submission 33, Envestra Limited, p. 1.

⁵⁹ Submission 33, Envestra Limited, p. 2.

⁶⁰ Submission 6, Greater Taree City Council, p. 1.

For an expansion of a distribution network to be economic it must have a foundation load over which to amortise the costs. Where there are significant pipeline construction costs involved, it is often the case that demand from industrial users of gas or gas fired electricity generation is necessary to underpin the economic feasibility of an expansion to the gas network construction. Where the network expansion may be incremental and largely based on residential customers, such as urban “infill”, there must be sufficient demand for gas, with hot water or heating often required in addition to cooktop gas use.⁶¹

4.17 The ENA suggested that the NSW Government could act to address these barriers by:

- streamlining regulatory processes (e.g. local government approval and permit processes), which would reduce development costs and improve the economic viability of network expansions; and
- implementing policies to improve the cost-competitiveness of gas appliances.⁶²

4.18 Jemena Gas Networks (JGN) argued that high capital costs are an important consideration when evaluating opportunities to expand existing networks. JGN noted that the following cost factors constitute significant barriers to network expansion:

- high restoration costs, depending on the terrain and impact on existing infrastructure already in place such as driveways, footpaths and roads. This can be particularly costly in some local government areas where councils perform the restoration works themselves, or due to the cost of compliance with authority obligations around traffic control, road opening permits and/or rail crossings;
- low housing density, which leads to a higher cost of extending mains per house; and
- adverse construction conditions such as rock terrain.⁶³

Demand

4.19 APA Group cited the falling average gas usage per household as a significant disincentive for operators to expand existing gas networks to regional areas of NSW:

...APA sees many growth opportunities for greater natural gas supply to NSW regional centres, although a number of challenges are present. In particular, gas reticulation projects are currently threatened by falling average gas usage per household...⁶⁴

4.20 Reasons advanced by the APA Group for falling gas usage were that, unlike electricity, customers can choose whether to connect to gas. Additionally:

⁶¹ Submission 45, Energy Networks Association, p 3

⁶² Submission 45, Energy Networks Association, p 3

⁶³ Submission 55, Jemena Gas Networks, p. 6.

⁶⁴ Submission 35, APA Group, p. 1.

- gas appliances are becoming more efficient;
- building standards are improving, making buildings more energy efficient;
- there is strong competition from non-gas appliances;
- energy retailers are indifferent to promoting gas usage over electricity; and
- government policies favour the gas industry's competitors and diminish gas competitiveness.⁶⁵

4.21 JGN similarly referred to low consumer demand for gas and its negative impact on the economic viability of expanding existing gas networks. The Networks organisation suggested that a reason for reduced small customer demand was the high costs to households of converting from electricity to gas appliances:

...a key determinant of how much gas a household will use is largely driven by the cost of converting from electricity to gas appliances which can be a significant purchase...In practice, a customer will often decide that it is more convenient to replace like with like in order to minimise the time without the use of the appliance. This is particularly the case where the customer's premises are not already connected to gas given the time required to arrange and complete a new service connection. These factors mean that there are relatively high barriers to converting "electricity" households to gas in NSW.⁶⁶

4.22 In addition, JGN referred to the long timeframe for many consumers to convert to gas appliances. This means that network operators and gas retailers are not guaranteed immediate connections when extending networks to new areas, creating a disincentive for companies to grow their networks:

I guess the risk for us in going to a town that might have a low base load is that a lot of money could be spent taking the network to a particular regional town, but we are not guaranteed of any actual connections.

It might be quite some years until people in the town make that decision to connect to gas. The decision to connect to gas is often driven by the appliance life cycle. People will substitute an electric appliance for a gas appliance; so really you are waiting for breakdowns. Someone generally will not replace their electric hot water system until it breaks down and if gas is available then they might make that decision to switch to gas. It is the same for heating and the same for cooking. But that might only be several years after the network goes to their town, so we are not guaranteed connections immediately.⁶⁷

Regulatory requirements

4.23 Envestra described the current regulatory environment governing the gas distribution industry as being overly prescriptive. It further suggested that the consequential costs of complying with the regulations were a barrier to expanding gas networks:

⁶⁵ Submission 35, APA Group, p. 8.

⁶⁶ Submission 55, Jemena Gas Networks, p. 7.

⁶⁷ Ms Danielle Beinart, Manager, Gas Network Development, Jemena Gas Networks, Transcript of evidence, 18 November 2013, p. 5.

A further factor impeding the expansion of downstream gas distribution networks is the prescriptive regulatory framework and its application. Most downstream natural gas networks are subject to full regulation, regardless of the size of the network and energy market dynamics. The prescriptive nature of full regulation is costly to administer, which costs are largely independent of network size. These costs represent a further barrier to extending gas networks.⁶⁸

4.24 According to Envestra, the Australian Energy Regulator (AER) currently assumes that the risks associated with natural gas networks are the same as those of electricity networks. Conversely, Envestra argued that because gas is a discretionary fuel source, it is a high-risk industry compared to electricity and therefore should be regulated by taking its inherent higher risks into account.⁶⁹

4.25 APA Group cited the cost of complying with both National and State-based regulatory obligations as being a disincentive to expand its gas networks. The Group explained that the combined compliance costs are, by necessity, reflected in higher tariffs paid by consumers, which, in turn, drives down demand and makes network expansion less economically viable.⁷⁰

4.26 NSW Trade and Investment commented that certain rules contained in the NGR can operate to make gas network investments economically imprudent, thereby discouraging further investment in expanding networks. As an illustration, NSW Trade and Investment referred to a rule which states that network assets can be removed from a network operator's revenue earning asset base if, for whatever reason, the volume of gas flowing through the network drops:

The NGR also contain redundant investment provisions which do not exist in the equivalent electricity rules. Under Rule 85 an investment that may have been appropriate at the time it was made can be excluded from the revenue generating network assets if the gas flows drop for any reason, even decades later.

Such an event has occurred in the year 2000 when the Eastern Gas Pipeline commenced delivering gas to Wollongong, the demand on the Jemena gas network pipeline supplying the area from Wilton dropped significantly. The economic regulator at the time reduced the revenue Jemena could get from the pipeline because the pipeline was now redundant even though it was appropriately sized when built.⁷¹

4.27 NSW Trade and Investment also noted similar arrangements under the NGR relating to speculative investments in network expansions. In this case, investments that are undertaken without the certainty of customers connecting, are excluded from the revenue that a network operator can recover from customers. While acknowledging that Rule 84 permits speculative investments to be made but not recovered until they can be justified as efficient, it also noted that the AER has yet to approve any proposal for such an investment.⁷²

⁶⁸ Submission 33, Envestra Limited, p. 4.

⁶⁹ Submission 33, Envestra Limited, p. 4.

⁷⁰ Submission 35, APA Group, p. 9.

⁷¹ Submission 64, NSW Trade and Investment, p. 13.

⁷² Submission 64, NSW Trade and Investment, p. 13.

- 4.28 The Energy Retailers Association of Australia (ERAA) submitted that the NGR requirement for network operators to invest in network expansions only where they are determined to be economically viable, is a disincentive for network operators to expand their distribution networks:

This requirement prevents network operators from extending the network and rolling its incremental costs into the asset base, via subsidies from existing customers.⁷³

Case study: Braidwood, Palerang Local Government Area

- 4.29 Palerang Council illustrated the logistical and regulatory barriers faced by ActewAGL, as the company considers whether to connect Braidwood, a town in the Palerang Local Government Area, to its gas network.
- 4.30 By way of background, Braidwood is in ActewAGL's Standard Supplier's Supply District, though pipelines are not currently in place to supply gas to the town.
- 4.31 ActewAGL has indicated to the Council that, while it is interested in supplying gas to Braidwood, the cost of constructing the infrastructure is excessive compared to the population to be serviced. Consequently, in order to make the investment viable, ActewAGL would need to charge above the regulated maximum rate for the network, which would require the approval of the Independent Pricing and Regulatory Tribunal (IPART).⁷⁴
- 4.32 ActewAGL advised Palerang Council that the difficult and costly logistics of extending its network to Braidwood, coupled with the time and financial investment required to undertake an IPART approval process, were substantial barriers to Braidwood being connected to a gas supply.⁷⁵
- 4.33 Palerang Council summed up the factors which, in its view, have combined to restrict the extension of ActewAGL's network to Braidwood and their impacts on the communities that live in the Local Government Area:

...the pricing system, regulatory framework and lack of infrastructure are impeding development of the network, and the delivery of a gas supply to Braidwood. Suppliers who are interested in servicing an area are impeded as they struggle to demonstrate financial viability of developing infrastructure. Subsequently, rural communities are disadvantaged.⁷⁶

Gas supply

- 4.34 Submissions to the inquiry raised the issue of uncertainty of NSW's future gas supply as another substantial barrier to expanding the State's gas networks. The submissions reveal both support for the development of indigenous natural gas

⁷³ Submission 42, Energy Retailers Association of Australia, p. 3.

⁷⁴ Submission 34, Palerang Council, p. 1.

⁷⁵ Submission 34, Palerang Council, p. 1.

⁷⁶ Submission 34, Palerang Council, p. 1.

reserves, which are classified as unconventional sources of gas, and also opposition.⁷⁷

Committee comment

- 4.35 The Committee notes the evidence describing the main barriers to extending existing gas networks to areas that are not currently connected to gas, particularly rural and regional areas of NSW. The Committee understands that the high cost of constructing gas distribution infrastructure is a significant barrier, and that this is often more acute in rural and regional areas, due to factors such as geographic distance from transmission pipelines and adverse construction conditions (e.g. working with difficult rock terrain).
- 4.36 The Committee also notes evidence that declining demand for gas from small customers, due to factors such as the cost of conversion from electrical to gas appliances, acts as a disincentive for network operators to invest in, and expand their networks.
- 4.37 Further, the Committee considers that certain aspects of the regulatory scheme governing gas network operations and the financial costs of complying with certain regulatory requirements are yet another barrier to expanding existing gas networks.
- 4.38 Measures to overcome the identified barriers will be examined in greater detail in the following chapters of the report.
- 4.39 The Committee acknowledges the submissions received regarding gas supply and the development of NSW's gas resources.
- 4.40 Whilst these submissions are noted, as previously discussed, the explicit focus of this inquiry is on the downstream sector and for this reason the Committee will not be making recommendations in relation to the development of NSW's indigenous gas resources, which is an upstream supply issue. The Committee considers these matters to be outside the scope of the inquiry.

⁷⁷ See Submission 38, Hunter Business Chamber, p. 3; Submission 39, Energy Australia, p. 1; Submission 44, Lock the Gate Alliance, p. 4; Submission 46, NSW Business Chamber, p. 2; Submission 49, The Australia Institute, p. 2; Submission 57, AGL Energy Limited, p. 4; and Submission 59, Santos Limited, p. 2.

Chapter Five – Gas for the Bush

INTRODUCTION

- 5.1 This chapter discusses government financial support for gas distribution network expansion to regional areas of NSW, referencing the Victorian Government’s Energy for the Regions program (Energy for the Regions) as a working example of such a funding scheme. The chapter examines the feasibility of introducing a similar scheme in NSW and its projected benefits.

VICTORIA’S ENERGY FOR THE REGIONS PROGRAM

- 5.2 The NSW Trade and Investment submission noted the long duration of State ownership of gas industries in Victoria and South Australia. Despite their current private ownership, the Victorian Government still supports the expansion of the State’s gas networks, partly as a result of the long-standing expectation from Victorian residents that gas is an essential service.⁷⁸
- 5.3 The Victorian Government’s support for regional gas network expansion is most evident in its Energy for the Regions program. Energy for the Regions, launched in December 2012, commits the Victorian Government to a \$100 million rollout of natural gas to communities across regional and rural Victoria.⁷⁹
- 5.4 The Australian Pipeline Industry Association (APIA) considered that Energy for the Regions demonstrates the Victorian Government’s commitment to provide natural gas as a means of sustaining regional economic growth.⁸⁰

Background

- 5.5 Energy for the Regions is funded by the Victorian Government’s Regional Growth Fund (RGF)⁸¹ and implemented by Regional Development Victoria (RDV)⁸². The program seeks to drive new investment in regional communities through new industry and business opportunities.⁸³
- 5.6 According to RDV, Energy for the Regions has three broad initiatives:
- to enable the delivery of natural gas to the following 14 priority towns: Avoca, Bannockburn, Heathcote, Huntly, Invermay, Koo Wee Rup, Lakes Entrance, Maldon, Marong, Orbost, Terang, Wandong–Heathcote Junction, Warburton and Winchelsea (see Figure 7);

⁷⁸ Submission 64, NSW Trade and Investment, p. 14.

