R IVERINA EASTERN REGIONAL ORGANISATION OF COUNCILS

SUBMISSION TO

Productivity Commission

REVIEW OF THE GAS ACCESS REGIME

Prepared by: ***Riverina Eastern Regional Organisation of Councils***
P.O. Box 646
Wagga Wagga NSW 2650
Ph: (02) 69 319050 Fax: (02) 69 319040
www.reroc.com.au

RIVERINA EASTERN REGIONAL ORGANISATION OF COUNCILS

SUBMISSION TO PRODUCTIVITY COMMISSION'S Review of the Gas Access Regime

Introduction

The Riverina Eastern Regional Organisation of Councils (REROC) is a voluntary association of fifteen local government bodies located in the eastern Riverina region of NSW. Originally formed in 1992 the aim of the organisation is to assist councils to operate more efficiently and effectively through working together to achieve economies of scale and scope.

REROC's membership is comprised of thirteen General Purpose councils (under the NSW Act) and two Water County Councils. Our members are the councils of: Bland, Coolamon, Cootamundra, Culcairn, Gundagai, Holbrook, Junee, Lockhart, Temora, Tumbarumba, Tumut, Urana and Wagga Wagga as well as Riverina Water and Goldenfields Water.

Response to the Terms of Reference

In addressing the Terms of Reference for this Inquiry, all members have been consulted during the preparation of this response. Our specific area of concern with regard to the Inquiry relates to the effectiveness of the Regime in encouraging expansion of the gas pipeline network.

Our members agree with the statement contained in the Final Report of the National Energy Market Review that:

> *"The construction of additional natural gas pipelines has the potential to provide an alternative cost competitive energy source to parts of rural Australia, and to further their economic development"*[1]

However, our experience has shown that the construction of additional natural gas pipelines is in fact dependent on the economic development having already occurred. New pipelines are not a catalyst for development but rather an outcome of development. After a pipeline is established, additional development can follow, however the pipeline will not arrive in the first place unless a supporting development (which creates sufficient demand to guarantee the total return on investment) has already been secured.

While we can appreciate the economic argument that underpins the supplier's decision making, our members believe that this approach actively undermines

[1] *"Towards a Truly National and Efficient Energy Market"*, December 2002, pg 247

investment in new pipelines in regional and rural areas, which in turn, is detrimental to economic development.

Our members agree that changes need to be made to the Gas Access Regime and in particular to the Gas Code which would support a climate of pro-active development in new transmission pipelines.

In NSW, the issue of developing new gas pipelines is further compounded by Section 27 of the NSW Gas Supply Act, which enables the Independent Pricing and Regulatory Tribunal (IPART) to regulate tariffs to customers using less than 1TJ per year. The Gas Supply Act provides for the Tribunal to issue gas pricing orders that enable the establishment of pricing mechanisms that apply to tariff customers.

Case Study One – The Rock

Lockhart Shire Council has for several years attempted to have natural gas connected to The Rock. The township is located approximately six kilometres from what is known as the Culcairn "interconnect" which became operational in 1998.

At meetings with Council, Country Energy has indicated that they believe the cost of extending the pipeline from the main line to The Rock would be approximately $1,000,000.

The township is conveniently located on the Olympic Highway 20 minutes drive south of Wagga Wagga, the largest inland city in NSW and about 1 hour's drive north of Albury-Wodonga. The provision of natural gas to the township has the potential to act as a significant catalyst for economic development. However there is currently no major potential user for the product, as a result Country Energy has requested that the community provide a contribution towards the pipeline's capital works of at least $300,000.

Consequently, despite being located tantalising close to one of Australia's main gas pipelines, it is highly unlikely that the community will ever benefit from the energy source.

The National Energy Market Review commented that:

> *"…major transmission pipelines from remote access sources of gas to capital cities passing through rural and regional areas can make economic the supply of natural gas to communities or commercial operations along the route"*[2]

This has certainly not been the case for the residents of The Rock.

[2] Ibid.

If gas suppliers are to be encouraged to invest in new pipelines that feed regional and rural locations then it is imperative that they are provided with a regulatory environment that supports those investment decisions, both at State and Federal levels.

The National Energy Market Review found that too much regulatory uncertainty exists around new pipeline development. Our members agree that such uncertainty must be removed and that any amendments should include the establishment of a set of guidelines which specifically addresses the needs of rural and regional communities in what may be described as “thin” markets.

The current Regime is designed to provide benefits for highly urbanised markets but does little to support the introduction of the service to small population centres where competition is unlikely to ever occur.

