

Wagga Wagga Network Revocation Submission

Public Version

Envestra Ltd

1 May 2013

Executive Summary

Envestra Limited (Envestra) is seeking a revocation of coverage determination for the Wagga Wagga natural gas distribution network.

This application is made by Envestra pursuant to sections 102 to 108 of the National Gas Law (NGL) and has been prepared in accordance with clauses 18 to 20 of the National Gas Rules (NGR).

The Wagga Wagga network was originally deemed to be a covered pipeline at the commencement of the *National Third Party Access Code for Natural Gas Pipeline Systems* (the Gas Code) in November 1997. The Wagga Wagga network has not therefore been subject to a detailed assessment as to whether it satisfies all of the following criteria set out in section 15 of the NGL:

- access (or increased access) to the services provided by the pipeline would promote a material increase in competition in at least one other market (criterion (a));
- it would be uneconomic to develop another pipeline to provide the services supplied by the pipeline (criterion (b));
- access (or increased access) to the services provided by the pipeline can be provided without undue risk to human health or safety (criterion (c)); and
- access (or increased access) to the services provided by the pipeline would not be contrary to the public interest (criterion (d)).

Envestra considers coverage of the Wagga Wagga network is not warranted because it does *not* satisfy either criterion (a) or criterion (d).

With regard to criterion (a), continued coverage of the network will not promote a material increase in competition in upstream or downstream dependent markets. Envestra has neither the incentive nor the ability to act in a manner that is contrary to the long term interests of consumers and its investment in the network. In particular:

- Envestra has no related retail, transmission or gas wholesale interests to which it could leverage any market power into a dependent market;
- Envestra is indifferent between the sources of gas and transmission pipelines used to supply the network given both transmission connection points are under common ownership;
- Envestra has a strong incentive to increase throughput on the network given the large sunk costs, low network utilisation and the lack of any competitive advantage relative to electricity. Increasing throughput has the effect of lowering the unit cost for access to the network, which in turn makes gas more competitive when compared against alternate fuel sources and therefore more attractive to existing and potential end users;
- Envestra's pricing decisions are constrained by the ability of customers to substitute electricity in preference to gas (particularly given the considerable worsening of the competitive position of gas relative to electricity in New South Wales);
- Envestra's pricing decisions are also constrained by the ability for large industrial users to bypass the distribution network and connect directly to a transmission pipeline; and

- Envestra's pricing decisions are further constrained by the countervailing power of retailers given they are large, vertically integrated participants with a sophisticated understanding of the energy market.

The fact that there is currently one major retailer of gas in Wagga Wagga, despite a decade of Full Retail Contestability, also suggests that coverage of the network has not facilitated competition in the downstream market to a material extent. Moreover, coverage will not impact on upstream markets given the very small size of the Wagga Wagga natural gas market, which accounts for just 0.3% of the gas consumed in the eastern Australian gas market.

With regard to criterion (d), it is in the public interest to revoke coverage of the network as there are no benefits to offset the regulatory costs associated with continued coverage of the Wagga Wagga network. The estimated regulatory cost to Envestra and the AER to apply full regulation of the network is around \$2.8 million per regulatory period.

Revocation of coverage will therefore result in relatively lower prices, which will in turn improve the long term viability of the network by encouraging greater network utilisation. Revocation will therefore benefit end users, Envestra and the local Wagga Wagga community more broadly. Given this, Envestra considers revocation of coverage is consistent with the National Gas Objective set out in section 23 of the NGL, which is to:

"... promote efficient investment in, and efficient operation and use of, natural gas services for the long term interest of consumers of natural gas with respect to price, quality, safety, reliability and security of supply of natural gas".

Although not required for this application, this submission sets out Envestra's future pricing intentions for the Wagga Wagga network in the event that network coverage is revoked. Envestra intends to pass back the full amount of regulatory costs that are currently included in prices, which amount Envestra believes to be \$1.2 million. This will be affected by not applying the scheduled 2.5% real increase in prices to occur from 1 July 2014 under the current Access Arrangement.

