

2 September 2015

Mr Warwick Anderson
General Manager - Network Finance and Reporting
Australian Energy Regulator
GPO Box 3131
Canberra ACT 2601

AER consultation on Australian Gas Network's SA access arrangement proposal - Clarification relating to statements in ATA submission

Dear Mr Anderson

I am writing in relation to the submission from the Alternative Technology Association (ATA) dated 10 August 2015, which was provided to the Australian Energy Regulator (AER) as part of its consultation on Australian Gas Networks' South Australian access arrangement proposal for 2016-21 period.

I would like to advise that the submission contains a statement relating to the ENA's involvement in the ATA's research report "*Are We Still Cooking With Gas?*" released on 30 November 2014, which can be unintentionally misleading.

In particular, the ATA's submission states the following:

Our report has been well received. Individual gas distributors engaged with us in producing the report, and it has been extensively reviewed by the Energy Networks Association.¹

I would like to clarify that the ENA was not consulted by the ATA during the report's development. The ENA was able to view the report and assess its findings after it had been released on 30 November 2014. The review of the report raised substantial concerns which were subsequently taken up with the ATA. Given that the meeting with the ATA was held after the report's release, none of the ENA's concerns have been addressed by the ATA.

For clarity, I can advise that ENA raised a number of issues of concern in its discussions with the ATA and certainly, the analysis and conclusions should not be regarded as endorsed by ENA.

The ATA appear to have used a number of highly contestable assumptions which were likely to disadvantage the competitive position of gas appliances in the comparative analysis, and which in ENA's view undermine the robustness of its findings. For instance:

- » In warmer locations, the analysis discounted the actual upfront capital cost of a Reverse Cycle Air Conditioner by 50 per cent on the assumption that the consumer will ignore half the cost of the Reverse Cycle Air Conditioner due to its role in cooling (page 76).
- » The Co-efficient of Performance (CoP) for Reverse Cycle Air Conditioners was one of the most significant drivers of comparative economic performance in the study. However, the process by which ATA had determined assumed CoPs (4.0 and 4.5); and their derating for cold weather climates (-0.5) was arbitrary.

¹ ATA, Submission in relation to Australian Gas Networks (SA) Access Arrangement Proposal, August 2015, p.2.

- » The ATA's assumption on the gas retail price outlook appears unbalanced and aggressive, and as such, likely to understate the relative competitive position of gas. For example, the ATA is forecasting a retail price increase of 26 per cent in South Australia by 2020, which is significantly higher than the five per cent forecast by Core Energy from 2015-16 to 2019-20 (see Attachment 14.1 of the AGN submission, page 75). Unlike ATA, Core Energy has included the impact of forecast lower network charges in their analysis.
- » The report compares the comparative economic performance of gas heating and electricity heating on an inconsistent basis. For instance, the analysis compares the heating of an entire home with ducted gas heating to the heating of a limited number of rooms using Reverse Cycle Air Conditioning. The differential impact on customer amenity is allocated no value. The cost of Reverse Cycle Air Conditioning would clearly be greater on a like for like basis.
- » The ATA's report has not been subject to an independent peer review analysis to provide stakeholders with confidence in its findings.

The ENA understands that the ATA did engage with a range of stakeholders during the report's development, including representatives from two gas distribution businesses. However, the report itself acknowledges that its findings are not necessarily supported by all of the stakeholders who made contributions to the process.²

Based on the above, it would be inaccurate to infer that the document was "well received" by the gas network sector. Therefore, the AER should not take this statement into account in developing its views on Australian Gas Networks' access arrangement proposal.

This letter is provided to the AER as a submission in order to assist it in assessing Australian Gas Networks' access arrangement proposal and making of the Draft Decision. If you have any questions in relation to this matter, please contact Garth Crawford, Executive Director, Economic Regulation, on 02 6272 1555.

Yours sincerely,



John Bradley
Chief Executive Officer

² ATA, Are We Still Cooking With Gas, 25 November 2014, p.10.