



Ethnic Communities' Council of NSW Inc.

221 Cope Street Waterloo NSW 2017

Tel: (02)9319 0288 Fax: (02)9319 4229 Email: energy@eccnsw.org.au

27/3/2015

Submission to the Australian Energy Regulator on the Jemena Gas Determination 2015

The Ethnic Communities Council of NSW (ECC NSW) thanks the Australian Energy Regulator (AER) for the opportunity to provide comment on the Jemena Gas Networks (Distribution) 2015-20 draft determination (2014) ¹ and Jemena's *Revised 5-Year Plan 2015/6 - 2019/20* published in February 2015. ²

Since its formation 40 years ago the ECC NSW has been the peak body for culturally and linguistically diverse (CALD) community members and representative organisations in NSW. The Ethnic Communities' Council of NSW main activities are advocacy, education and community development. It is a member of the Federation of Ethnic Communities Councils of Australia (FECCA) and the Energy Advocacy role represents FECCA in the NEM.

While the ECC NSW did not present a response to Jemena's original proposal ³ presented to the AER in 2014, we would like to comment on three main areas of the draft determination ⁴ and the subsequent response by Jemena to this draft determination: ⁵

1. *Wholesale gas prices and the reduction in network charges over the period of the determination.*
2. *The process of consumer engagement undertaken by Jemena leading up to its revised proposal and future initiatives and directions.*
3. *Differences in application involved in the calculation of the weighted average cost of capital (WACC).*

¹ AER, Draft decision: *Jemena Gas Networks (distribution) 2015 - 20*, November 2014

² Jemena Gas Networks (NSW), *Jemena's Revised 5 - Year Plan 2015/6 - 2019/20*, February 2015

³ Jemena Gas Networks (NSW), *AA Review, 2015 Access arrangement proposal*, June 2014

⁴ AER op cit.

⁵ Jemena Gas Networks, 2015, op cit.

1. *Wholesale gas prices and the reduction in network charges over the period of the determination.*

Currently over one million NSW households have some form of gas supply for cooking and/or heating⁶ and have suffered significant cost increases in the last four years. A considerable proportion of these households are in CALD communities. Indications of the increase to the annual gas bill of average gas consumption households in the period July 2009-12 was approximately 33%.⁷ Coupled with the significant escalation in the cost of electricity over the period 2009 - 2014, energy costs have effectively doubled for consumers in that period.⁸ Analysis for the St Vincent de Paul Society shows that for the last financial year (2013/14), the annual energy cost for dual-fuel households with typical consumption levels increased by between \$125 and \$230 (16-22%)⁹.

In its price determination for the cap on regulated retail gas prices in NSW, the Independent Pricing and Regulatory Tribunal (IPART) agreed to proposals by retailers to increase prices for 2014/15 by 17-21% (varying by region)¹⁰. IPART indicated that the main driver of future price rises was the development of export facilities on the East coast¹¹ and projections by Jemena of a doubling of the wholesale cost of gas in the next five years have the potential to increase the cost of gas to NSW consumers by about 20%. The ECC welcomes predictions by Jemena that they will reduce their network costs to consumers by about 20% over the same period to offset some of these rises.¹²

CALD communities significantly affected by expected rises in the price of gas in NSW include:¹³

- Communities who arrived in Australia in the 1940s and 1950s (largely Greek and Italian) and who have been identified as being less likely to be aware of energy use and conservation and hence would be less able to adjust their consumption profiles and will be significantly affected by increasing gas prices.
- Newly arrived migrants and refugees including Sudanese (Arabic and Dinka speakers), Chinese (Mandarin speakers), Tamil and Hazara (Afghan) who may be low income and/or vulnerable consumers with slight knowledge of energy issues and hence would be less able to adjust their consumption profiles and will be significantly affected by increasing gas prices.

⁶ NSW Government, NSW Gas Plan (NSW Government, 2014).

⁷ Gavin Dufty, *Creating fairer energy and water markets for all* (PIAC Conference presentation, 9 October 2013, St Vincent de Paul Society).

⁸ Independent Pricing and Regulatory Tribunal, *Review of regulated retail prices for electricity from 1 July 2013 to 30 June 2016* (Final Report, IPART, 2013), 18.