⁷⁹ Submission 64, NSW Trade and Investment, p. 14.

⁸⁰ Australian Pipeline Industry Association, Answers to questions taken on notice and supplementary question, 5 December 2013, p. 4.

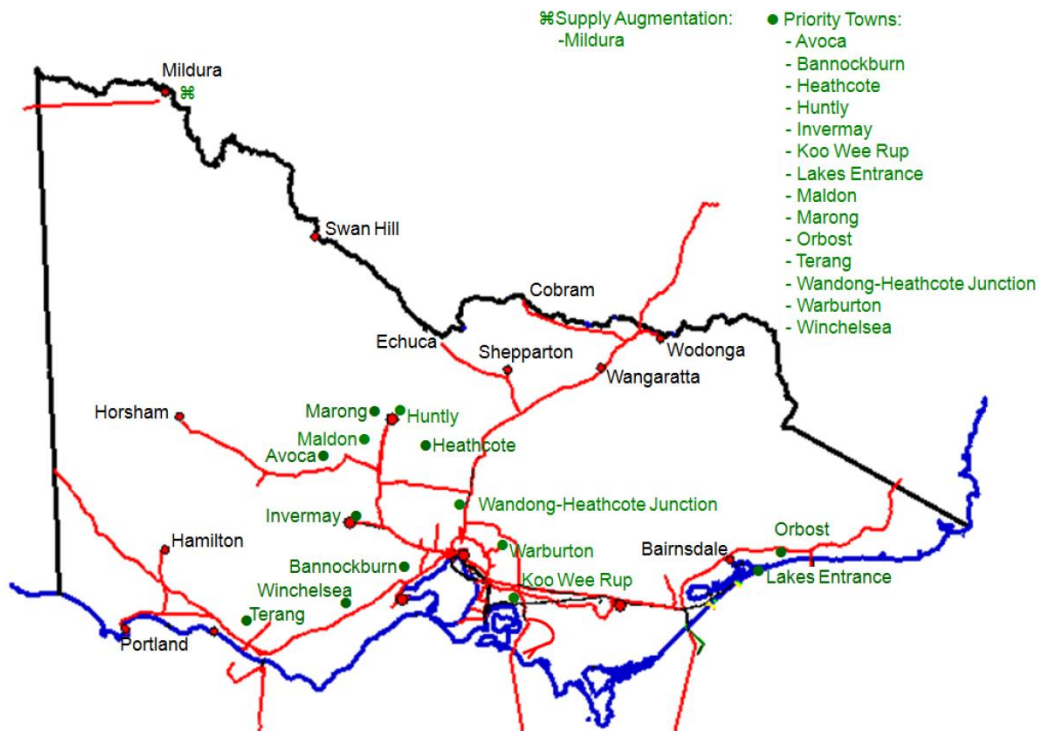
⁸¹ The Regional Growth Fund is an allocation of \$1 billion over eight years to drive regional development across Victoria. See <<http://www.rdv.vic.gov.au/regional-growth-fund>>.

⁸² Regional Development Victoria was created as a dedicated statutory body to facilitate economic, infrastructure and community development to support growth in regional Victoria. See <<http://www.rdv.vic.gov.au/home>>.

⁸³ Regional Development Victoria, viewed 27 October 2014, <<http://www.rdv.vic.gov.au/infrastructure-programs/energy-for-the-regions>>.

- to invest in a major upgrade of Mildura's natural gas supply capacity; and
- to invest up to \$1 million to fund a feasibility study on the provision of natural gas to Victorian communities along the Murray River.⁸⁴

Figure 7: Energy for the Regions priority towns⁸⁵



- 5.7 The program commenced in March 2011, with RDV initially adopting a two stage procurement model:
- a direct negotiation process with the State's three incumbent gas distribution businesses to capture early opportunities; and
 - a centralised tender process to supply the balance of towns.

Direct negotiation process

At the close of the direct negotiation stage, RDV had received bids for eight of the towns identified by the program. However, the majority of these bids were not accepted due to high costs and other factors. The bids for Huntly and Mildura were assessed as being feasible and these became the first towns funded by the program.

In summary, the direct negotiation process did not elicit a strong response, due to the current economic climate and a perceived insufficient return on

⁸⁴ Regional Development Victoria, viewed 27 October 2014, <<http://www.rdv.vic.gov.au/infrastructure-programs/energy-for-the-regions>>.

⁸⁵ Regional Development Victoria, *Energy for the Regions* presentation, 16 June 2014, p. 4.

investment. This prompted a review of the direct negotiation process, with RDV subsequently revising its implementation strategy.

Broadened implementation strategy

As a result of the foregoing review, RDV broadened its approach to implementing the program, with the objective of:

- favourably changing the market dynamics with Victorian gas distribution businesses by introducing (real or perceived) competitive tension into the process; and
- reducing the capacity of gas distributors to bid an unrealistic cost, and therefore a higher government contribution.

The revised approach had three overlapping work streams:

- offering a fixed subsidy or 'bounty' to gas distribution businesses for the connection of all remaining priority towns using conventional pipeline technology;
- the design of a tender for development of a delivered gas capacity for regional Victoria utilising compressed natural gas (CNG) or liquefied natural gas (LNG) facilities; and
- the facilitation and establishment of local reticulation networks in towns where gas distributors are not willing to deliver gas to those communities via conventional pipeline technology.⁸⁶

5.8 On 30 September 2014, the Victorian Government indicated that the program was fully committed, with RDV having finalised agreements to supply natural gas to the 14 priority towns identified, as well as an additional four towns along the Murray River.⁸⁷

5.9 Under the agreements:

- seven towns will be connected to Victoria's existing natural gas network under agreements with gas distribution businesses⁸⁸; and
- eleven towns will be connected using a CNG delivery solution⁸⁹.

⁸⁶ Regional Development Victoria, *Energy for the Regions* presentation, 16 June 2014, pp. 6-10.

⁸⁷ The Hon. Peter Ryan MP, Deputy Premier of Victoria, Minister for State Development, and Minister for Regional and Rural Development, *Regional Victoria will be cooking with natural gas*, media release, 30 September 2014, viewed 27 October 2014 <<http://www.premier.vic.gov.au/media-centre/media-releases/11097-regional-victoria-will-be-cooking-with-natural-gas.html>>.

⁸⁸ The seven towns to be connected via conventional network extensions are: Avoca, Bannockburn, Huntly, Koo Wee Rup, Wandong-Heathcote Junction, Warburton and Winchelsea.

⁸⁹ The 11 towns to be connected via the CNG delivery solution are: Heathcote, Kerang, Lakes Entrance, Orbost, Invermay, Maldon, Marong, Nathalia, Robinvale, Swan Hill and Terang. Regional Development Victoria, viewed 27 October 2014, <<http://www.rdv.vic.gov.au/infrastructure-programs/energy-for-the-regions>>.

- 5.10 The CNG delivery solution involves compressing natural gas in compressor or 'mother stations' and trucking the compressed gas to the outskirts of each town to 'daughter stations'. The gas is then stored, depressurised and reticulated via pipes to homes at a comparable price to gas supplied through conventional distribution networks.⁹⁰
- 5.11 According to the Victorian Government, the CNG delivery solution overcomes the prohibitive costs of constructing long distance pipes to connect distribution networks to gas sources. At the same time, it provides equivalent levels of capacity, reliability, safety and convenience to conventional networked gas.⁹¹

GOVERNMENT FUNDING TO SUPPORT THE EXPANSION OF GAS NETWORKS TO REGIONAL AREAS

- 5.12 Numerous submissions cited the successful outcomes of Energy for the Regions and recommended that the NSW Government adopts a similar program for expansion of gas networks to regional areas of NSW.
- 5.13 The Australian Energy Regulator (AER) explained that lower profitability for network operator expansion into rural and regional areas was due to factors such as higher operating and capital costs. For this reason, it was suggested that operators could consider entering into partnerships, where the costs of extending a network to a specified region was partly funded by the government. AER noted that Energy for the Regions was an example of such a partnership, which had successfully driven the expansion of gas networks to towns in regional Victoria.⁹²
- 5.14 The Energy Retailers Association of Australia (ERAA) commented that the National Gas Rules (NGR) requirement to only invest in economically feasible new gas network infrastructure represents a significant barrier to extending networks to regional areas.⁹³ The Association submitted that the NSW Government could overcome this barrier by issuing grants to network operators. This would contribute to the costs of expanding networks to regional NSW, along similar lines as Energy for the Regions.⁹⁴
- 5.15 AGL Energy Limited (AGL) also made reference to the NGR requirement for network operators to extend their networks only when economically viable, thereby constituting a substantial barrier to the expansion of networks to regional NSW. AGL submitted that the NSW Government, as a matter of policy, could follow the Victorian Government's lead by providing grants to help defray the costs of expansion to less densely populated areas of the State.⁹⁵

⁹⁰ The Hon. Peter Ryan MP, *Regional Victoria will be cooking with natural gas*, media release, 30 September 2014, viewed 27 October 2014 <<http://www.premier.vic.gov.au/media-centre/media-releases/11097-regional-victoria-will-be-cooking-with-natural-gas.html>>

⁹¹ The Hon. Peter Ryan MP, *Regional Victoria will be cooking with natural gas*, media release, 30 September 2014, viewed 27 October 2014 <<http://www.premier.vic.gov.au/media-centre/media-releases/11097-regional-victoria-will-be-cooking-with-natural-gas.html>>

⁹² Australian Energy Regulator, *Answers to questions on notice*, 21 February 2014, p. 4.

⁹³ Submission 42, Energy Retailers Association of Australia, p. 3.

⁹⁴ Submission 42, Energy Retailers Association of Australia, p. 3.

⁹⁵ Submission 57, AGL Energy Limited, p. 7.

- 5.16 In its submission, APA Group suggested that the NSW Government consider introducing an equivalent scheme to Energy for the Regions. Thereby, network operators would compete for projects to develop gas networks in specified regional areas, with public funds made available to the winning tender. According to APA Group, public funding of this kind is justified due to the wide ranging economic benefits to regional communities.⁹⁶
- 5.17 Jemena Gas Networks (JGN) also focussed on the benefits of such a proposed scheme. JGN submitted that the publicly funded provision of gas to regional NSW would have the effect of improving the competitiveness and liveability of regional towns, as well as creating jobs and new career opportunities for local residents.⁹⁷
- 5.18 The APIA Policy Advisor also expressed support for an Energy for the Regions equivalent NSW scheme and cited the benefits derived from a program facilitating the development of gas networks:
- We would support those kinds of programs being rolled out where appropriate. It provides gas to new regions, which does provide multiple benefits, not just those additional opportunities to use gas, particularly for residential, space heating and others but it does give industries in those towns opportunities to explore the use of gas for their requirements, which can lower their energy costs as well.⁹⁸
- 5.19 According to the submission from Envestra, Energy for the Regions has successfully driven the expansion of gas networks to regional towns in Victoria and promoted sustainable economic growth. Envestra has entered into previous agreements with RDV to expand its own networks to connect eight towns under the Natural Gas Extension Program (NGEP).⁹⁹ It is currently in advanced negotiations with RDV to expand its networks to a number of priority towns under Energy for the Regions.¹⁰⁰
- 5.20 Moreover, Envestra claimed that without the assistance of the NGEP and Energy for the Regions, it would not be able to connect regional towns to its networks in most cases. This was because the majority of investments in infrastructure to connect regional and less densely populated areas would fail the NGR's economic feasibility test, and would therefore not be permitted.¹⁰¹
- 5.21 The Envestra Group Manager for Regulation described how Energy for the Regions had facilitated a number of Envestra's projects to connect regional Victorian towns to its networks, and cited the positive impact this has already had:

⁹⁶ Submission 35, APA Group, p. 3.

⁹⁷ Submission 55, Jemena Gas Networks, pp. 3-4. See also, Jemena Gas Networks, Answers to questions taken on notice and supplementary question, 5 December 2013, p. 3.

⁹⁸ Mr Steven Davies, Policy Advisor, Australian Pipeline Industry Association, Transcript of evidence, 18 November 2014, p. 14.

⁹⁹ The Natural Gas Extension Program was the Victorian Government's 2003 precursor to Energy for the Regions, which delivered natural gas to 34 regional communities at a cost of \$70 million.

¹⁰⁰ Submission 33, Envestra, pp. 6-7.

¹⁰¹ Submission 33, Envestra, p. 7.