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Attachment 2 - Minutes of Stakeholder Meetings, 18 to 20 March 2013

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1. Introduction

1. Envestra Limited (Envestra) is applying for a coverage revocation determination¹ for the covered Wagga Wagga gas distribution network. This application is made by Envestra pursuant to section 102 of the National Gas Law (NGL) and has been prepared in accordance with Rule 18 of the National Gas Rules (NGR). Envestra is the owner of Envestra (NSW) Pty Ltd, which holds the Wagga Wagga gas distribution licence and is the service provider of the Wagga Wagga natural gas distribution network.
2. This application is made on the basis that while the Wagga Wagga network may satisfy two of the pipeline coverage criteria (i.e. it would be uneconomic to duplicate the network (criterion (b)) and access can be provided without undue risk to human health or safety (criterion (d)), Envestra considers the following pipeline coverage criteria are *not* satisfied:
 - (a) access (or increased access) to pipeline services provided by means of the pipeline would promote a material increase in competition in at least 1 market (whether or not in Australia), other than the market for the pipeline services provided by means of the pipeline (criterion (a)); and
 - (d) access (or increased access) to the pipeline services provided by means of the pipeline would not be contrary to the public interest (criterion (d)).
3. In short, Envestra has neither the incentive nor the ability to exercise market power to negatively affect competition in a dependent market (criterion (a)) and the net costs of economic regulation exceed the benefits (criterion (d)).

1.1. Applicant's name and contact details

Applicant:	Envestra Limited (ACN 078 551 685)
Contact details:	Craig de Laine Manager Network Regulation Level 10, 81 Flinders Street Adelaide SA 5000 Phone: (08) 8227 1500

¹ NGL Division 2, clause 102.

Part A – Background

2. Legislative Framework

2.1. National Gas Law

4. The National Gas Law (NGL) is set out in the Schedule to the *National Gas (South Australia) Act 2008 (SA)*, which commenced on 1 July 2008. It is applied as a law of New South Wales (NSW) by application of the *National Gas (New South Wales) Act 2008 (NSW)*. The *National Gas (South Australia) Act 2008 (SA)* replaced the *Gas Pipelines Access (South Australia) Act 1997*.
5. The NGL applies to pipelines used for the haulage of natural gas and outlines the rights and obligations of service providers, users and access seekers. The NGL, in conjunction with the NGR, also provides direction to the National Competition Council (NCC) when making pipeline classification and coverage recommendations to the relevant Minister.
6. Section 13 of the NGL provides the 'classification criteria' by which the NCC must assess a pipeline as either a transmission or distribution pipeline. The pipeline classification determines particular responsibilities of the service providers and determines the relevant Minister to make a coverage, or revocation of coverage, decision.
7. Section 15 of the NGL sets out the 'coverage criteria' the NCC is required to give effect to when making a recommendation to the relevant Minister about whether the pipeline should be covered (regulated) or uncovered (unregulated). The coverage criteria are as follows:
 - (a) that access (or increased access) to pipeline services provided by means of the pipeline would promote a material increase in competition in at least 1 market (whether or not in Australia), other than the market for which the pipeline services provided by means of the pipeline (referred to as criterion (a));
 - (b) that it would be uneconomic for anyone to develop another pipeline to provide the pipeline services provided by means of the pipeline (referred to as criterion (b));
 - (c) that access (or increased access) to the pipeline services provided by means of the pipeline can be provided without undue risk to human health or safety (referred to as criterion (c)); and
 - (d) that access (or increased access) to the pipeline services provided by means of the pipeline would not be contrary to the public interest (referred to as criterion (d)).
8. Sections 97(1)(b) and 105(1)(b) of the NGL also require the NCC to have regard to the National Gas Objective (NGO) when assessing a pipeline against the coverage criteria. The NGO is set out in Section 23 of the NGL and is reproduced below:

The objective of this Law [the NGL] is to promote efficient investment in, and efficient operation and use of, natural gas services for the long term interest of consumers of natural gas with respect to price, quality, safety, reliability and security of supply of natural gas.

9. In accordance with the NGL, the NCC can only recommend coverage where it is satisfied that all of the coverage criteria are met (sections 97(2)(b) and 105(2)(b) of the NGL). A decision as to whether

a pipeline should be covered must ultimately be made by the relevant Minister having regard to the coverage criteria, the NGO and the NCC's recommendation.

