Submission No 34

DOWNSTREAM GAS SUPPLY AND AVAILABILITY IN NSW

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Natural Gas Supply to Braidwood

Introduction

This submission from Palerang Council focuses upon the financial barriers and infrastructure barriers of supplying downstream gas. This submission also provides suggestions on a range of changes that can be made to address these barriers.

Financial barriers

Section 33C of the *Gas Supply Act* 1996 (The Act) creates provisions for the supply of gas to small retail customers. However, the Act fails to address the supply to customers where there is not established infrastructure, a significant barrier to market entry. The Australian Energy Regulator establishes determinations for the 'Standard Supplier's Supply District'. These determinations define the area of operation for a supplier. This however is hampered where this is not infrastructure in place to enable supply.

The effects of this are seen in Braidwood in the Palerang local government area (LGA). Braidwood is within the Standard Supplier's Supply District of ActewAGL. This determination has the regulatory period of 1 July 2010 to 30 June 2015 (5 years). However, the transmission pipelines are not in place to supply to Braidwood.

Palerang Council's interactions with ActewAGL indicate that they are interested in supplying to the town, however the infrastructure cost is excessive, comparative to the population to be serviced. To proceed with the project, ActewAGL would be required to charge above the maximum rate requiring approval of the Independent Pricing and Regulatory Tribunal (IPART). The logistics of this exercise, the time and financial investment required to undertake an IPART approval process is a barrier to Braidwood receiving a gas supply service.

These issues go directly to the focus of the inquiry. Specifically, the current framework limits expansion of the transmission pipeline to small communities as the project costs cannot be recouped due to the predetermined maximum price. The predetermined price does not allow for the cost of developing the required infrastructure.

In summary, 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.

This issue can be addressed by considering options to improve the cost / benefit analysis of expanding the transmission pipeline network. This could be achieved through:

- seed funding for infrastructure development;
- subsidies to support suppliers to establish transmission pipelines to previously unserviced areas;
- Accelerated depreciation against network infrastructure;
- Support for pipeline (EGP) offtake arrangements so as to influence major pipeline operators to be more supportive of rural town offtakes.
- Network charges to be 'not covered' by AER so as to allow slightly higher tariffs in the early years and at lower compliance cost; and / or
- fixed term exemptions from the IPART fee structure to enable establishment of new transmission pipelines.

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Infrastructure barriers

As identified above, the cost of infrastructure is a barrier to developing the downstream gas market. This barrier is a particular issue for small rural communities. This barrier could be addressed by using innovative approaches, as opposed to, or in conjunction with the funding options outlined above.

The infrastructure barrier could be addressed by modifying the structure of the Standard Suppliers Supply District. Specifically, the creation of the Supply Districts that couple regional areas with urban areas with an agreed maximum price across the Supply District. This price could be negotiated as higher than the IPART maximum price, acknowledging the cost of developing infrastructure at the outset. This arrangement would negate the need for an IPART process as this could be agreed in the supply determination with appropriate approvals. The structure would enable suppliers to charge a high price across a District to fund infrastructure, balancing their profit margin over the District whilst providing competitiveness in the market. This approach would support equity of service between regional and urban areas without significantly increasing the gas price for small rural population.

Another mechanism to manage barriers to the gas market is to make use of the National Broadband Network (NBN) infrastructure. Specifically, aligning development of the transmission pipeline network with the NBN would achieve efficiencies in use of the trenching. This could reduce the infrastructure cost of expanding the transmission pipeline through the sharing of costs.

Development of the transmission pipeline will also serve to provide an energy future as gas provides a baseline energy source to complement renewable solar and wind. Development of the transmission pipeline thus can be considered as a mechanism to develop renewal energy.

Each of these approaches would serve to expand the transmission pipeline network whilst potentially negating or minimise the involvement of IPART, which in itself poses an additional barrier to the development of the network. In summary, these innovative approaches would serve to:

- create equity by distributing costs over a larger population base;
- develop the transmission pipeline network;
- provide gas to rural communities that can potentially by marginalised by the initial cost of infrastructure;
- increase efficiencies through shared infrastructure costs; and
- develop a future for renewal energy through development of gas infrastructure that readily complements alternate energies.

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