...without that scheme we would not be in the discussions we are now. Like you said, we are in discussions with three of the 12 priority towns. In one case, a project which is already advanced, we have been approved and the project is commencing in Mildura. It has already attracted a fruit producer to locate within our boundary to take advantage of the lower cost fuel in natural gas. So we are already seeing a benefit in the one project that has kicked off.¹⁰²

- 5.22 The Envestra representative continued by explaining how Energy for the Regions improves the living standards of regional communities and was a proactive initiative by the Victorian Government:

The interesting thing with Victoria is it is heavily Government driven, it is driven by the Government and it is also driven by the Government because of the benefits that flow through to industry. It is a really pro-economic development initiative of the Government, but it is also pro-choice for the Government. I think there is an environmental initiative there too because obviously natural gas is a low carbon intensive fossil fuel. It is the lowest carbon intensive, so it has got an environmental slant, which is arguably increasingly important now with recent changes at a federal level with climate policy.¹⁰³

Committee comment

- 5.23 The Committee acknowledges the Victorian Government's commitment to improving the standard of living and economic circumstances of its regional communities, through initiatives such as the Regional Growth Fund, the NGEP and Energy for the Regions.
- 5.24 The Committee notes the evident success of Energy for the Regions and its precursor, the NGEP, in facilitating the expansion of gas networks to regional Victoria.
- 5.25 In connecting a number of regional towns to gas under Energy for the Regions, the Committee acknowledges the Victorian Government's use of an innovative and cost-effective gas distribution alternative to conventional network pipelines, the CNG delivery solution.
- 5.26 As previously stated, the Committee considers that gas should be supported as an essential service for all NSW communities, irrespective of geographic location. On this basis, the Committee considers that the NSW Government has a role in making the economics of network expansion viable in regional areas.
- 5.27 The Committee was persuaded by the weight of evidence suggesting that an equivalent scheme to Energy for the Regions would improve the living standards of regional residents and drive economic growth in regional NSW.
- 5.28 For these reasons, the Committee recommends that the NSW Government considers establishing a funding scheme to support the expansion of gas networks to identified areas in regional NSW, and that the funding scheme

¹⁰² Mr Craig de Laine, Group Manager - Regulation, Envestra Limited, Transcript of evidence, 11 November 2013, p. 30.

¹⁰³ Mr Craig de Laine, Group Manager - Regulation, Envestra Limited, Transcript of evidence, 11 November 2013, p. 30.

consider the feasibility of cost effective gas distribution alternatives, such as the CNG delivery solution, when developing projects.

- 5.29 In the event that a funding scheme is established, the Committee notes that its country members have proposed that it be called 'Gas for the Bush'.

RECOMMENDATION 1

Gas for the Bush. The Committee recommends that the NSW Government considers establishing a funding scheme to support the expansion of gas networks to identified areas in regional NSW. The funding scheme should consider the feasibility of cost effective gas distribution alternatives, such as the CNG delivery solution, when developing projects.

- 5.30 The Committee also suggests that the proposed scheme be established in consultation with the Victorian Government, in order to benefit from lessons learned in the development and administration of Energy for the Regions and the NGEP.

- 5.31 The Committee considers that to assist in identifying regional areas and to provide an accurate assessment of the adequacy of existing transmission and distribution pipelines, the Minister for Resources and Energy undertake a detailed analysis of the adequacy of existing transmission and distribution infrastructure to accommodate anticipated changes in the supply of, and demand for gas.

RECOMMENDATION 2

The Committee recommends that the Minister for Resources and Energy undertakes a detailed analysis of the adequacy of existing transmission and distribution infrastructure to accommodate anticipated changes in the supply of, and demand for gas.

STATE AND REGIONAL DEVELOPMENT COMMITTEE
GAS FOR THE BUSH

Chapter Six – Additional measures to encourage gas network expansion

INTRODUCTION

6.1 Inquiry participants discussed a range of proactive measures to encourage the expansion of existing gas networks, particularly to regional areas of NSW. In its submission, Envestra Limited (Envestra) argued:

...such policy responses are justified for a range of reasons, including ensuring equal access to services for the community regardless of their location, encouraging lower cost energy supplies for consumers, promoting economic growth, ensuring better utilisation of available infrastructure, ensuring better use of available natural resources, reducing peak demand (and hence costly investment) on the electricity network and moving towards a lower carbon intensive economy.¹⁰⁴

6.2 This chapter examines the following policy measures to promote gas network expansion:

- financial measures, including subsidies;
- regulatory measures; and
- discrete policy measures.

6.3 The chapter concludes by considering liquefied petroleum gas (LPG) as an alternative fuel source for areas not already connected to a gas network.

FINANCIAL MEASURES

6.4 A number of regional councils have suggested that the NSW Government provide financial incentives or subsidies to gas network operators for the specific purpose of encouraging the extension of networks to rural and regional areas of NSW.

6.5 Greater Taree City Council, for example, recommended that financial incentives be used to encourage gas providers to invest in connections beyond metropolitan areas. The Council submitted that an incentive or subsidy scheme would have the additional effect of decreasing network costs, which would then lower the costs to consumers, thereby encouraging the uptake of gas as an energy alternative.¹⁰⁵

6.6 Similarly, Upper Lachlan Shire Council called for the NSW Government to provide funding for network infrastructure in regional areas. Such funding would 'close the gap' in instances where network operators are disinclined to extend their networks due to insufficient initial return on network investments.¹⁰⁶

¹⁰⁴ Submission 33, Envestra Limited, p. 8.

¹⁰⁵ Submission 6, Greater Taree City Council, p. 1.

¹⁰⁶ Submission 20, Upper Lachlan Shire Council, p. 3.

- 6.7 Palerang Council also recommended that the NSW Government provide financial incentives for regional gas network extensions to assist network operators, including:
- seed funding for infrastructure development;
 - subsidies to support suppliers to establish pipeline to previously unserved areas; and
 - accelerated depreciation against network infrastructure.¹⁰⁷
- 6.8 Jemena Gas Networks (JGN) proposed a Government incentive scheme to promote the household uptake of gas and thereby encouraging the expansion of the gas network. According to JGN, this could be done via a rebate program to partially subsidise the initial costs of establishing gas infrastructure within existing unit blocks. JGN argued that the rebate would provide body corporates with a good incentive to ‘gas ready’ multi-dwelling buildings and reduce householders’ individual changeover costs.¹⁰⁸

REGULATORY MEASURES

- 6.9 The inquiry heard evidence that making certain changes to the regulatory scheme governing the gas industry would directly or indirectly encourage network operators to extend their existing gas networks.
- 6.10 Envestra submitted that the regulatory framework and its application is “overly prescriptive”, does not take into account the size of networks and energy market dynamics, and is costly to administer. To address these issues Envestra recommended that regulation be removed where it is not warranted, to lower costs to consumers and strengthen incentives to invest in gas networks.¹⁰⁹
- 6.11 In his evidence, the Envestra Group Manager of Regulation, asserted that deregulation of gas networks would reduce the costs of gas for consumers and remove a barrier for network operators to expand their networks.¹¹⁰
- 6.12 ERM Power Limited (ERM Power) similarly stated that the NSW Government should improve existing regulatory and policy settings to minimise the administrative burden, costs and other logistical barriers to network operators seeking to expand their networks. ERM Power suggested that efficiencies could be made, for example, in the existing process for obtaining a pipeline licence and securing easements for the construction of a pipeline.¹¹¹
- 6.13 According to JGN, network operators would also be more likely to expand their networks if the costs of complying with authority obligations and processes, such

¹⁰⁷ Submission 34, Palerang Council, p. 1.

¹⁰⁸ Submission 55, Jemena Gas Networks, p. 3. See also, Jemena Gas Networks, Answers to questions taken on notice and supplementary question, 5 December 2013, p. 2.

¹⁰⁹ Submission 33, Envestra Limited, pp. 4, 7.

¹¹⁰ Mr Craig de Laine, Group Manager – Regulation, Envestra Limited, Transcript of evidence, 18 November 2013, pp. 31-32.

¹¹¹ Submission 40, ERM Power Limited, p. 2.

as those relating to road opening, pavement restorations and rail crossings, were reduced.¹¹² The General Manager, Gas Networks, Commercial, JGN, described its current compliance obligations and the benefits of reduced compliance costs on the company:

The cost of compliance takes a number of forms, whether it be the administrative process and the cost of the compliance with the administrative process in order to go through the permitting process through to any sort of fee that is actually payable for the right to do what we need to do.

An opportunity may exist to see a gas distributor on more equal footing with other statutory utilities that may have some assistance provided to not see the transfer of equity occur the way it does.

It is an option available. It would work to lower costs of connection, which would make more connections viable. We are certainly not complaining about the need to comply with the existing process but it does have a cost and that cost does actually impact on the viability of connections.¹¹³

6.14 NSW Trade and Investment proposed the following changes to the regulatory scheme in order to remove constraints on network operators and to encourage investment in network expansion:

- allowing network operators to recover the efficient cost of network expansions into urban areas where there is only electricity supply;
- removing regulatory penalties related to redundant gas networks where competition exists; and
- restructuring arrangements that allow network operators to recover the cost of complying with legal obligations to encourage more efficient spending.¹¹⁴

6.15 Santos Limited (Santos) espoused a different approach, recommending that the NSW Government put regulatory and bureaucratic measures in place to expedite the development of NSW's domestic natural gas supply, as this would:

- ensure the security of gas supply for downstream customers; and
- facilitate the expansion of distribution networks to regional areas.¹¹⁵

6.16 The Energy Networks Association (ENA) submitted that any proposed changes to the regulatory scheme should not impose licence obligations on network operators to improve regional access to gas networks. The Association suggested

¹¹² Submission 55, Jemena Gas Networks, p. 3. See also, Jemena Gas Networks, Answers to questions take on notice and supplementary question, 5 December 2013, p. 3.

¹¹³ Mr David Musson, General Manager, Gas Networks, Commercial, Jemena Gas Networks, Transcript of evidence, 18 November 2013, p. 4.

¹¹⁴ Submission 65, NSW Trade and Investment, p. 13.

¹¹⁵ Submission 59, Santos Limited, p. 3.

that the uneconomic conditions created by such a licence obligation would result in existing customers being required to subsidise newly connected customers.¹¹⁶

- 6.17 The Committee was also made aware of regulatory measures already in place to encourage the expansion of gas networks. The former Minister for Planning and Infrastructure, and Minister Assisting the Premier on Infrastructure NSW, the Hon. Brad Hazzard MP, submitted that the *State Environmental Planning Policy (Infrastructure) 2007*¹¹⁷ aims to remove regulatory barriers in local planning documents to facilitate the development of gas distribution throughout NSW.¹¹⁸

DISCRETE POLICY MEASURES

- 6.18 Numerous submissions raised a range of discrete policy measures to encourage the expansion of existing gas networks to areas of NSW not connected to gas.
- 6.19 The submission from the ENA recommended that the NSW Government establish a Regional Energy Growth Strategy. This strategy would identify gas network projects that may require Government support to proceed on a commercial basis, where the availability of gas provides a public benefit.¹¹⁹
- 6.20 APA Group also proposed a number of mechanisms to assist the growth of gas networks in NSW. These included the development of building codes that acknowledge the growing role of gas and the early consideration of gas networks in planning processes.¹²⁰
- 6.21 However, the majority of stakeholder evidence in this area focussed on the following strategies:
- encouraging consumer uptake of gas appliances;
 - promoting and marketing gas use; and
 - encouraging large scale gas consumption in regional areas.

Gas appliances

- 6.22 Submissions have called for measures to drive consumer uptake of gas appliances as a means to increase gas use, and thereby drive investment in expanding gas networks.
- 6.23 APA Group suggested that “...judicious and commercially based funding...” to encourage and support gas appliance uptake would be effective in growing the residential, commercial and industrial gas markets, thereby making the extension of networks more viable.¹²¹

¹¹⁶ Submission 45, Energy Networks Association, p. 4.

¹¹⁷ <<http://www.legislation.nsw.gov.au/maintop/view/inforce/epi+641+2007+cd+0+N>>

¹¹⁸ Submission 63, Minister for Planning and Infrastructure, and Minister Assisting the Premier on Infrastructure NSW, p. 1.

¹¹⁹ Submission 45, Energy Networks Association, p. 4.

¹²⁰ Submission 35, APA Group, p. 2.

¹²¹ Submission 35, APA Group, pp. 2-3.