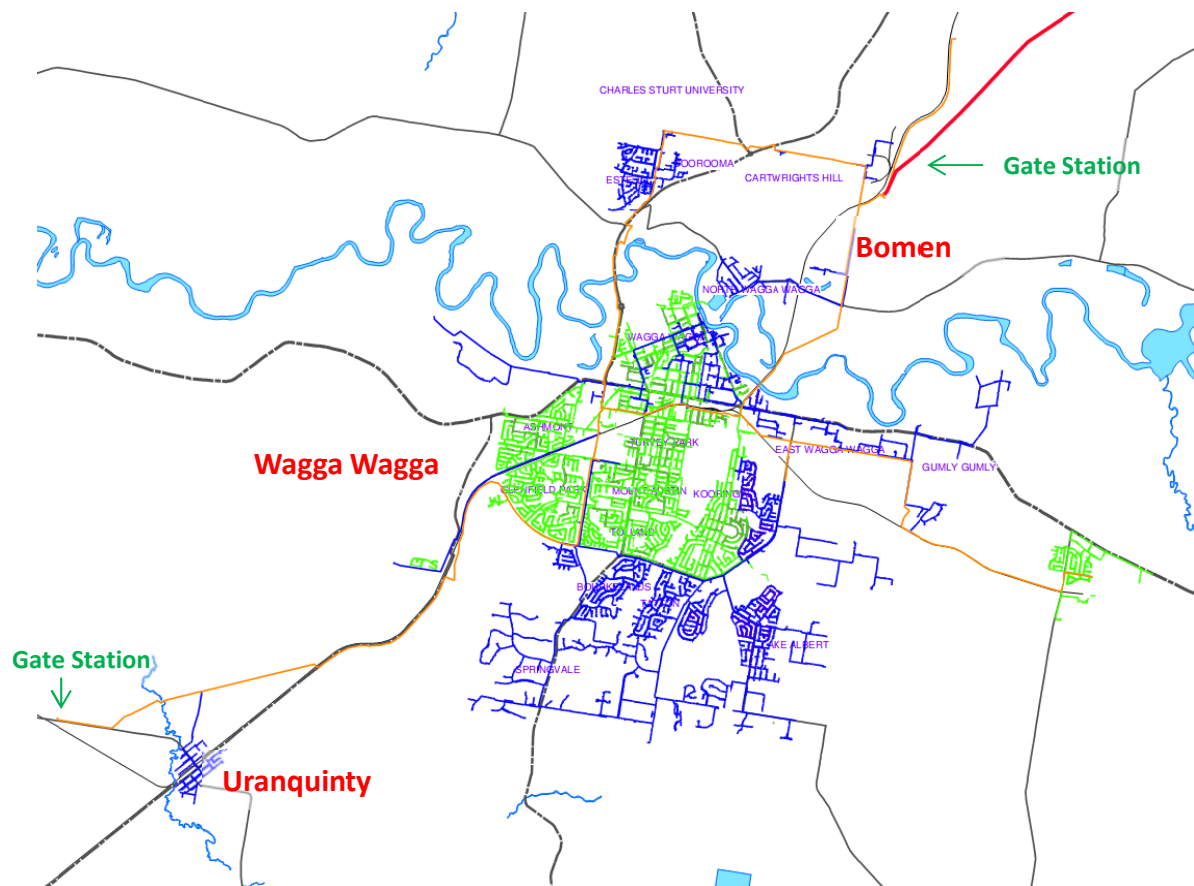
10. An unregulated (uncovered) pipeline is one where the terms, conditions and price for access to the pipeline are determined directly between the service provider and the pipeline user (e.g. energy retailer). A regulated (covered) pipeline, on the other hand, is one where an independent regulator, in this case the Australian Energy Regulator (AER), is involved in determining the terms, conditions and/or price for access to the pipeline.
11. A pipeline classification or coverage decision can be reviewed at any time. Any party (e.g. network service provider, energy retailer or end use customer) can initiate the review process with the NCC if there are sufficient reasons to believe that such a review is warranted.