⁹ May Mauseth Johnston, *New South Wales Energy Prices July 2013 – July 2014: An Update Report on the NSW Tariff Tracking Project* (Report, St Vincent de Paul Society and Alviss Consulting Pty Ltd, 2014)

¹⁰ IPART, Fact sheet: *Regulated retail gas prices from 1 July 2014 to 30 June 2016* (IPART, 2014) page 2.

¹¹ IPART, *ibid*, page 3.

¹² Jemena, Jemena's 5-year plan: Customer overview (Jemena, 2014) 4.

¹³ Ethnic Communities' Council of NSW, *Experiences of Energy Consumption for CALD communities* Research Report 2012

- Communities who arrived in the 1970s and 1980s (Vietnamese, Thai, Chinese (Cantonese speaking) and Spanish speakers from Latin America). These communities, while being identified as being the most knowledgeable about energy issues, have often established small businesses which will be affected by rising gas prices.

There remains considerable difficulty in determining wholesale gas prices in the medium to long term. Recent volatility in oil prices have had immediate flow-on effects to the profitability and price for Australian LNG production and export. While global natural gas demand is still expected to grow by approximately 1.9% p.a.¹⁴ this instability could, over time, potentially affect the wholesale domestic price of gas in NSW.

The ECC NSW commends Jemena for its commitment to provide gas customers with a 'smooth' price path over the next regulatory period. We ask that, in its final determination, the AER ensures that, subject to the pricing being at the lowest possible level for consumers, it also provides the minimal possible fluctuations so as not to give false price signals to consumers.

2. *The process of consumer engagement undertaken by Jemena leading up to its revised proposal and future initiatives and directions.*

The ECC NSW has had a member on the Jemena Customer Council since October 2013 and has noted Jemena's serious and successful attempts to engage consumers and gain real feedback about its activities and regulatory proposals. Jemena has established the initial stages of an excellent process of consumer engagement which could provide a model on which other networks could base their future engagement strategies. It has provided considerable resources to its Customer Council in the lead-up to its pricing proposal as well as responding to the concerns of its members.

Jemena also responded to consumer group suggestions that 'actual' consumers needed to be consulted directly and established several deliberative forums for consumers. Jemena has also been particularly supportive of ECC NSW's efforts to establish a set of general guidelines for engagement with CALD communities¹⁵ to be used in the context of energy issues and consumer consultation.

3. *Differences in application involved in the calculation of the weighted average cost of capital (WACC).*

As part of the Better Regulation Program, the AER developed its Rate of Return Guideline.¹⁶ The Guideline was established after wide consultation and input from network businesses, consumer groups, investor groups, banks and others. The ECC NSW was a part of those deliberations and accepts that the process was rigorous and

¹⁴ BP Energy Outlook 2035, bp.com/energyoutlook#BPstats, page 51

¹⁵ ECC NSW, guidelines for *Engaging CALD energy consumers - what works*, draft 2015

¹⁶ AER, *Rate of Return Guideline*, December 2013

that while the Guideline was not universally accepted by all parties, it was established with a general consensus across the industry.

It is disappointing, therefore, to note that Jemena chooses not to adhere to the Guideline in its calculation of a Weighted Average Cost of Capital (WACC) for the new regulatory period. Jemena has suggested a WACC of 7.15% (amended downwards from its initial submission of 8.67% due to changes in market conditions and considerably lower than the 2010 - 2015 WACC of 10.43%). The calculation of its WACC does not fully comply with the Guideline, which Jemena notes in its submissions.¹⁷ The AER, in its draft determination, proposes a WACC of 6.8%, using the Guideline.

As the WACC is a major driver of network prices, with small changes in WACC providing wide differences in revenue returned to network businesses, the ECC NSW believes that the AER should continue to follow the Guideline in its determination of Jemena's WACC for the next regulatory period.

If you require additional information please contact Iain Maitland, Energy Advocate on 02 9319 0288 or email energy2@eccnsw.org.au .

Sincerely yours,

Mary Karras



Executive Officer
Ethnic Communities' Council of NSW Inc.

¹⁷ Jemena Gas Networks (NSW), *AA Review*, op cit. and
Jemena Gas Networks (NSW), *Jemena's Revised 5 - Year Plan* op cit.