

16/11/03

Gas Regime Inquiry
Productivity Commission
LB2 Collins St East
Melbourne Vic 8003,
Dear Inquiry Team

RE: Submission to the Review on Gas Access Regime

Infrastructure Access Services (IAS) welcomes the Productivity Commission's Review of the Gas Access Regime. Some of the issues under consideration by the Commission have also been discussed publicly by IAS over the last 2 years. IAS is a private management consulting group providing services to regional industries.

IAS has assisted on a collaborative basis the participants in the gas industry in Victoria in developing a new approach for the provision of gas infrastructure.

The view of IAS is summarised in the Submission to the Productivity Commission, the Gas Bulletins, and Gas Forum Outcomes.

Please contact either me on (03) 9882 8827 or Dr Greg Walsh on 0407 041 604 if you have any question arising from the submission.

Thank you

David Wark
Principal

**The Gas Access Regime
Submission to the Gas
Access Regime Inquiry-
Productivity
Commission**

Submission

Infrastructure Access Services

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1. THE FAILURE OF NATURAL GAS POLICY

Infrastructure Access Services (IAS) is a management consultancy group providing services to regional industries. In 2001, IAS was requested to review the outcome of natural gas extensions in regional Victoria and develop a strategy for extension of the network. The review was requested by local Government and industry in regional Victoria. Factors driving local Government and industry to request the review were:

- The apparent failure after 6 years of the privatization of natural gas to result in any extensions of the distribution network except in two areas where extensions occurred with Government subsidies.
- Criticism of the Code and other regulatory arrangements by energy companies for failing to provide the certainty and predictability needed for distributors and transmission operators to invest in regional areas.
- Lack of transparency in the regulatory arrangements and processes governing the provision natural gas infrastructure, particularly in matters relating to economic arguments within decisions made under the Code
- Poor strategic planning frameworks at a Commonwealth, State and Local Government level
- The absence of financial mechanisms which will allow local communities and industries invest in the provision of local gas infrastructure where there exists a willingness to do so

IAS developed a natural gas strategy for regional Victoria based on a collaborative approach between interested parties. To facilitate the implementation of the strategy IAS organized a number of public forums, assisted in excess of 20 Shire Councils to refine their case for natural gas extensions, prepared issues papers and business cases, and produced regular bulletins with a circulation in excess of 800. A major outcome was a public commitment by all major political parties to fund marginal natural gas projects in regional Victoria.

Since July 2002, the Victorian Government have been investigating and developing policies and processes for natural gas extensions. On 11 June 2003, the Minister for State and Regional Development, the Hon. John Brumby MP, and the Minister for Energy Industries and Resources, the Hon. Theo Theophanous MP, launched the Natural Gas Extension Program in Bendigo. This \$70 million initiative, funded through the Regional Infrastructure Development Fund, is aimed at making reticulated natural gas available to up to 100,000 homes and businesses in Country Victoria.

53 Shires have recently made submissions to the Victorian Government requesting natural gas extensions to over 130 locations.

2. ISSUES REQUIRING RESOLUTION AND LEADERSHIP

The Gas Bulletins 1, 2 and 3, and the Forum outcomes of Creswick (July 2002) and Geelong (November 2002) detail a number of issues requiring resolution and leadership.

These include:

- A strategy to address the lack of access to natural gas networks (transmission and distribution) for non metropolitan communities
- The need for regulatory arrangements to provide certainty and predictability for investors
- A strategy for facilitating investment by local industry and communities in small scale but vital local gas infrastructure
- A strategy to enable the application of community charters and alternative pricing for non metropolitan communities
- A strategy to assess infrastructure investment on the basis of environmental and community responsibilities and obligations as well as economic criteria
- The need for Industry Foresight – Foresight is based on deep insight into trends, into technology, markets, demographics, lifestyles, and strategic alliances which can be harnessed to rewrite industry practices and create new competitive space and sustainable benefit for investors, business (transmission and distributors), employees and communities (Government and Regulators)
- The need for State Governments to make formal submissions to regulators. Governments have generally declined to make formal submissions in response to draft price decisions by regulators.
- The need to establish the means of evaluating the economic efficiency of price regulation by the Code. Including the costs incurred by regulators and the industry
- The need to investigate why there would not be an economic efficiency in allowing for large industrial users to purchase gas from transmission operators.
- The need to review the operation of incentives for such products as solar efficiency especially when these are cross subsidised by electricity appear to favour electricity generation

IAS is prepared to meet with the Productivity Commission or other interested parties to discuss these issues more fully.

3. ATTACHMENTS

3.1. Gas Bulletins 1, 2 and 3

3.2. Outcome - Creswick Resolutions 5th July 2002

3.3. Outcome - Geelong Resolutions 29th November 2002