- 6.24 In its submission, Envestra encouraged the NSW Government to implement policies to support the increased use of gas, or at the very least, design an energy policy framework that does not discriminate against gas use. According to Envestra:
- This is crucially important to ensuring that natural gas, which is a discretionary fuel for most applications, remains economic over the long term.¹²²
- 6.25 More specifically, Envestra stated that the NSW Government should implement a subsidy program to assist households with converting appliances to gas. According to Envestra, this should be done in conjunction with the removal of current rebates that favour the installation of solar and heat pump hot water over gas.¹²³
- 6.26 Envestra also considered that implementing the Council of Australian Governments' (COAG) 2010 proposal to phase out emission intensive hot water systems for customers with an available gas main¹²⁴ would be a simple and effective means of encouraging development of gas distribution infrastructure. Again, Envestra recommended that this should be done in conjunction with the removal of rebates that favour the use of other appliances, such as solar and heat pumps.¹²⁵
- 6.27 In a similar vein, JGN expressed its support for the COAG proposal to phase out emission intensive hot water systems. This proposal was made on the basis that it would both increase the connection rates in existing reticulated areas and increase the proportion of network projects that are economically viable. While JGN noted that the COAG policy leaves customers free to replace emission intensive hot water systems with other options such as solar or heat pumps, it expressed confidence that gas could effectively compete with the other options and that the majority of customers would connect to gas over time.¹²⁶
- 6.28 Further, APIA recommended that the NSW Government, through the Office of the Environment and Heritage, encourage consumer uptake of gas appliances by incorporating gas opportunities into its Energy Savings Scheme. This, according to APIA, would help grow the residential, commercial and industrial gas markets in NSW and enable network operators to grow their networks as a result.¹²⁷

Promoting and marketing gas use

- 6.29 The Committee was told that active promotion and marketing of gas as a cheap, efficient and environmentally friendly energy source is an effective way to encourage consumer uptake of gas, and therefore to make expansion of existing gas networks more economically feasible.

¹²² Submission 33, Envestra Limited, p. 7.

¹²³ Submission 33, Envestra Limited, p. 7.

¹²⁴ The NSW Government initially adopted COAG's proposal, but reversed its position in late-2012.

¹²⁵ Submission 33, Envestra Limited, pp. 7-8.

¹²⁶ Submission 55, Jemena Gas Networks, p. 3. See also, Jemena Gas Networks, Answers to questions taken on notice and supplementary question, 5 December 2013, p. 2.

¹²⁷ Australian Pipeline Industry Association, Answers to questions taken on notice and supplementary question, 5 December 2013, pp. 2-3.

6.30 JGN, in particular, advocated the marketing of natural gas and suggested that targeted promotion increases consumer uptake and encourages the growth of existing gas networks. In addition, JGN considered that Government should play a role in promoting the benefits of gas on the basis of its wide ranging benefits to NSW communities:

JGN strongly believes that promotion of natural gas is an important way of increasing uptake and therefore making expansion of the reticulation network more economically viable.

...

JGN would strongly support the Government playing a role in promoting the benefits of natural gas. Promotion of natural gas as a fuel drives both new connections and average residential consumption upwards which makes expansion easier to justify and over time drives average tariffs downwards. This means that natural gas provides societal, economic and environmental benefits to residents of NSW.¹²⁸

6.31 JGN referred to its own 2008 campaign to market gas to NSW as an illustration of the “critical” relationship between a natural gas marketing strategy and the long-term sustainability of gas network operations.¹²⁹ In further elaborating on its wider strategy to grow NSW’s natural gas market, JGN explained that it sought to maximise consumer awareness through:

- promoting the benefits of natural gas directly to end consumers through a generic, network driven natural gas advertising and marketing program;
- developing an interactive website that provides consumers with information about natural gas, natural gas availability, appliances and available deals or specials; and
- integrating advertising, marketing and incentive schemes to drive consumer behaviour by creating a demand for natural gas.¹³⁰

6.32 According to JGN, the campaign was effective in achieving its intended objective and played a significant role in reversing the decline in the number of gas connections to households relying on electricity alone.¹³¹

6.33 In other submissions, such as from the Eurobodalla Shire Council, it was agreed that promotion of gas use would be an effective means of increasing consumer uptake and growing existing networks. Eurobodalla Shire Council further submitted that it would engage local communities and businesses, using its own Economic Development Team expertise. It would promote natural gas as an

¹²⁸ Jemena Gas Networks, Answers to questions taken on notice and supplementary question, 5 December 2013, pp. 3-4.

¹²⁹ Submission 55, Jemena Gas Networks, pp. 1-2.

¹³⁰ Submission 55, Jemena Gas Networks, p. 2.

¹³¹ According to JGN, prior to the campaign there was a decline in gas connections to households of 64% from 1999 to 2007. Following the campaign there was a 51% increase in gas connections from 2008 to 2012. Submission 55, Jemena Gas Networks, p. 2.

alternative energy source if this would encourage network operators to invest in gas pipelines in the Eurobodalla region.¹³²

Encouraging large scale gas consumption in regional NSW

6.34 Inquiry evidence also suggested that the NSW Government could encourage the expansion of distribution networks and transmission pipelines into regional areas by first providing incentives for larger industrial gas users and gas fired power stations to establish operations there.

6.35 APIA stated that the Government should consider ways to incentivise or promote the development of new industrial gas users and gas fired power stations to identified regions. This would serve to facilitate the development of new gas transmission pipelines and distribution networks in those regions.¹³³ APIA submitted that this is because the base loads of residential, commercial and small industrial consumers are not large enough to drive investment in new gas pipelines. Without large scale gas consumption, APIA suggested:

...it is simply uneconomic to build small transmission pipelines of sufficient length to supply many towns that do not have access to natural gas.¹³⁴

6.36 Similarly, Bega Cheese Limited recommended that the Government should promote decentralisation of manufacturing to regional areas in order to drive larger scale gas consumption. It argued that these conditions would make it more economically viable, and therefore more likely, to extend existing gas networks to the regions.¹³⁵

6.37 The submission from ERM Power, highlighted gas fired power generation as an important driver for expanding gas pipelines to regional NSW. ERM Power contended that the establishment of gas fired power stations in regional areas would result in large scale gas consumption. Furthermore, it claimed that it would make investment in gas transmission and distribution infrastructure more commercially viable.¹³⁶

ALTERNATIVES TO NETWORKED GAS

6.38 An alternative approach to encourage the expansion of existing gas networks was advanced by Gas Energy Australia. Its submission suggested that the NSW Government should support the liquefied petroleum gas (LPG) industry as the best means of delivering gas to regional NSW and other areas not already connected.

6.39 Gas Energy Australia stated that the LPG industry's extensive and versatile infrastructure makes it well placed to supply gas to NSW households not connected to a network on the basis that LPG:

- is price competitive and affordable for household consumers;

¹³² Submission 37, Eurobodalla Shire Council, p. 3.

¹³³ Submission 36, Australian Pipeline Industry Association, p. 4.

¹³⁴ Submission 36, Australian Pipeline Industry Association, p. 4.

¹³⁵ Submission 62, Bega Cheese, p. 2.

¹³⁶ Submission 40, ERM Power Limited, p. 2.

- produces low emissions compared to those from natural gas and much lower than those from the average mix of electricity generated in NSW;
- can delay or postpone indefinitely the significant costs of upgrading the electricity grid and reduce strain on the grid during peak load periods; and
- increases the resilience of the energy supply chain, especially in areas affected by emergencies and natural disasters.¹³⁷

6.40 Importantly, Gas Energy Australia made the point that any expansion of natural gas networks involves a very high financial cost, and that using LPG to supply gas to households would circumvent the significant costs of constructing new infrastructure.¹³⁸

6.41 Consequently, Gas Energy Australia recommended that the inquiry acknowledge that the LPG sector currently supplies reliable, low emission and competitively priced gas. Additionally, its submission urges that the NSW Government supports the industry by subsidising LPG consumers for LPG's higher operating costs, rather than by subsidising costly network expansions.¹³⁹

Committee comment

6.42 There are significant barriers to gas network expansion, particularly to rural and regional areas of NSW, as detailed in Chapter Four of the report. The Committee appreciates the usefulness of the suggested solutions to overcome these barriers made by contributors to the inquiry. The benefits of these proposals have been considered in developing the Committee's own recommendations, which are designed to encourage the expansion of gas networks to regional and other areas of NSW not connected to gas.

6.43 The Committee acknowledges evidence suggesting that the NSW Government should create financial incentives, including funding, to make the expansion of gas networks more financially viable for network operators and retailers. Proposals for public funding to develop network infrastructure in regional NSW have been examined in detail in Chapter Five.

6.44 The Committee notes evidence from stakeholders, including NSW Trade and Investment, suggesting that the existing regulatory and policy framework governing the gas network industry may be imposing unnecessary constraints on network operators' capacity to expand their networks. In particular, the Committee is conscious of concerns about additional administrative, financial and logistical barriers imposed by current regulatory and policy settings.

6.45 The Committee is of the view that a regulatory and policy framework for the gas network industry should balance the need to remove unnecessary constraints to network expansion with ensuring that all appropriate safeguards for industry stakeholders (for example, household and industrial consumers) are in place.

¹³⁷ Submission 58, Gas Energy Australia, p. 7.

¹³⁸ Submission 58, Gas Energy Australia, pp. 7-8.

¹³⁹ Submission 58, Gas Energy Australia, p. 8.

- 6.46 The Committee therefore recommends that the Minister for Resources and Energy and the Minister for Trade and Investment conduct a review of the regulatory and policy framework for the gas network industry, with the objective of removing unnecessary barriers to expanding gas networks and ensuring customer connection to gas. In conducting the review, the Ministers should seek input from industry stakeholders, such as network operators, gas retailers and consumer groups.

RECOMMENDATION 3

The Committee recommends that the Minister for Resources and Energy and the Minister for Trade and Investment conduct a review of the regulatory and policy framework for the gas network industry, with the objective of removing unnecessary barriers to expanding networks and ensuring customer connection to gas.

- 6.47 Taking into account the success of JGN's 2008 marketing campaign to promote gas to NSW, the Committee considers that targeted marketing of gas as a cheap, efficient and environmentally friendly energy source is an effective way to encourage consumer uptake of gas. This will assist in growing the local downstream industry and making investments in expanding gas networks more economically viable.
- 6.48 The Committee is of the view that the Government should play a role in promoting the uptake of gas, particularly given the range of benefits the provision of natural gas will bring to NSW communities and industries.
- 6.49 For this reason, the Committee recommends that NSW Trade and Investment develops a marketing strategy, in partnership with network operators and gas retailers, to promote the benefits of natural gas and to encourage consumer uptake of gas.

RECOMMENDATION 4

The Committee recommends that NSW Trade and Investment develops a marketing strategy, in partnership with network operators and gas retailers, to promote the benefits of natural gas and to encourage consumer uptake of gas.

- 6.50 The Committee agrees with suggestions to encourage large scale gas consumers, such as industrial gas users and gas fired power stations, to locate their operations in identified regional areas. This will have the effect of driving investment in new distribution networks and transmission pipelines to those areas.
- 6.51 The Committee understands that the volume of gas consumed by industrial gas users and gas fired power stations makes it more likely that network operators will see a financial return on investments. This will make investment in new network and transmission infrastructure more commercially viable and therefore more likely.
- 6.52 The Committee is particularly supportive of this measure, as it has the potential to direct the expansion of gas networks specifically to regional areas of NSW.

These are the areas that would greatly benefit both from being connected to natural gas and from the economic opportunities that come with new industry development.

- 6.53 The Committee therefore recommends that the Minister for Trade and Investment considers developing an incentive scheme to promote identified regional areas as locations for large scale gas consumers, such as industrial gas users and gas fired power stations.

RECOMMENDATION 5

The Committee recommends that the Minister for Trade and Investment considers developing an incentive scheme to promote identified regional areas as locations for large scale gas consumers, such as industrial gas users and gas fired power stations.

- 6.54 The Committee notes that LPG is a cost-effective means of supplying gas to communities that are not connected to natural gas and acknowledges the numerous benefits of LPG. These include price competitiveness, comparatively low infrastructure costs, low greenhouse emissions, and the capacity to increase the resilience of the energy supply chain, particularly in areas that have been affected by emergencies and natural disasters.
- 6.55 The Committee views the LPG sector as being a valuable complement to the natural gas sector and believes that the LPG industry should be supported by the NSW Government in this complementary role, particularly when servicing regional areas of NSW without access to networked gas.

Chapter Seven – Competition and consumer protection

INTRODUCTION

- 7.1 This chapter deals with competition and consumer protection in the NSW gas market. It examines the effectiveness of competition among downstream gas service providers (network operators and retailers), the alternative energy supply market, measures to encourage competition, and consumer protection.