Our members support the introduction of guidelines within the Gas Regime that:

- guarantee that a pipeline which services a “thin” market will not be covered during the period of time that it takes for the service provider to obtain an appropriate Return on the Investment. This should apply regardless of whether or not a large user subsequently joins. This would be similar to the 15 year economic holiday suggested by the National Energy Market Review.
- that Section 8.16 of the Code be amended to recognise that New Facilities Investment can occur on basis that it will lead to economic development outcomes in a rural or regional location.
- where the community contributes to the capital cost of the connection the Code and Regime be amended to allow the introduction of business-community partnerships, which will facilitate a return on investment to the community as well as the service provider
- ensure that where a new transmission pipeline is being established that the proposed route does not by-pass townships, but rather runs as close to them as will make the connection of gas to residents and businesses accessible
- where a pipeline is constructed to or through a regional area, its construction facilitates the economic connection of gas to nearby townships through the use of spurs or laterals

Case Study Two – Tumbarumba

The Shire of Tumbarumba is one of the major gateways to the Kosciusko National Park, it is also home to major timber milling enterprises. The Shire abutts Tumut Shire, which had natural gas connected in 2000 as result of the establishment of the Visy Mill Paper Mill. The Shire has consistently attempted to have the Visy line extended to Tumbarumba, to date they have not met with success.

The town in the last two years has lost one major enterprise for lack of natural gas. The Council recognises that access to natural gas will be a catalyst for development within the Shire because many timber processing enterprises utilise gas as part of the drying process.

In its negotiations with Country Energy, Council has been advised that the cost of extending the line would be $9 million and that, because of the low demand for the service, the community would be required to provide $6 million towards the cost. Council has advised the supplier that while they could not invest the required sum, the community would be prepared to pay higher than usual tariffs for the product in order to deliver an appropriate return on investment (the cost of LPG has now become almost prohibitive). However, while the Gas Code allows the levying of a surcharge in order to recover some or all of the cost of New Facilities Investment[3], in NSW all charges for consumers using 1TJ or less of natural gas must be approved by IPART.

IPART have advised Council that in approving retail tariffs, the Tribunal takes into account the cost of supply and determines an appropriate retail margin. IPART has also advised that it does not believe that the current regulatory environment prevents economically viable gas supply proposals from proceeding. The Tribunal has indicated that Council will be required to go out to Expressions of Interest for a gas supplier, rather than to negotiate directly with Country Energy for supply.

The role of IPART, further complicates the issue for Council, not only must it deal with the national Regime, it must also navigate its way through the State regulatory system.

Our members are concerned that the State regulator is focussed on "economically viable" proposals. This approach will do little to facilitate the connection of gas to small communities, even those that can promise economic growth.

While the Gas Code allows options for the funding of new facilities, service providers seem to be focussed on an up-front capital contributions. The Code also allows provision for negotiation of the Service Provider's obligations to the User with respect to the capital contribution and vice-versa[4], however this does not appear to be occurring.

Our members support the introduction of the following mechanisms with regard to the Code:

- that Federal and State regulators reach agreement that the regulatory environment for natural gas must allow for investment in economically

[3] Section 8.25
[4] Section 8.24

marginal proposals, where they occur in rural and regional areas, providing the Service Provider is willing to accept the risk.

- that IPART put into place simple processes that will allow communities who are willing to fund their connection to gas through the payment of higher tariffs to do so.
- where the community contributes to the capital cost of the connection that State regulatory regimes (including Local Government Acts) be amended to allow the introduction of business-community partnerships, which will facilitate a return on investment to the community as well as the service provider
- provide access to a government-funded intermediary (who has expertise in the energy environment) that can assist in negotiations with the Service Provider/s, and the State and Federal regulators
- the development of resource materials for rural and regional communities that clearly states their rights and obligations with regard to the Regime and Code in their State
- the development and distribution of case studies/profiles that highlight the strategies used by rural and regional communities that have successfully connected to natural gas

Conclusion

The current Gas Access Regime supports the creation of a competitive environment for the provision of gas services but it does not encourage investment in new facilities for regional and rural localities.

Natural gas will never achieve its potential as a catalyst for regional economic development within the current regulatory environment. The members of REROC encourage the Productivity Commission to implement amendments to the Gas Regime that will support the development of new facilities in rural and regional Australia, particularly for communities where the “payback” period for the investment is likely to be lengthy.

REROC would welcome the opportunity to discuss the issues we have raised in our submission with the Commission further.