3. Network Details

3.1. Network

12. The Wagga Wagga network is a 'covered pipeline' by virtue of its inclusion in the original Schedule A list of covered pipelines under the *National Third Party Access Code for Natural Gas Pipeline Systems 1997* (the Code). The independent regulatory function is performed by the AER with the current Access Arrangement due to expire on 30 June 2015.
13. The city of Wagga Wagga is located equidistant between Sydney and Melbourne at the crossroads of the Sturt Highway (the main Sydney-Adelaide highway) and the Olympic Highway. The Sydney-Melbourne railway line passes through it and Wagga Wagga is located only 45km east of the Hume Highway, the main Sydney-Melbourne Highway. Wagga Wagga straddles the Murrumbidgee River, one of the major rivers of the Murray-Darling Basin. Uranquinty is a small town located 15km south of Wagga Wagga on the Olympic Highway. Uranquinty forms part of the Wagga Wagga Local Government Area despite being a separate town.
14. The Wagga Wagga network reticulates natural gas within the city of Wagga Wagga and the small town of Uranquinty. In 2011/12 the network delivered approximately 1.7PJ of gas to just over 20,000 end users. The average age of the network is approximately 23 years and is 690km in length.
15. The population of the area serviced by the network is approximately 50,000, comprising 22,000 households. Industries with a major presence include industrial recyclers (Renewed Metal Technologies [car batteries] and Southern Oil [waste oil]), health (Southern Health Service) and defence (Kapooka Army Training Centre and Forest Hill RAAF Base).
16. The network is connected to the Moomba to Sydney Pipeline via the Young to Wagga Wagga lateral and the Victorian Principal Transmission System via the Interconnect, both of which are owned by the APA Group (APA). The network is supplied through two gate stations located at Bomen (northern Wagga Wagga) and Uranquinty. A map of the supply area, including gate stations, is provided below.

Figure 1: Wagga Wagga Network



Note: Orange pipelines are steel high pressure mains running at 900 kPa
 Blue pipelines are medium high pressure mains running at 200 – 300 kPa
 Green pipeline are medium low pressure mains running at 40 kPa

17. Supply is taken at 8,000kPa from the transmission pipelines. The steel high pressure mains operate at 900kPa with district regulators reducing the pressure to a range of 40 to 200kPa for final supply to consumers.
18. The network is part of the eastern Australian gas market, which comprises over 3.5 million residential, commercial and industrial customers (including gas fired electricity generation) and consumes around 670PJ of gas per annum². Gas is delivered to these customers by means of transmission and distribution pipelines 94,000km in length³.
19. The network is very small when compared to the eastern Australian gas market, comprising just 0.6% of all customers in eastern Australia and accounting for just 0.3% of the gas consumed in the broader market. Given its small size, the network has negligible impact on the upstream market of gas production and gas haulage across the transmission network.

3.2. Service and classification

20. Envestra defines the service provided by the pipeline to be the reticulation of natural gas to consumers within the Wagga Wagga (including Uranquinty) area.

² AEMO Gas Statement of Opportunities For Eastern and South Eastern Australia 2012 page A-5

³ AER State of the Energy Market 2012 pages 104 and 108

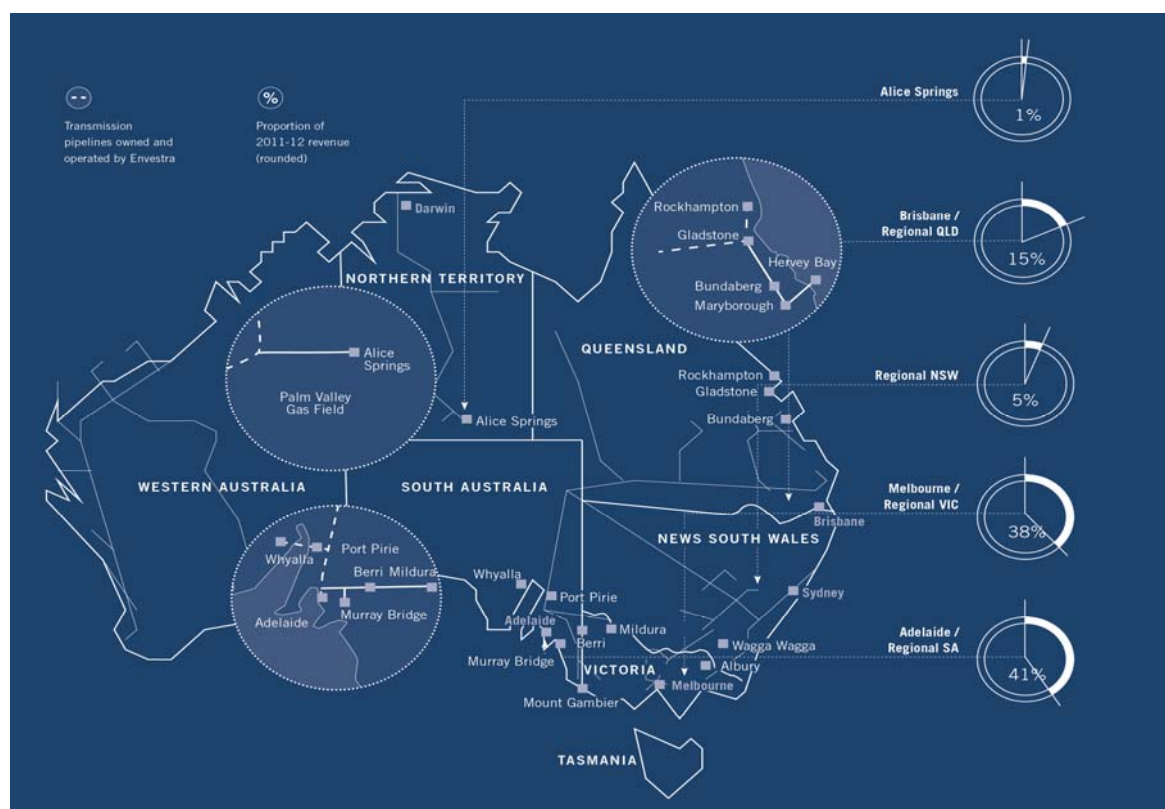
21. At the time the Wagga Wagga network was deemed to be a covered pipeline it was classified as a 'distribution' pipeline. Envestra considers this classification correct as the primary function of the pipeline is to reticulate natural gas to consumers within the Wagga Wagga (including Uranquinty) area. This satisfies the distribution Pipeline Classification Criterion set out under section 13(1)(a) of the NGL, which criterion declares the primary function of the pipeline is to:

