10 August 2020

Mr Sebastian Roberts
General Manager
Australian Energy Regulator
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Business SA
Chamber of Commerce
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Working for your business.
Working for South Australia

Dear Mr Roberts

I write in response to the Australian Energy Regulator's consultation paper on Australian Gas Infrastructure Group's 2021-26 Final Plan for South Australia's gas distribution network.

Business SA, South Australia's Chamber of Commerce and Industry, was established in 1839 and has more than 3,200 members across every industry sector, from micro businesses through to listed companies. We are a not-for-profit membership organisation which works on behalf of members and the broader business community in pursuit of economic prosperity for both South Australia and the nation. Funded by member subscriptions and our products and services, we are independent of any government.

While Business SA acknowledges that COVID-19 is primarily a health crisis, the Australian Energy Regulator needs to remain mindful that everything must be considered to continue to support as many businesses as possible to survive this period of restrictions, including in relation to utility costs. This extends to the need for Australian businesses to be cost competitive in a post-COVID economy, which relies on access to reliable and affordable energy.

Business SA has been represented on AGIG's customer panel for several years, including for the full extent of consultation leading up to this final plan. From our perspective, AGIG has been quite open with their plans and willing to take on board feedback from a range of interested parties. The approach of AGIG has instilled confidence that consumer's expectations about affordable energy are predominately being met. While Business SA accepts there will always be some degree of competitive tension on cost and prices, we have felt AGIG are particularly mindful of their status providing a 'fuel of choice'.

Business SA welcomes the forecast 7% price reduction from 1 July 2021, particularly in the context of some network expansion, most notably to Mt Barker and surrounding areas. This is one of the fastest growing area of South Australia, including from an industrial perspective, and reticulated gas will support further economic growth.

The future of hydrogen is an exciting prospect and Business SA has been particularly focused on ensuring that local businesses have every opportunity to benefit from access to green hydrogen. AGIG's pilot plant at Tonsley, including its tube and trailer facilities, will be a key catalyst for kickstarting a local industry and Business SA commends AGIG for being so proactive on this front. This is a prime example of how AGIG is being driven to innovate with an uncertain future for natural gas in an increasingly carbon constrained world. While Business SA supports such innovations, we also recognise that AGIG are inherently incentivised by the drive to survive, no differently to how many of our members are trying to stay alive during the COVID pandemic.

After careful consideration of AGIG's Final Plan, Business SA makes the following specific comments in relation to a range of relevant aspects:

1. Business SA supports AGIG's approach to asset depreciation, particularly given the possibility that hydrogen will play a key role in Australia's future energy mix and broader economy. While this will ultimately be determined by the eventual steady-state cost of green hydrogen produced locally, there is no reason now to materially shift gear on asset depreciation.

2. While AGIG's consultation was quite comprehensive, it is important to recognise that the most important issues for customers are still price and affordability, and any opportunity to maximise those preferences for consumers should be first and foremost in the AER's mind.

3. Business SA welcomes AGIG's productivity adjustment of 0.4%, which would benefit from a slight adjustment to 0.5% to align with that imposed on electricity distribution companies.

4. Business SA appreciates AGIG's willingness to adjust its plans based on customer feedback, for example dropping its community education centre proposal.

5. AGIG has proven itself to be a particularly innovative monopoly network owner, particularly through its work in developing a path to utilisation of hydrogen. The proposed innovation allowance would no doubt enhance some of this work, but there is also an underlying economic reality driving network businesses delivering a 'fuel of choice'. Business SA would prefer that companies like AGIG continue to attract competitive funding to pilot innovations. In April 2020, UK gas distribution company Cadent issued a 500 million pound bond, eight times oversubscribed, to fund a transition to operate its network on hydrogen[1]. This is strong evidence of the investment market appetite to support businesses like AGIG through an environmentally driven transition.

6. As a party involved at each key stage of AGIG's consultation on its regulatory proposal, it is clear that AGIG's approach has been genuine and as comprehensive as necessary. Business SA has also appreciated the whole-of-business involvement in the consultations, led from the CEO down. This has allowed for a level of frank discussion which interested parties such as Business SA value.

7. In relation to AGIG's proposal to further support vulnerable customers, it would be useful to understand how this relates to additional costs for medium to large business customers as well, not only from the perspective of an extra $1 or $2 on a residential customer's bill. Business SA would also like to see an explanation as to how such a program interrelates with the State Government's energy bill concession, and to what extent duplication can be avoided in either paying or assessing eligibility for such support mechanisms. We don't disagree that vulnerable customers need to be supported, but we are always mindful that this occurs in the most efficient manner.

[1] Investment & Pensions Europe (IPE), Transition bonds: Questions of transition, April 2020 Magazine

8. Given we are in the middle of a pandemic, it is very unlikely there will be any real labour cost increases for some time, if anything reductions with Adelaide's CPI falling by 1.0% over the June Quarter 2020. While Business SA recognises AGIG's plans were primarily prepared ahead of the pandemic period, the AER will need to revisit such forecasts in the light of completely upended labour market dynamics, including in South Australia which presently has the nation's highest unemployment rate at 8.8%.

9. Business SA acknowledges that AGIG's capital base will increase in nominal value from $1.769 billion in 2021/22 to $2.075 billion by 2025/26, 17.3% in total or 3.5% per annum. While we recognise there is a level of necessary mains replacement, this will also occur during an environment of falling gas consumption, which is forecast to decline by approximately 7.8% over the same period. Considering the impact the capital base has on the ultimate cost borne by consumers, the AER needs to remain mindful of both the impact of aggregate capital spending, along with the relative merits of each individual capital proposal.

Should you require any further information or have questions, please contact me on [redacted] or [redacted]

Yours sincerely,

[redacted]

Andrew McKenna
Director, Policy and Advocacy