

23 February 2021

Mr Sebastian Roberts
General Manager Networks
Australian Energy Regulator
GPO Box 520
MELBOURNE VIC 3001

Dear Mr Roberts

Formed in 1839, Business SA, the South Australian Chamber of Commerce & Industry, is the State's peak employer body. We are a not-for-profit business 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. With a membership of over 3,500 businesses, we represent South Australian businesses across every industry from micro businesses through to ASX listed companies, although a vast majority of our members employ less than 20 people.

This submission is in response to the AER's consultation on its draft decision for Australian Gas Infrastructure Group (AGIG's) 2021-26 Access Arrangement.

The last 12 months have placed an unprecedented challenge upon many of our State's businesses dealing with the impacts of the COVID-19 pandemic. While the impacts from industry to industry, within industries, and from region to region have all varied, the crisis has ensured businesses focus on their costs and efficiencies like never before. The financial and legislative support from the Federal and State Governments has been a lifeline to businesses, particularly key programs such as JobKeeper, the Commercial Leasing Code and changes to enable flexibility within the industrial relations framework. A range of other financial supports from apprentice wage subsidies, to payroll and land tax relief, cash grants and in some instances Council rate waivers have all played their role too.

With respect to utilities, there has been some financial support grid-wide to small businesses operating at less than 25% capacity during the first quarter of the pandemic period, all of which received a network charge waiver. This has been welcome, along with support for those businesses in genuine hardship and unable to pay their bills. However, the more material and widespread utility waivers have typically only been in States where Governments still maintain ownership of the networks.

Business SA welcomes the downward pressure on gas distribution prices that will come through this regulatory process. While we understand the final result may be subject to further change as a result of subsequent decisions and market movements following the draft determination, the 7.4 per cent base reduction for small businesses previously advised which is likely to go to at least 8 per cent, will be a welcome boost to the South Australian economy during a period of economic recovery amidst an ongoing pandemic.



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The reality with record low interest rates is that businesses should see that benefit flow through the regulatory model at this point in time. We are equally mindful that interest rates will rise again in future and we encourage the AER to have regard to how the next regulatory period spending might be 'locked-in', adding to price pressure in subsequent periods. In the final decision, we would like to see analysis of how changes in interest rates ultimately framed the AER's decision against all other pertinent factors.

Business SA would like to acknowledge AGIG's strong consultative approach throughout the determination process to date. We have consistently felt informed about the direction AGIG is going and while we maintain that business customers' ultimate drivers don't always align with those of regulated monopoly utilities, we have confidence that AGIG is striving to deliver a competitively priced service. Further, we reiterate our support of AGIG's drive to develop the local hydrogen sector, particularly as it relates to supporting the broader business community with access to another zero-carbon energy source. This can be a genuine comparative advantage for both South Australia and the nation over coming decades.

Business SA makes the following comments as background to this submission:

1. Since 1980, we have managed the State's longest running, regular and most comprehensive business survey, the William Buck 'Survey of Business Expectations (SOBE)'. For the December Quarter (Q) 2020 SOBE, the South Australian business confidence index jumped 13 points in the December quarter to 108.3, a two-year high and is 20% above its 10-year average. Further, business conditions have also improved substantially, up 5 index points to 100.6, another 2-year high. All this is despite a material revenue hit to many service and hospitality businesses from the Parafield Cluster restrictions through mid-November until early December, particularly in the CBD.

The most telling result from the SOBE though is continued disparity within the economy with 45.7 per cent of businesses reporting revenue either on par or higher than pre-COVID, but 15.1 per cent being down more than 50 per cent on pre-COVID. Only 30.1 per cent of SA businesses remain on JobKeeper 2.1, but that figure is up to 75 per cent across Accommodation & Food Services, and 71 per cent for Tourism. Overall, 68.3 per cent all businesses want JobKeeper to continue beyond March for heavily impacted sectors. What these survey results tell us is that despite the genuine economic improvement being experienced in South Australia, it remains quite fragile and the impact of COVID restrictions across industries and regions differs markedly. Consequently, all regulatory decisions related to the cost of doing business need to have regard to ongoing pressures on businesses related to pandemic restrictions, the timeframe for which to ease remains quite uncertain.

2. In terms of the AGIG's capital base, Business SA acknowledges there will be grow of 2.9 per cent per annum through to 2025/26. In dollar terms, the RAB will grow from \$1.77 billion to \$2.03 billion during the next regulatory period. Notwithstanding, Business SA recognises that AGIG will continue with a substantial program of mains replacement.

In its final decision, we request the AER explain the relationship in the economic regulatory model between falling forecast demand on the assets and growth in the capital base.

3. In respect to regulated gas utilities, it is important to recognise the relative bill difference between residential and business customers is much higher than for electricity. As AGIG points out:
 - The average residential customer distribution charge is \$520
 - The average commercial customer distribution charge is \$4,908
 - The average industrial customer distribution charge is \$272,237

By comparison for electricity distribution in South Australia;

- The average residential customer distribution charge is \$578
- The average commercial customer distribution charge is \$2,587
- *Note that SA Power Networks have not provided an average industrial customer distribution charge in their most recent tariff pricing proposal.*

As a result, the AER's decisions on gas distribution companies like AGIG have a much higher relative impact on businesses. As a State like South Australia attempts to both adjust to and recover from the impacts of the COVID-19 pandemic, it will be the cost competitiveness of the business sector that will ultimately enable a sustained economic recovery.

For any inquires related to this submission, please contact [REDACTED]

Yours sincerely,

Andrew McKenna
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