COMPETITION WITHIN THE DOWNSTREAM GAS MARKET

Competition vs. regulation

- 7.2 As outlined in Chapter Two, the Independent Pricing and Regulatory Tribunal (IPART) is responsible for setting the regulated gas price in NSW. It is significant that IPART considers market competition, not regulation, as the most appropriate means of ensuring that retail gas prices reflect supply cost efficiencies.¹⁴⁰ According to IPART, competitive markets are best placed to manage the challenges and uncertainties inherent in the wholesale gas market.¹⁴¹
- 7.3 IPART's view is shared by industry stakeholders and the NSW Government (the Government). NSW Trade and Investment submitted that the Government is committed to ensuring that real market pressures are effective in keeping prices low across State and Territory borders, and that a true and competitive market exists for wholesale gas supply.¹⁴²

Current effectiveness of competition

- 7.4 The Government, industry bodies and IPART agreed that there is sufficient competition in the NSW gas market to ensure adequate gas pricing and acceptable retail service provision for customers. This was reinforced by IPART's 2013 review of regulated retail gas prices in NSW.
- 7.5 In the review, IPART stated that current competition in the gas retail sector provides appropriate protections to customers, as well as offering more choice, better price and improved service outcomes. IPART went on to suggest that when there is effective competition in a market, there is no need for formal price regulation.¹⁴³
- 7.6 AGL Energy submitted that competition in NSW's downstream gas market is robust and effective, and noted that this view was supported by a recent

¹⁴⁰ Submission 14, Independent Pricing and Regulatory Tribunal, p. 2.

¹⁴¹ Submission 14, Independent Pricing and Regulatory Tribunal, p. 2.

¹⁴² Submission 64, NSW Trade and Investment, p. 3.

¹⁴³ Independent Pricing and Regulatory Tribunal, Answers to questions on notice, 18 February 2014, p. 2.

Australian Energy Market Commission (AEMC) review of competition in the electricity and natural gas markets in NSW.¹⁴⁴

- 7.7 Both the Australian Petroleum Production and Exploration Association and EnergyAustralia referred to the AEMC's review, in arguing for the benefits of market deregulation and competition in the electricity and gas markets for small customers.¹⁴⁵
- 7.8 Whereas the Australian Petroleum Production and Exploration Association stated that the NSW downstream gas market is reasonably competitive, due to factors such as the number and diversity of retailers providing services to gas customers, the AER submitted that direct competition in the gas network sector is virtually non-existent because of the sector's natural monopoly characteristics.¹⁴⁶
- 7.9 The Policy Advisor for the Australian Pipeline Industry Association explained that, by their very nature, the services provided by network operators do not lend themselves to direct competition:
- When it comes to distribution networks, it is very hard to have a perfectly competitive environment. Each town or city can only have...it makes a lot of sense to have just the one distribution network within the town. Jemena Gas Networks is in Sydney and in other parts of the State. I know Envestra Limited and a couple of other companies have smaller regional centres.
- You cannot really say that distribution networks are a competitive environment or that they should be a competitive environment. They are overseen by the Australian Energy Regulator to ensure that the tariffs they charge are appropriate.¹⁴⁷
- 7.10 According to IPART, effective competition in the retail gas market does not have a direct influence on distribution network pricing. This is because distribution networks are monopoly businesses (within their area) and prices are subject to economic regulation by the AER. Therefore, the regulatory framework surrounding network prices will be the most important factor driving prices down to efficient levels.¹⁴⁸

Issues with competition

- 7.11 The Public Interest Advocacy Centre (PIAC) considered that consumers would not benefit from price deregulation of the gas market, due to the absence of effective competition.¹⁴⁹ The Centre submitted that the low levels of gas required by smaller customers may prevent new suppliers from entering the market.¹⁵⁰

¹⁴⁴ Submission 57, AGL Energy Limited, p. 4; See also, Australian Energy Market Commission, *Review of Competition in the Retail Electricity and Natural Gas Markets in New South Wales*, October 2013, viewed 20 October 2014, <<http://www.aemc.gov.au/getattachment/634b1137-4b95-433e-9926-0066eee018f7/Final-Report.aspx>>.

¹⁴⁵ Submission 39, EnergyAustralia, p. 9; Submission 47, Australian Petroleum Production and Exploration Association, p. 7.

¹⁴⁶ Submission 47, Australian Petroleum Production and Exploration Association, p. 7; Australian Energy Regulator, Answers to questions on notice, 21 February 2014, p 3.

¹⁴⁷ Mr Steven Davies, Policy Advisor, Australian Pipeline Industry Association, Transcript of evidence, 18 November 2013, p. 14.

¹⁴⁸ Independent Pricing and Regulatory Tribunal, Answers to questions on notice, 18 February 2014, p. 1.

¹⁴⁹ Submission 10, Public Interest Advocacy Centre, p. 6.

¹⁵⁰ Submission 10, Public Interest Advocacy Centre, p. 10.

Furthermore, the high concentration of market share involving three retailers will give the retailers concerned a great deal of power to set retail gas prices in an unregulated market, resulting in customers paying more for their gas.¹⁵¹

- 7.12 From a consumer perspective, Mrs Bhupinder Barr noted that there is little competition in the gas retail market in Sydney, with AGL the only retailer.¹⁵² This 'low to non-existent' level of retail competition is justification for maintaining a regulated gas market, according to PIAC.¹⁵³
- 7.13 This view was also supported by the Hunter Business Chamber. The Chamber highlighted the security and supply risk and the risk of higher prices due to monopolies of distribution networks and transmission pipelines and claimed it will lead to a single source and supplier scenario, such as that referred to by Mrs Barr.¹⁵⁴
- 7.14 Santos submitted that the likely decrease in upstream gas supply from the Cooper Basin and Queensland will result in a lessening of competition in the downstream market, due to fewer wholesale gas choices. As a result, wholesale customers (energy retailers and large industrial customers) will be exposed to higher prices, which will be passed on to downstream customers.¹⁵⁵

COMPETITION FROM OTHER ENERGY SOURCES

- 7.15 Inquiry participants submitted that competition from the wider energy supply market had the capacity to deliver benefits to gas consumers.¹⁵⁶ For example, NSW Trade and Investment stated that competition between electricity and gas networks for supply of hot water and energy for cooking, and heating was an important factor in maintaining downward pressure on consumer costs.¹⁵⁷
- 7.16 The Commercial Group Manager from Envestra Limited (Envestra), explained that, ultimately, gas retailers are in competition with electricity for market share and it is this additional competition which ensures competitive prices and effective consumer protections:

We are in vigorous competition with electricity to get customers and that is our driver in terms of increasing higher volumes...It is against our interest to do anything but lower prices to consumers. That is the protection they have.¹⁵⁸

¹⁵¹ Submission 10, Public Interest Advocacy Centre, p. 12.

¹⁵² Submission 11, Mrs Bhupinder Barr, p. 1.

¹⁵³ Submission 10, Public Interest Advocacy Centre, pp. 25-27.

¹⁵⁴ Submission 38, Hunter Business Chamber, p. 3.

¹⁵⁵ Submission 59, Santos Limited, pp. 25-26.

¹⁵⁶ Submission 64, NSW Trade and Investment, p. 14; Submission 47, Australian Petroleum Production and Exploration Association, p. 7.

¹⁵⁷ Submission 64, NSW Trade and Investment, p. 14.

¹⁵⁸ Mr Craig de Laine, Group Manager – Commercial, Envestra Limited, Transcript of evidence, 18 November 2013, pp. 32-33.

MEASURES TO ENCOURAGE INCREASED COMPETITION

Regulatory measures

- 7.17 Network operators, retailers and industry bodies all expressed their support for the full deregulation of the NSW retail gas market as a means of encouraging competition. In addition, they argued that prices should be set as low as sustainable, while also enabling businesses to make an appropriate return.¹⁵⁹
- 7.18 IPART submitted that it was not aware of any regulatory barriers restricting competition in the retail gas market, but noted the AEMC's findings that there were some barriers for new entrants to the market stemming from problems in accessing gas supply and pipeline capacity with a small customer base.¹⁶⁰
- 7.19 The NSW Business Chamber submitted that the Standing Council on Energy and Resources (SCER) should continue to advocate for greater price transparency in the wholesale gas market. According to the Chamber, this may overcome the current convention of long-term gas contracts preventing price transparency and disadvantaging consumers who are not able to make informed choices regarding optimal prices and services.¹⁶¹
- 7.20 A similar argument was advanced by PIAC, which suggested that accessible, accurate and timely information about energy prices is crucial to create a competitive energy retail market to benefit consumers.¹⁶² This view was reinforced by Centroc, which submitted that current available pricing information is difficult for consumers to comprehend, limiting informed choice decisions about suppliers.¹⁶³ These concerns are addressed later in the chapter.

Other mechanisms

- 7.21 APA Group argued that while competition exists for gas network providers from grid electricity, policy settings favouring the electricity market create an uneven playing field. APA Group considered that more effective levels of competition could be achieved if State and Federal Governments chose to encourage greater and fairer competition, by providing rebates for gas appliances in the same way as rebates are provided for solar and heat pumps.¹⁶⁴
- 7.22 Greater Taree City Council also stated that financial incentives or subsidies may encourage more than one provider to connect to rural areas, thereby providing market competition and potentially driving down the cost of distribution for consumers.¹⁶⁵ This is partly addressed in Chapter Five, which discusses the Victorian Government's Energy for the Regions Program.

¹⁵⁹ Submission 42, Energy Retailers Association of Australia, p. 42; Submission 48, Origin Energy, p. 2; Submission 57, AGL Energy Limited, p. 7; Submission 61, Energy Supply Association of Australia, p. 5.

¹⁶⁰ Independent Pricing and Regulatory Tribunal, Answers to questions on notice, 18 February 2014, p. 2.

¹⁶¹ Submission 46, NSW Business Chamber, p. 3.

¹⁶² Submission 10, Public Interest Advocacy Centre, p. 24.

¹⁶³ Submission 28, Central NSW Councils (Centroc), p. 6.

¹⁶⁴ Submission 35, APA Group, p. 3, p. 11.

¹⁶⁵ Submission 6, Greater Taree City Council, p. 1.

PROTECTIONS FOR GAS CONSUMERS

Existing protections

- 7.23 IPART and the Energy Retailers Association of Australia considered that the existing level of competition in the downstream gas market provided adequate safeguards and protections for gas consumers.¹⁶⁶
- 7.24 In support of this position, the Australian Petroleum and Exploration Association noted IPART's report on the *Review of Regulated Retail Prices and Charges for Gas – June 2013*. The report stated that competition in the market is now effective enough to provide sufficient protection to customers, as well as offering more choice and better price and service outcomes.¹⁶⁷
- 7.25 NSW Trade and Investment stated that, as gas network prices are regulated by the AER, customers only pay for the efficient costs of reasonable investment in, and operation of, the distribution network. In order to obtain a reasonable return on a new capital expansion or extension, the network owner must demonstrate to the AER that the extension is financially viable. This demonstration helps the AER to protect customers from paying for inappropriate or unnecessary network expansions or extensions.¹⁶⁸
- 7.26 Origin Energy submitted that distribution networks, being natural monopoly assets, should continue to be regulated by AER in order to ensure transparency and certainty around the price and non-price terms and conditions for access to the networks, and therefore to ensure fair access to distribution networks for retailers and end users.¹⁶⁹
- 7.27 Envestra further noted that consumer ombudsman schemes operate in all relevant jurisdictions, giving consumers an avenue to resolve disputes with retailers and distributors.¹⁷⁰
- 7.28 In its submission, PIAC stressed that if price regulation were to be removed in NSW, retailers should continue to be subject to strong regulation in other areas of service provision.¹⁷¹

Protections in the LPG market

- 7.29 According to Gas Energy Australia, the LPG industry is working with NSW Trade and Investment to develop a consumer protection framework for LPG household consumers. This is similar to protections that apply to electricity and natural gas household consumers.¹⁷²

¹⁶⁶ Submission 14, Independent Pricing and Regulatory Tribunal, p. 2; Submission 39, Energy Retailers Association of Australia, p. 2.

¹⁶⁷ Submission 47, Australian Petroleum and Exploration Association, p. 7.

¹⁶⁸ Submission 64, NSW Trade and Investment, p. 10.

¹⁶⁹ Submission 48, Origin Energy, pp. 2-3.

¹⁷⁰ Submission 33, Envestra Limited, p. 6.

¹⁷¹ Submission 10, Public Interest Advocacy Centre, pp. 12-13.

¹⁷² Submission 58, Gas Energy Australia, p. 6.

