

Hon Dan van Holst Pellekaan MP



Government
of South Australia

MEM2021/0023

Mr Sebastian Roberts
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Dear Mr Roberts

Thank you for the opportunity to comment on the Australian Energy Regulator's (AER) draft decision and the Australian Gas Networks' (AGN) revised plan for its next access arrangement for 2021-26.

The South Australian Government welcomes the AER's draft decision and AGN's acceptance of much of the reduced expenditure in the draft decision. However, this submission highlights the government's concerns on some expenditure items.

Capital Expenditure

The government acknowledges AGN's revised capital and operating expenditure is lower than contained in its original proposal (\$50 million and \$7 million respectively). However, the government notes that for capital expenditure, \$30 million of this reduction is due to AGN not proceeding with the extension of its network to Mount Barker.

The government's submission to AGN's original proposal expressed concern about its large underspend in the current period for IT expenditure. AGN's revised plan states that two projects are further delayed resulting in the transfer of \$11 million from the current period to the next period as well as \$2 million additional IT expenditure. The government is concerned that this transfer results in approximately 50 per cent underspend for IT capital expenditure and urges the AER to fully examine AGN's proposed spending in light of this period's significant underspend.

The government supports the AER's draft decision to introduce a capex efficiency sharing scheme that excludes expenditure on new connections.

Minister for Energy and Mining

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The government's submission to AGN's original proposal acknowledged the success of AGN's mains replacement program to date and asked the AER to consider whether the proposed program for 2021-26 remains necessary and prudent. The submission also sought further clarity on the type and number of mains that still require replacement.

The government therefore welcomes the additional information and independent reviews of the mains replacement plan that informed both the AER's draft decision and AGN's revised proposal. In addition, the government acknowledges AGN's engagement with the Office of the Technical Regulator (OTR) in preparing its revised proposal.

Given the additional information and engagement with the OTR, the government supports the replacement of all Low Pressure (LP) Cast Iron and Unprotected Steel (CI/UPS) mains in 2021-26 and AGN's proposal to replace 198km of HDPE 575 DN40 High Pressure (HP) mains laid up to 1993.

We note that AGN's LP CI/UPS block mains replacement proposal includes replacement of other LP materials mains where it is necessary to do so for safety reasons as the network transitions to HP and where AGN has assessed it is economically efficient to do so (for example, where it is less expensive than replacing multiple small lengths by direct burial)¹. However, it is important that the approved capital expenditure relating to the LP CI/UPS block mains is prioritised to complete replacement of the remaining LP CI/UPS mains over the next five-year period and on those other materials that need replacement for safety reasons, and is not expended on other LP materials mains with lower risk profiles.

Operating Expenditure

The government notes that AER's recommendation to AGN that the proposed Vulnerable Customer Assistance Program be a category specific forecast rather than a step-change. The government encourages AGN to continue to consult with relevant stakeholders to reduce the likelihood of the proposed program overlapping with existing support programs.

As stated in the government's original submission regarding the proposed Digital Customer Experience step change, the government urges the AER to identify the benefits of the Digital Customer Experience project slated for completion in 2024-25 prior to accepting AGN's repropoed step change.

¹ Attachment 8.3 *Distribution Mains and Services Integrity Plan SA Final Plan July 2020*, page 7



In relation to Unaccounted for Gas (UAFG), we note that the forecast volumes do not appear to factor in a decrease resulting from the replacement of the remaining CI/UPS mains during 2021-26. While the AER's draft decision states that the volumes account "for the downward trend in UAFG as a result of AGN's mains replacement program"², Table 6.9 of the draft decision on operating expenditure shows a constant forecast of \$7.8 million each year and the report prepared by Zincara states that due to the difficulties in forecasting a decline a "flat profile for the five year period is reasonable"³. However, we would expect to see a stable but continuous reduction in the volumes between 2021 to 2026 as the remaining CI/UPS mains are replaced. Annual forecast reductions also provide incentive for AGN to commence replacement of these mains without delay.

Network Innovation Allowance

Given AGN's revised proposal states that it is still designing this proposed allowance and that the AER's draft decision did not comment on the proposed allowance, the government reiterates its concerns from its original submission; what is the problem the allowance seeks to address and that, if AGN lodge a further bid for its inclusion, that the AER narrow the amount of the allowance from the current \$2.5 - \$5 million.

I trust that this submission assists the AER in determining a suitable outcome that ensures AGN can safely maintain and operate its gas distribution while maintaining downward pressure on South Australian gas prices.

Should you have any questions in relation to this submission, please contact

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Yours sincerely

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Hon Dan van Holst Pellekaan MP
MINISTER FOR ENERGY AND MINING

16 / 2 / 2021

² Attachment 6: *Operating expenditure – Draft Decision – Australian Gas Networks (SA) Access Arrangement 2021-26*, page 6

³ Zincara – *Review of AGN Unaccounted for Gas Public Summary*, page 5