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By email: stateregional@parliament.nsw.gov.au

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State and Regional Development Committee
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Re: Downstream gas supply and availability in NSW

I refer to your letter of 22 November 2013 seeking responses to additional questions that the State and Regional Development Committee (the **Committee**) have following the evidence of Jemena Gas Networks (NSW) Limited (**JGN**) at the 18 November 2013 State and Regional Development Committee Inquiry into downstream gas supply and availability in NSW (the **Inquiry**).

JGN was pleased to participate and give evidence at the Inquiry and reiterates its support of the NSW Government objective of developing downstream gas infrastructure in NSW and increasing access to reticulated natural gas.

This letter addresses each of the Committee's questions separately below.

1. Can Jemena provide the Committee with an example of a community that has been assessed as being suitable for connection to reticulated gas and a community that has been assessed as being unsuitable for connection to reticulated gas, and on what basis these determinations were made?

JGN does not as a matter of practice assess any communities as being unsuitable for connection to the natural gas network.

As outlined in our 21 June 2013 submission to the Inquiry, JGN is subject to economic regulation by the Australian Energy Regulator. Under the national energy regulatory framework JGN must be able to justify that its investments in extending the network are economically sound by demonstrating that any expenditure has been prudent and efficient. Where an extension decision cannot be economically justified JGN will calculate the capital contribution required to assist make the investment prudent and efficient.

This means that while connection is usually possible, the high cost of connecting some communities that are typically located some distance from existing infrastructure, may practically act as a barrier to connection.

2. Does Jemena have any suggestions about what policies the NSW Government could implement to attract base-load using businesses to smaller regional communities, such as The Rock?

The NSW Government could consider policy settings that would drive new gas reticulation in NSW. In doing this Government would need to be clear about the incentives and potential outcomes created by its policy decisions. There is a fine balance between providing the right incentives to achieve policy goals and creating outcomes that counter-productively distort markets in ways not originally intended. JGN considers our suggestions below would achieve a balance consistent with a government goal to increase connections to reticulated gas throughout NSW.

As noted previously, JGN connection decisions must be economically justifiable. The policy settings suggested below include some which might feature subsidies. It is worth distinguishing the difference between decisions made by JGN which must be economically driven and Government decisions which may address social policy. The Government may choose to make social policy decisions that influence whether projects become economic or not, therefore enabling investment that is consistent with the National Gas Objective.

There are several policy initiatives that would increase the number of gas connections in NSW. These are outlined below:

1. Phase out of emission intensive hot water systems

JGN supports mandating the phase out of emission intensive hot water systems as proposed by COAG in December 2010. This decision was made by COAG after a Regulatory Impact Statement (**RIS**) was prepared to examine the costs and benefits of the proposal. The RIS concluded that the phase out of emission intensive hot water systems would result in a number of benefits, including financial savings for Australian households and a significant reduction in Australia's greenhouse gas emissions. JGN believes there would be merit in the NSW Government reconsidering this policy which was reversed in late 2012.

JGN believes implementation of the COAG proposed phase out for customers with a gas main available would increase the connection rates in existing reticulated areas and increase the proportion of projects that are economically justifiable. While the COAG policy leaves customers free to replace emission intensive hot water storage units with other options such as solar or heat pumps, JGN believes that Natural Gas appliances can compete effectively with these options.

2. Government rebate programs for existing unit blocks

In conjunction with the phase out of emission intensive hot water systems, JGN would recommend introducing measures that reduce the substantial financial barriers to individual home unit owners to connect to the gas network. Switching to gas would result in financial benefits for home unit occupants as well as general environmental benefits for the greater community.

The introduction of a rebate program to partially subsidise the initial costs of establishing internal gas infrastructure within unit blocks would provide Owner's Corporations and individual unit owners with an incentive to "gas-ready" the building to reduce the individual change over costs for each unit. The rebate would be available to Body Corporate controlled existing multi-dwelling sites on line of main but not connected to the gas network. New multi-dwelling sites would not receive a rebate given the opportunity to cater for natural gas during design and construction.

3. Reducing cost of compliance with authority obligations

The cost JGN incurs in reticulating new and existing areas is partially driven by the cost of compliance with authority obligations and processes, for example those surrounding road opening, pavement restorations and/or rail crossings. JGN believes there would be merit in testing the benefit of new and existing authority requirements against the associated cost of compliance. This would both help to address this barrier to connection and may benefit productivity in NSW more generally.

4. Investment in regional and rural areas

The NSW Government could consider funding regional development by investing in connecting regional and rural areas to reticulated gas. This would improve both the competitiveness and liveability of regional NSW while creating jobs and career opportunities for regional residents. An example of a similar social policy program is the Energy for the Regions Program being run by the Victorian Government¹.

Given the scope of the Inquiry, the four policy initiatives outlined above have necessarily focused on measures to improve supply and availability in the downstream gas sector. However it is of equal importance that NSW policy-makers also focus strongly on improving upstream gas supplies. Delays in new gas development project approvals, or counter-productive policy interventions that restrict the development of new gas supplies, can potentially limit network expansion to new customers and place upward pressure on consumer prices.

Finally JGN notes that the community of The Rock is near Wagga Wagga and so is not in the JGN footprint. Wagga Wagga is serviced by the Envestra network.

3. How many requests for connection to reticulated gas, where there is no existing access, has Jemena received in the past 12 months?

JGN receives many requests for connections to reticulated gas where a mains extension would be required. Our records indicate that in 2012 we quoted 2,979 requests for connection that required an extension of the mains within our distribution system in order to connect the customer. Of these offers, 855 were accepted.

4. Would active promotion of natural gas as an economical and environmentally friendly energy alternative increase the uptake of natural gas consumption? Would this make reticulation into new and existing areas more viable for service providers? Should Government also play a role in promoting gas?

JGN strongly believes that active promotion of natural gas is an important way of increasing uptake and therefore making expansion of the reticulation network more economically viable. JGN currently commits a significant proportion of its marketing budget promoting the benefits of Natural Gas directly to the community through a generic Natural Gas advertising and marketing campaign. JGN integrates advertising, marketing and incentive schemes to encourage the choice of Natural Gas.

The results of JGN's marketing strategy have been very positive for the development of the NSW gas market. The marketing campaign has reversed a significant decline in the number of gas connections to households formerly using electricity alone. Prior to the campaign, there was a decline of new connections by 64 per cent from 1999 to 2007 (with a forecast decline of a further 51 per cent by 2012). The promotion of natural gas has resulted in a 51 per cent increase from 2008 to 2012. These results emphasise the critical

¹ See <http://www.rdv.vic.gov.au/infrastructure-programs/energy-for-the-regions>

relationship between a successful natural gas marketing strategy and the long term sustainability of the network.

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.

JGN would be pleased to have further discussions with the Committee on downstream gas supply and availability. If you wish to discuss this letter or organise a meeting please contact

[Redacted contact information]

Yours sincerely

[Redacted signature and name]