National Energy Consumer Framework

- 7.30 APA Group, AGL Energy and the Energy Retailers Association of Australia considered that consumers will benefit from the introduction of the National Consumer Energy Framework (NECF) in NSW.¹⁷³ The NECF is designed to offer greater consumer protection and information, by requiring retailers to publish notice of their standing offer prices one month in advance and provide customers with point of sale information on prices, as well as details of terms and conditions.¹⁷⁴
- 7.31 AGL Energy stated that the NECF provides a comprehensive consumer protection framework for a deregulated energy market. The NECF provides a higher level of access to gas supply, with customers able to access a competitive market offer from any retailer; a standing offer from their existing retailer; or a regulated offer from the local retailer. In contrast, pre-NECF customers could only access specific consumer protections if they reverted to a regulated offer with the local gas retailer.¹⁷⁵

Committee comment

- 7.32 Evidence received by the Committee supports the claim that sufficient levels of competition exist for network operators and retailers in the NSW downstream gas market. The Committee considers that, although gas networks are natural monopolies, competitive pressures provide adequate protection within an effective regulatory framework. The Committee views the combination of market competition and the regulatory framework as sufficient to ensure appropriate customer prices for gas, the provision of satisfactory services, and sufficient consumer protections.
- 7.33 Customer benefits that derive from internal competition between downstream operators are reinforced by competition for market share within the wider energy sector. The Committee agrees that competition from other energy markets, such as electricity, will help to ensure that gas prices remain competitive and gas customers are well serviced.
- 7.34 The Committee notes that the introduction of the NCEF will provide NSW gas customers with greater consumer protections and information that will enable them to make more informed decisions about market offers.
- 7.35 With respect to the NSW gas market, the Committee is satisfied that there is sufficient competition within the existing regulatory framework to provide adequate protection for the State's gas customers. Greater competition and consumer choice is generally supported by the Committee.
- 7.36 The Committee also notes that there exists in regional NSW smaller, closed networks that may not be competitive simply because of their limited scale. Expanding the number of gas customers in NSW would certainly not be detrimental to competition.

¹⁷³ Submission 35, APA Group, p. 12; Submission 57, AGL Energy Limited, p. 6; Submission 39, Energy Retailers Association of Australia, p. 2.

¹⁷⁴ Submission 39, Energy Retailers Association of Australia, p. 2.

¹⁷⁵ Submission 57, AGL Energy Limited, p. 6.

Appendix One – List of submissions

1	Name suppressed
2	Mr C T Barry QC
3	Armidale Dumaresq Council
4	Tweed Shire Council
5	Mrs Jann Zurcher
6	Greater Taree City Council
7	Cabonne Council
8	Dungog Shire Council
9	Mrs Colleen Tobler
10	Public Interest Advocacy Centre
11	Mrs Bhupinder Barr
12	Regal Electro
13	Mr Les Walsh
14	Independent Pricing and Regulatory Tribunal (IPART)
15	Felton Industries Pty Ltd
16	Parkes Shire Council
17	RD & S Prior Pty Ltd
18	Gosford City Council
19	Allshelter Pty Ltd
20	Upper Lachlan Shire Council
21	Terrappe Group
22	Progress Printing West Pty Ltd
23	Cowra Shire Council
24	Residents of Burrawang
25	Albury City Council
26	Mr & Mrs N J & J E Rutherford
27	Name suppressed
28	Central NSW Councils (Centroc)
29	Mr & Mrs RC & AA Cummins
30	The Rock Progress Association
31	Confidential

STATE AND REGIONAL DEVELOPMENT COMMITTEE
LIST OF SUBMISSIONS

32	Confidential
33	Envestra Limited
34	Palerang Council
35	APA Group
36	Australian Pipeline Industry Association
37	Eurobodalla Shire Council
38	Hunter Business Chamber
39	EnergyAustralia
40	ERM Power Limited
41	Name suppressed
42	Energy Retailers Association of Australia
43	The Wilderness Society Newcastle
44	Lock The Gate Alliance
45	Energy Networks Association
46	NSW Business Chamber
47	Australian Petroleum Production & Exploration Association
48	Origin Energy Limited
49	The Australia Institute
50	W.J. Dietrich & Co
51	Mr Des Mussing
52	Mr Matthew Ford
53	GE (Australia & New Zealand)
54	Regional Development Australia Riverina NSW
55	Jemena Gas Networks (NSW) Limited
56	Energy Users Association of Australia
57	AGL Energy Limited
58	Gas Energy Australia
59	Santos Ltd
60	Metgasco Limited
61	Energy Supply Association of Australia
62	Bega Cheese Limited
63	Office of the NSW Minister for Planning and Infrastructure
64	NSW Trade and Investment

Appendix Two – List of witnesses

18 November 2013, Macquarie Room, Parliament House

Witness	Position and Organisation
Mr David Musson Ms Danielle Beinart	General Manager Manager, Gas Network Development <i>Jemena Gas Networks (NSW) Ltd</i>
Mr Steven Davies	Policy Advisor <i>Australian Pipeline Industry Association</i>
Mr Craig de Laine Mr Andrew Staniford	Group Manager – Regulation Group Manager – Commercial <i>Envestra Ltd</i>

Appendix Three – Site visits

The Committee undertook two site visits to Camden and Melbourne. The purpose of the visits was to meet with stakeholders and to obtain information on matters relating to the inquiry.

Monday 16 September 2013 **Camden, New South Wales**

On 16 September 2013, four Committee members (Mr Andrew Gee, Mr Robert Furolo, Mr Daryl Maguire and Mr Greg Piper) and two staff members (Ms Rachel Simpson and Mr James Newton) travelled to the AGL Camden Operations Field Office. The Committee met with the following people:

- Ms Sarah McNamara (Head of Government Affairs, AGL)
- Mr Mike Roy (Head of Gas Developments, AGL)
- Mr Paul Ashby (Head of Commercial, AGL)
- Ms Jenny O'Brien (Community Relations Manager – Camden, AGL)
- Mr Aaron Clifton (Environment Manager, AGL)
- Mr Dennis Chia (Operations Manager – Camden, AGL)
- Ms Nicola Fry (Hydrogeologist, AGL)
- Mr Andrew Adorini (Senior Production Engineer, AGL)
- Ms Nicole Baker (Business Partner, People and Culture, AGL)
- Mr Kevin Rofe (Land Compliance Officer, AGL).

Monday 16 June 2014 **Melbourne, Victoria**

On 15 June 2014, all Committee members (Mr Andrew Gee, Mr Adam Marshall, Mr Clayton Barr, The Hon. Robyn Parker and Mr Greg Piper) and two staff members (Mr Rohan Tyler and Ms Emma Wood) travelled to Melbourne. On Monday 16 June 2014, the Committee met with the following people:

- Mr Bahador Tari, Program Director, Energy for the Regions, Regional Development Victoria
- Mr John Hartley, Project Officer, Energy for the Regions, Regional Development Victoria
- Mr Geoff Thorn, Program Manager, Energy for the Regions, SP AusNet
- Mr Brian Gould, Manager, Economic Development Unit, City of Greater Bendigo
- Mr Shaan Kanteti, Senior Project Manager, SP AusNet
- Mr Mark Annetts, Senior Asset Engineer, SP AusNet

VISIT REPORT

MELBOURNE, VICTORIA: ENERGY FOR THE REGIONS PROGRAM

15 - 16 JUNE 2014

On Sunday 15 and Monday 16 June 2014 the State and Regional Development Committee travelled to Melbourne, Victoria, as part of the Committee's inquiry into downstream gas supply and availability in NSW. The purpose of the visit was to obtain information on the Energy for the Regions program, which has been developed and implemented by Regional Development Victoria. Energy for the Regions supports the delivery of reticulated natural gas to regional communities by encouraging investment in the natural gas network. It is funded by the Victorian Government's Regional Growth Fund.

All committee members (Mr Andrew Gee MP, Mr Adam Marshall MP, Mr Clayton Barr MP, The Hon. Robyn Parker MP and Mr Greg Piper MP) and two staff members (Mr Rohan Tyler and Ms Emma Wood) attended the visit.

Meetings

The Committee travelled to Melbourne on the evening of Sunday 15 June 2014.

Monday 16 June 2014

*Regional Development Victoria
Melbourne Office
Level 11, 121 Exhibition Street, Melbourne
9.30 am – 12.00 noon*

The Committee met with the following people at Regional Development Victoria's Melbourne office:

- Mr Bahador Tari, Program Director, Energy for the Regions, Regional Development Victoria
- Mr John Hartley, Project Officer, Energy for the Regions, Regional Development Victoria
- Mr Geoff Thorn, Program Manager, Energy for the Regions, SP AusNet
- Mr Brian Gould, Manager, Economic Development Unit, City of Greater Bendigo

Mr Tari and Mr Hartley briefed the Committee on the Regional Development Victoria's development and implementation of the Energy for the Regions program.

Mr Thorn briefed the Committee on SP AusNet's projects, under the Energy for the Regions program, to develop network infrastructure in Avoca, Bannockburn, Huntly and Winchelsea.

Mr Gould discussed the potential impacts of the Energy for the Regions program on the affected regional communities.

The Committee broke for lunch between 12.00 noon and 1.30 pm.

STATE AND REGIONAL DEVELOPMENT COMMITTEE
SITE VISITS

*SP AusNet gas network assets
Plumpton City Gate, Taylors Road, Caroline Springs
2.30 pm – 3.00 pm*

The Committee met with the following people at Plumpton City Gate:

- Mr John Hartley, Project Officer, Energy for the Regions, Regional Development Victoria
- Mr Geoff Thorn, Program Manager, Energy for the Regions, SP AusNet
- Mr Shaan Kanteti, Senior Project Manager, SP AusNet
- Mr Mark Annetts, Senior Asset Engineer, SP AusNet

The Committee was given a tour of SP AusNet's Plumpton City Gate gas network assets.

The day concluded and the Committee and staff returned to Sydney.

Appendix Four – Table of stakeholder representations for gas connection

The following table indicates the stakeholder representations for gas connection to individual regional areas contained in inquiry submissions.

Region/Town	Submission
Armidale	Submission No 3, Armidale Dumeresq Council
Beacon Hill, Sydney	Submission No 9, Mrs Colleen Tobler
Bega Valley	Submission No 62, Bega Cheese Limited
Braidwood	Submission No 34, Palerang Council
Burrawang	Submission No 2, Mr C T Barry QC
Burrawang	Submission No 24, Residents of Burrawang
Cabonne	Submission No 7, Cabonne Council
Callala Beach	Submission No 27, Name suppressed
Condobolin	Submission No 15, Felton Industries Pty Ltd
Condobolin	Submission No 22, Progress Printing West Pty Ltd
Condobolin	Submission No 50, WJ Dietrich & Co
Crookwell	Submission No 52, Mr Matthew Ford
Crookwell, Upper Lachlan Shire	Submission No 26, Mr & Mrs NJ & JE Rutherford
Crookwell, Upper Lachlan Shire	Submission No 29, Mr and Mrs RC & AA Cummins
Dungog Local Government Area	Submission No 8, Dungog Shire Council
Eurobodalla Local Government Area	Submission No 37, Eurobodalla Shire Council
Katoomba, Blue Mountains	Submission No 51, Mr Des Mussing
Kyogle, Grafton, Casino and Lismore	Submission No 60, Metgasco Limited

STATE AND REGIONAL DEVELOPMENT COMMITTEE
 TABLE OF STAKEHOLDER REPRESENTATIONS FOR GAS CONNECTION

Region/Town	Submission
Lake Cargelligo	Submission No 19, Allshelter Pty Ltd
Lake Cargelligo	Submission No 21, Terrappe Group
Lake Cargelligo and Condobolin	Submission No 12, Regal Electro
Londonderry	Submission No 17, RD & S Prior Pty Ltd
Peak Hill, Parkes Shire	Submission No 16, Parkes Shire Council
Riverina Local Government Area	Submission No 54, Regional Development Australia, Riverina
The Rock, Riverina	Submission No 30, The Rock Progress Association
Tweed Shire, suburbs within the greater Tweed Shire	Submission No 4, Tweed Shire Council
Upper Blue Mountains	Submission No 41, Name suppressed
Wahroonga, Sydney	Submission No 11, Mrs Bhupinder Barr
Wahroonga, Sydney	Submission No 13, Mr Les Walsh
Winmalee, Blue Mountains	Submission No 5, Mrs Jann Zurcher

Appendix Five – Extracts from minutes

Minutes of proceedings of the State and Regional Development Committee (no. 17)

12.00 noon, Tuesday 2 April 2013
Room 1254, Parliament House

Members present

Mr Maguire, and, via teleconference, Mr Gee (Chair), Mr Spence (Deputy Chair), Mr Furolo and Mr Piper.

Apologies

None.

Officers in attendance

Ms Simpson and Mr Tyler.

1. Change in Committee membership

The Committee noted the appointment of new members, Mr Robert Furolo, replacing Ms Burney (discharged), and Mr Gregory Piper, replacing Mr Torbay (resigned), and welcomed the new members to the Committee.

2. Confirmation of minutes

Resolved, on the motion of Mr Maguire:

That the minutes of the meeting no.14, meeting no. 15 and meeting no. 16 be confirmed.

3. ***

4. ***

5. Proposed inquiry into downstream gas supply and availability in NSW

The Committee noted correspondence received from the Hon Chris Hartcher MP, Minister for Resources and Energy, Special Minister of State and Minister for the Central Coast, dated 28 March 2013, referring an inquiry into downstream gas supply and availability in NSW.

(a) Resolved, on the motion of Mr Maguire, seconded by Mr Piper:

That the Committee accept the referral to conduct an inquiry into downstream gas supply and availability in NSW, with the following terms of reference:

That the Committee inquire into and report on downstream gas supply and availability in NSW, and in particular:

- (a) the adequacy of transmission pipeline systems and distribution networks for future downstream gas needs and supply challenges;
- (b) barriers to the expansion of downstream gas supply and distribution networks;
- (c) the effectiveness of competition in the downstream gas market and consumer pricing implications;
- (d) the effectiveness of existing protections for consumers and measures to facilitate access to gas connection and supply; and
- (e) possible measures to encourage gas network operators to extend existing distribution networks, including financial incentives of licence obligations, particularly in regional centres that do not have access to reticulated gas.

For the purposes of this inquiry "downstream" refers to gas operations that take place after exploration, production and processing phases and concerns the delivery of gas to consumers.

(b) Resolved, on the motion of Mr Maguire:

That the Committee:

- write to the Minister for Resources and Energy, Special Minister of State and Minister for the Central Coast informing him of the Committee's decision;
- issue a call for submissions, including advertising and writing to stakeholders, with a closing date of 31 May 2013; and
- obtain quotes for newspaper advertising in NSW regional papers.

6. Adjournment

The meeting concluded and the Committee adjourned at 12.22 pm *sine die*.

Minutes of proceedings of the State and Regional Development Committee (no. 18)

9.00 am, Thursday 9 May 2013
Room 1136, Parliament House

Members present

Mr Gee (Chair), Mr Spence (Deputy Chair), Mr Furolo, Mr Maguire and Mr Piper.

Staff in attendance: Ms Simpson and Mr Tyler.

The Chair opened the meeting at 9.04 am.

1. Confirmation of minutes

Resolved, on the motion of Mr Furolo, seconded by Mr Spence:

That the minutes of the meeting no. 17 be confirmed.

2. ***

3. Inquiry into downstream gas supply and availability in NSW

Submissions

Resolved, on the motion of Mr Furolo, seconded by Mr Spence:

That submissions 1, 2 and 3 be accepted and published on the Committee's website.

Inquiry advertising

The Committee considered a briefing note in relation to the actions undertaken, to date, to advertise the inquiry and options for additional advertising.

Resolved, on the motion of Mr Furolo, seconded by Mr Maguire:

That the Committee seek approval from the Speaker for funding to advertise in the following regional newspapers:

Armidale Express
Ballina Advocate
Boural Highland News
Broken Hill Daily Truth
Dubbo Daily Liberal
Newcastle Herald
Nowra Shoalhaven News
Taree Manning Extra
Wagga Daily Advertiser

Resolved, on the motion of Mr Maguire, seconded by Mr Furolo:

That the Committee extend the closing date for submissions to 21 June 2013.

Correspondence

The Committee noted correspondence tendered by Mr Spence from the Hon. Chris Hartcher MP, Minister for Resources and Energy, Special Minister of State and Minister for the Central Coast, to be distributed to the Committee prior to its next deliberative meeting.

Proposed briefing from Industry and Investment NSW

Resolved, on the motion of Mr Furolo, seconded by Mr Spence:

That the Committee write to the office of the Hon. Chris Hartcher MP, Minister for Resources and Energy, Special Minister of State and Minister for the Central Coast, requesting a briefing on the structure of gas supply networks and distribution processes in NSW, to take place during the Committee's next deliberative meeting on Wednesday 22 May 2013.

4. Adjournment

The meeting concluded and the Committee adjourned at 9.20 am until Wednesday 22 May 2013 at 9.00 am.

Minutes of proceedings of the State and Regional Development Committee (no. 19)

9.00 am, Wednesday 22 May 2013
Room 1136, Parliament House

Members present

Mr Gee (Chair), Mr Spence (Deputy Chair), Mr Furolo, Mr Maguire and Mr Piper.

Staff in attendance: Ms Simpson, Dr Groves and Mr Tyler.

The Chair opened the meeting at 9.00 am.

1. Confirmation of minutes

Resolved, on the motion of Mr Furolo, seconded by Mr Maguire:

That the minutes of the meeting no. 18 be confirmed.

2. Inquiry into downstream gas supply and availability in NSW

Submission

Resolved, on the motion of Mr Piper, seconded by Mr Maguire:

That submission 4 be accepted and published on the Committee's website.

Correspondence

(a) The Committee noted correspondence tendered by Mr Spence on 9 May 2013 from the Hon. Chris Hartcher MP, Minister for Resources and Energy, Special Minister of State and Minister for the Central Coast, in relation to representations made to the Minister by Mr Alby Shultz MP, Federal Member for Hume, and the Premier, on behalf of constituents.

(b) The Committee noted correspondence tendered by Mr Gee from the Hon. Chris Hartcher MP, Minister for Resources and Energy, Special Minister of State and Minister for the Central Coast, dated 14 May 2013, in relation to a presentation made to the Minister by the APA Group, to be distributed to the Committee prior to its next deliberative meeting.

Briefing from Industry and Investment NSW

Resolved, on the motion of Mr Maguire, seconded by Mr Furolo:

That the Committee admit Mr Andrew Lewis, Director, Energy and Networks, Mr Adrian Amey, Manager, Supply and Networks, and Ms Kathy Staggs, Principal Policy Officer, to the deliberative meeting for the purpose of briefing the Committee on the structure of gas supply networks and distribution processes in NSW, as well as other matters that relate to the inquiry into downstream gas supply and availability in NSW.

The briefing commenced at 9.05 am.

Mr Lewis agreed to provide the Committee with a map of existing gas networks and gas transmission pipelines.

Mr Lewis agreed to provide the Committee with a schematic illustrating how gas gets from the production site to the customer, as well as information on where gas comes from and other general information.

Resolved, on the motion of Mr Furolo:

That the Committee undertake a site visit to inspect the Camden gas production facility and certain Jemena assets, to be facilitated by Industry and Investment NSW, at a date and time to be agreed on.

3. Adjournment

The briefing concluded and the Committee adjourned at 9.55 am *sine die*.

Minutes of proceedings of the State and Regional Development Committee (no. 20)

9.00 am, Wednesday 28 August 2013
Room 1254, Parliament House

Members present

Mr Gee (Chair), Mr Spence (Deputy Chair), Mr Furolo, Mr Maguire and Mr Piper.

Staff in attendance: Rachel Simpson, Rohan Tyler and James Newton.

The Chair opened the meeting at 9.00 am.

1. Confirmation of minutes

Resolved, on the motion of Mr Maguire, seconded by Mr Piper: That draft minutes no. 19 be confirmed.

2. ***

Inquiry into downstream gas supply and availability in NSW

3. Correspondence

The Committee noted the following item of correspondence received:

- 3 June 2013 – from the Hon. Chris Hartcher MP, Minister for Resources and Energy, Special Minister of State and Minister for the Central Coast, regarding the Committee's resolution to conduct an inquiry into downstream gas supply and availability in NSW.

4. Submissions

The Committee noted the following submissions received: [See Attachment No 1]

4.1 Public submissions

Resolved, on the motion of Mr Piper, seconded by Mr Maguire: That the Committee authorise publication of Submission Nos 5-8, 10, 12-14, 16-21, 23-26, 28-30, 33-40, 42-43, 45-62, and 64, and that the submissions be placed on the Committee's website.

4.2 Partial publication – names and private addresses withheld

Resolved, on the motion of Mr Furolo, seconded by Mr Spence: That the Committee authorise partial publication of Submission Nos 9, 11, 15, 22, 27, 41, 44, 63, with the exception of the submission author's name or private address, which are to remain confidential, and that the redacted submissions be placed on the Committee's website.

4.3 Confidential submissions

Resolved, on the motion of Mr Maguire, seconded by Mr Piper: That Submission Nos 31 and 32 remain confidential.

5. Committee activity

5.1 Site visit to the Camden gas production facility

Resolved, on the motion of Mr Furolo, seconded by Mr Piper: That the Committee conduct a site visit to the Camden gas production facility on 16 September 2013, with arrangements to be made Industry and Investment NSW staff.

Discussion ensued.

6. ***

7. Adjournment

The Committee adjourned at 9.14 am until Wednesday 11 September 2013 at 9.30 am.

Minutes of proceedings of the State and Regional Development Committee (No. 21)

4.00 pm, Tuesday 10 September 2013
Room 1153, Parliament House

Members present

Mr Gee (Chair), Mr Furolo, Mr Maguire and Mr Piper.

Staff in attendance: Rachel Simpson and James Newton.

The Chair opened the meeting at 4.00 pm.

1. Membership

The Chair reported that Mr Spence had been discharged from the Committee and Mr Marshall had been appointed in his place.

2. Apologies

Mr Marshall.

3. Confirmation of minutes

Resolved, on the motion of Mr Maguire, seconded by Mr Furolo: That draft minutes No. 20 be confirmed.

4. ***

5. ***

6. Visit of inspection – Camden Gas Project.

Committee staff provided Members with an update in relation to arrangements for the visit of inspection to the Camden Gas Project on 16 September 2013.

7. Adjournment

The Committee adjourned at 4.55 pm until Monday 16 September 2013 at 12.00 noon.

Minutes of proceedings of the State and Regional Development Committee (No. 22)

12.00 noon, Monday 16 September 2013
AGL Camden Operations Field Office

Members present

Mr Gee (Chair), Mr Furolo, Mr Maguire and Mr Piper.

Staff in attendance: Rachel Simpson and James Newton.

The Chair opened the meeting at 12.40 pm.

1. Apologies

Mr Marshall.

Inquiry into downstream gas supply and availability in NSW

2. Visit of inspection – Camden Gas Project

The Committee attended the AGL Camden Operations Field Office and was met by:

- Ms Sarah McNamara (Head of Government Affairs, AGL)
- Mr Mike Roy (Head of Gas Developments, AGL)
- Mr Paul Ashby (Head of Commercial, AGL)

- Ms Jenny O'Brien (Community Relations Manager – Camden, AGL)
- Mr Aaron Clifton (Environment Manager, AGL)
- Mr Dennis Chia (Operations Manager – Camden, AGL)
- Ms Nicola Fry (Hydrogeologist, AGL)
- Mr Andrew Adorini (Senior Production Engineer, AGL)
- Ms Nicole Baker (Business Partner, People and Culture, AGL)
- Mr Kevin Rofe (Land Compliance Officer, AGL).

AGL staff provided a briefing on gas production and its operations in Camden.

The Committee visited sites linked to the Camden Gas Project.

3. Adjournment

The Committee adjourned at 4.40 pm *sine die*.

Minutes of proceedings of the State and Regional Development Committee (No. 23)

9.30 am, Wednesday 23 October 2013
Room 1254, Parliament House

Members present

Mr Gee (Chair), Mr Furolo, Mr Maguire, Mr Marshall and Mr Piper.

Staff in attendance: Bjarne Nordin and Rohan Tyler.

The Chair commenced the meeting at 9.30 am.

1. Election of Deputy Chair

The Chair reported that there was a vacancy in the office of Deputy Chair due to Mr Spence being discharged from the Committee on 10 September 2013.

Resolved, on the motion of Mr Piper, seconded by Mr Maguire: That Mr Marshall be elected Deputy Chair of the Committee.

2. Confirmation of minutes

Resolved, on the motion of Mr Piper, seconded by Mr Furolo: That draft minutes No. 21 and draft minutes No. 22 be confirmed.

3. ***

Inquiry into downstream gas supply and availability in NSW

4. Public hearing

Resolved, on the motion of Mr Furolo, seconded by Mr Maguire: That the Committee hold a half-day public hearing on the morning of Monday 18 November 2013 at Parliament House.

Resolved, on the motion of Mr Maguire, seconded by Mr Marshall: That the following organisations be invited to appear as witnesses on 18 November 2013:

- Independent Pricing and Regulatory Tribunal (IPART)
- Australian Pipeline Industry Association
- NSW Business Chamber
- Energy Users Association of Australia

5. Site visit

Resolved, on the motion of Mr Maguire, seconded by Mr Furolo: That the Committee travel to Queensland for the purpose of undertaking a site visit to examine gas production and distribution infrastructure.

Resolved, on the motion of Mr Maguire, seconded by Mr Furolo: That the Committee seek the Speaker's approval for funding to enable the Committee and Committee staff to travel to Queensland to examine gas production and distribution infrastructure.

6. ***

7. ***

8. ***

9. Adjournment

The Committee adjourned at 10.01 am until Monday 18 November 2013.

Minutes of proceedings of the State and Regional Development Committee (No. 24)

8.50 am, Monday 18 November 2013
Macquarie Room, Parliament House

Members present

Mr Gee (Chair), Mr Marshall (Deputy Chair), Mr Furolo, Mr Maguire and Mr Piper.

Staff in attendance: Rohan Tyler, James Newton and Millie Yeoh

The Chair commenced the meeting at 8.54 am.

1. Confirmation of minutes

Resolved, on the motion of Mr Marshall, seconded by Mr Piper: That draft minutes No. 23 be confirmed.

2. ***

Inquiry into downstream gas supply and availability in NSW

3. Correspondence

The Committee noted the following items of correspondence received:

- 5 November 2013 from the Minister for Resources and Energy, Special Minister of State, and Minister for the Central Coast, to the Chair regarding correspondence from Orange City Council about access to reticulated gas in Spring Hill and Lucknow.
- 12 November 2013 from Mr Kirby Anderson, Director – Government Affairs, Finance and Policy, GE Australia and New Zealand, to the Chair regarding a white paper entitled *The Age of Gas and the Power of Networks*.

4. Public hearing

Resolved, on the motion of Mr Marshall, seconded by Mr Piper: That the following organisations be invited to appear as witnesses on 18 November 2013:

- Envestra Ltd
- Jemena Gas Networks (NSW) Ltd

Resolved, on the motion of Mr Piper, seconded by Mr Marshall: That the Committee authorises the audio-visual recording, photography and broadcasting of the public hearing on 18 November 2013, in accordance with the NSW Legislative Assembly's guidelines for coverage of proceedings for parliamentary committees administered by the Legislative Assembly.

Resolved, on the motion of Mr Marshall, seconded by Mr Piper: That witnesses be requested to return answers to questions taken on notice and supplementary questions during the inquiry into downstream gas supply and availability in NSW within 21 days of the date on which questions are forwarded to the witnesses by the Committee Clerk.

5. Public hearing – Inquiry into downstream gas supply and availability in NSW

Witnesses, the public and the media were admitted at 9.03 am.

The Chair opened the hearing and made a brief statement regarding the broadcasting of proceedings and other matters.

The following witnesses from Jemena Gas Networks (NSW) Ltd were sworn and admitted:

- Ms Danielle Beinart, Manager, Gas Network Development
- Mr David Musson, General Manager, Gas Networks Commercial

Evidence concluded, the witnesses withdrew.

The following witness from the Australian Pipeline Industry Association was sworn and admitted:

- Mr Steve Davies, Policy Advisor

Evidence concluded, the witness withdrew.

The following witnesses from Envestra Ltd were sworn and admitted:

- Mr Craig de Laine, Group Manager – Regulation
- Mr Andrew Staniford, Group Manager – Commercial

Mr de Laine presented the following document:

- *Inquiry into downstream gas supply and availability in NSW – Opening presentation*

Evidence concluded, the witnesses withdrew.

The public hearing concluded at 12.06 pm. The public and media withdrew.

6. Post-public hearing deliberative meeting

Resolved, on the motion of Mr Furolo, seconded by Mr Maguire: That the Committee accept and publish the following document presented during the public hearing:

- *Inquiry into downstream gas supply and availability in NSW – Opening presentation*

Resolved, on the motion of Mr Furolo, seconded by Mr Maguire: That the Committee write to the Independent Pricing and Regulatory Tribunal (IPART) with questions on notice in relation to the inquiry, and that the draft questions be circulated to the Committee for comment.

Resolved, on the motion of Mr Furolo, seconded by Mr Maguire: That the Committee write to the Australian Energy Regulator (AER) with questions on notice in relation to the inquiry, and that the draft questions be circulated to the Committee for comment.

7. Adjournment

The Committee adjourned at 12.13 pm, *sine die*.

Minutes of proceedings of the State and Regional Development Committee (No. 25)

9.00 am, Thursday 6 March 2014
Room 1136, Parliament House

Members present

Mr Gee (Chair), Mr Marshall (Deputy Chair), Mr Maguire and Mr Piper.

Staff in attendance: Elaine Schofield, Rohan Tyler, Emma Wood and James Newton.

The Chair commenced the meeting at 9.05 am.

1. Apologies

An apology was received from Mr Furolo.

2. Confirmation of minutes

Resolved, on the motion of Mr Maguire, seconded by Mr Piper: That draft minutes No. 24 be confirmed.

Inquiry into downstream gas supply and availability in NSW

3. Answers to questions taken on notice and supplementary questions

Resolved, on the motion of Mr Piper, seconded by Mr Marshall: That the Committee authorise publication of the answers to questions taken on notice and supplementary questions received from:

- Australian Pipeline Industry Association (5 December 2013)
- Jemena Gas Networks (NSW) (5 December 2013)

and that the answers be posted on the Committee's website.

4. Answers to questions on notice

Resolved, on the motion of Mr Maguire, seconded by Mr Piper: That the Committee authorise publication of the answers to questions on notice received from:

- Independent Pricing and Regulatory Tribunal (18 February 2014)
- Australian Energy Regulator (21 February 2014)

and that the answers be posted on the Committee's website.

5. ***

Inquiry into downstream gas supply and availability in NSW

The Committee discussed options for broadening the inquiry evidence base.

6. Site visit

Resolved, on the motion of Mr Maguire: That the Committee travel to Victoria for the purpose of obtaining a briefing from Regional Development Victoria in relation to the Energy for the Regions program and visiting a regional area that has benefitted from the program.

The Committee requested that Committee staff prepare a briefing note on the Energy for the Regions program and circulate it to members prior to the site visit.

7. Private briefing

Resolved, on the motion of Mr Marshall, seconded by Mr Maguire: That the following organisations be invited to brief the Committee on Monday 24 March 2014:

- AGL
- EnergyAustralia
- Santos Ltd

8. Adjournment

The Committee adjourned at 9.45 am until Monday 24 March 2014.

Minutes of proceedings of the State and Regional Development Committee (No. 26)

1.30 pm, Monday 24 March 2014
Room 1254, Parliament House

Members present

Mr Gee (Chair), Mr Marshall (Deputy Chair), Mr Maguire and Mr Piper.

Staff in attendance: Helen Minnican, Emma Wood and James Newton.

The Chair commenced the meeting at 1.28 pm

1. Apologies

An apology was received from Mr Furolo.

2. Confirmation of minutes

Resolved, on the motion of Mr Maguire, seconded by Mr Marshall: That draft minutes No. 25 be confirmed.

Inquiry into downstream gas supply and availability in NSW

3. Private stakeholder briefings

The following representatives from EnergyAustralia were invited to brief the Committee:

- Mr Donovan Marsh, Senior Manager, Policy and Government Affairs/Strategy and Corporate Affairs
- Mr Simon Davey, Policy and Advocacy Manager, Strategy and Corporate Affairs

Discussion ensued.

The Committee thanked Mr Marsh and Mr Davey for their attendance.

The following representatives from Santos Ltd were invited to brief the Committee:

- Mr Phil Solomon, Manager, Planning and Commercial, Eastern Australia
- Mr Matt Doman, Manager, Public Affairs, Eastern Australia

Discussion ensued.

The Committee thanked Mr Solomon and Mr Doman for their attendance.

The Committee invited the following representatives from AGL Energy Ltd:

- Mr Scott Thomas, General Manager, Business Customers and Power Development
- Ms Lisa Harrington, Head of Government Affairs

Discussion ensued.

The Committee thanked Mr Thomas and Ms Harrington for their attendance.

4. Site visit

The Committee discussed possible dates for the site visit to Victoria.

5. Adjournment

The Committee adjourned at 4.03 pm, *sine die*.

Minutes of proceedings of the State and Regional Development Committee (No. 27)

9.00 am, Wednesday 28 May 2014
Room 1136, Parliament House

Members present

Mr Gee (Chair), Mr Marshall (Deputy Chair), Mr Barr, Ms Parker and Mr Piper.

Staff in attendance: Elaine Schofield, Rohan Tyler, Emma Wood and James Newton.

The Chair commenced the meeting at 9.07 am.

1. Confirmation of minutes

Resolved, on the motion of Mr Piper: That draft minutes No. 26 be confirmed.

2. Committee membership

The Committee welcomed Mr Barr and Ms Parker to the Committee and thanked former members, Mr Darryl Maguire MP and Mr Robert Furolo MP, for their contributions to the Committee.

Inquiry into downstream gas supply and availability in NSW

3. Proposed travel dates

Resolved, on the motion of Mr Piper, seconded by Mr Barr: That the Committee travel to Victoria on 15 and 16 June 2014 for the purpose of obtaining briefings from Regional Development Victoria and SP AusNet in relation to the Energy for the Regions program.

4. Committee members and staff to travel

Resolved, on the motion of Mr Barr, seconded by Mr Marshall: That all members of the Committee, accompanied by the Inquiry Manager and the Research Officer, travel to Victoria on 15 and 16 June 2014.

5. ***

6. Adjournment

The Committee adjourned at 9.20 am, *sine die*.

Minutes of proceedings of the State and Regional Development Committee (No. 28)

9.00 am, Wednesday 19 November 2014
Room 1254, Parliament House

Members present

Mr Gee (Chair), Mr Marshall (Deputy Chair), Mr Barr, Ms Parker and Mr Piper.

Staff in attendance: Bjarne Nordin, Rohan Tyler and Emma Wood.

The Chair commenced the meeting at 9.08 am.

1. Committee composition

Mr Marshall advised that he would resign his position as Deputy Chair of the Committee.

Resolved, on the motion of Mr Barr, seconded by Mr Marshall: That Ms Parker be elected Deputy Chair of the Committee.

2. Confirmation of minutes

Resolved, on the motion of Mr Marshall, seconded by Mr Piper: That draft minutes No. 27 be confirmed.

Inquiry into downstream gas supply and availability in NSW

3. Presentations from Regional Development Victoria and SP AusNet

Resolved, on the motion of Mr Barr, seconded by Ms Parker: That the Committee accepts the presentation notes from Regional Development Victoria and SP AusNet, dated 16 June 2014, and publishes them on the Committee's webpage.

4. Visit report – Melbourne, Victoria, 15 and 16 June 2014

The Committee noted the report of its visit to Melbourne, Victoria on 15 and 16 June 2014, in relation to the Energy for the Regions program.

5. Consideration of the Chair's draft report

The Chair tabled his draft report, which having been previously circulated, was taken as being read.

Resolved, on the motion of Mr Marshall, seconded by Mr Piper: That the Committee consider the Chair's draft report chapter by chapter.

Chapter 1 read.

Resolved, on the motion of Ms Parker, seconded by Mr Marshall: That Chapter 1 stand as part of the report.

Chapter 2 read.

Resolved, on the motion of Mr Marshall, seconded by Mr Piper: That Chapter 2 stand as part of the report.

Chapter 3 read.

Resolved, on the motion of Mr Marshall, seconded by Mr Barr: That Chapter 3 stand as part of the report.

Chapter 4 read.

Paragraph 4.12

"Inquiry evidence identified the following factors as barriers to expanding existing gas networks to regional NSW, and other areas not currently connected to gas:

- *the cost of infrastructure;*

- *falling demand for gas;*
- *regulatory requirements; and*
- *uncertainty over NSW's future gas supply."*

Resolved, on the motion of Ms Parker, seconded by Mr Piper: That paragraph 4.12 be amended by omitting the word "*identified*" and inserting the word "*raised*".

Resolved, on the motion of Ms Parker, seconded by Mr Piper: That Chapter 4, as amended, stand as part of the report.

Chapter 5 read.

Resolved, on the motion of Mr Marshall, seconded by Mr Piper: That Chapter 5 stand as part of the report.

Chapter 6 read.

Resolved, on the motion of Ms Parker, seconded by Mr Marshall: That paragraph 6.11 be amended by omitting the second part of the paragraph.

Resolved, on the motion of Mr Piper, seconded by Mr Marshall: That Chapter 6, as amended, stand as part of the report.

Chapter 7 read.

Resolved, on the motion of Ms Parker, seconded by Mr Piper: That Chapter 7 stand as part of the report.

Resolved, on the motion of Mr Marshall, seconded by Mr Piper:

- That the draft report, as amended, be the report of the Committee and that it be signed by the Chair and presented to the House; and
- That the Chair and Committee staff be permitted to correct stylistic, typographical and grammatical errors.

Resolved, on the motion of Ms Parker, seconded by Mr Barr: That, once tabled, the report be published on the Committee's webpage.

6. ***

7. Adjournment

The Committee adjourned at 9.44 am, *sine die*.