(a) reticulate gas within a market (which is the primary function of a distribution pipeline).

3.3. Network owner

22. Envestra is Australia's leading gas distribution business, servicing almost 1.2 million customers and delivering around 120 PJ of gas across South Australia, Victoria, Queensland, New South Wales and the Northern Territory. Envestra owns approximately 22,000 km of natural gas distribution networks and 1,100 km of transmission pipelines. Figure 1 provides an overview of Envestra's operations.

Figure 2: Envestra operations



Data source: Envestra. 2012. Annual Report. p 26.

23. Envestra was listed on the Australian Stock Exchange in August 1997 following its demerger from the Boral group. Envestra has over 17,000 shareholders including the APA Group (APA) and Cheung Kong Infrastructure Holdings (CKI). Envestra's shareholder profile is outlined below.

Table 1: Shareholder profile

Shareholder	Shareholding (%)
APA	33
CKI	18
Institutions	25
Retail ^a	24

^a Retail defined as <100,000 shareholding

24. APA is Australia's largest natural gas infrastructure business, owning and/or operating more than \$12 billion of gas transmission and distribution assets, such as the Moomba to Sydney and Goldfields transmission pipelines. In addition to Envestra, APA holds interests in other energy infrastructure enterprises such as the SEAGas Pipeline and Energy Infrastructure Investments (EII – owner of one of the two Queensland networks).
25. APA provides operating, maintenance and construction services to Envestra, including in the Wagga Wagga network, pursuant to the 2007 Operating and Management Agreement (2007 OMA). The outsourcing arrangement allows Envestra to achieve efficient cost outcomes that are consistent with industry best practice by benefiting from the economies of scale and scope of the significantly large operations of the APA Group.
26. CKI is one of the largest listed Companies on the Hong Kong stock exchange, specialising in investments in infrastructure assets. CKI also has significant interests in three electricity distribution networks in Australia – SA Power Networks (South Australia), Powercor and CitiPower (Victoria).
27. As noted in paragraph 16, APA owns the two transmission networks that are connected to Envestra's distribution network. Importantly, APA's shareholding in Envestra and/or its ownership of the transmission networks does not impact on the operation of the Wagga Wagga distribution network or the decisions made by Envestra more generally. This reflects a number of factors, including that:
 - (a) APA's interests are balanced by the 19% shareholding in Envestra held by the CKI Group, with a further 50% of the share registry held by a range of institutional and retail investors (see table 1);
 - (b) the Envestra Board currently has 8 Directors, four of whom (including the Managing Director) are independent Directors (i.e. independent of both APA and CKI), two of whom are APA appointed Directors and two of whom are CKI appointed Directors. APA is therefore not in a position to control the Board of Envestra and can be out-voted on any issue by other members of the Board;
 - (c) pursuant to the Constitution of Envestra, and unlike CKI, the APA Group does not have a right to appoint any Directors to the Envestra Board (the Constitution of Envestra is available at www.envestra.com.au);
 - (d) the two APA Directors do not participate in any discussions and/or decisions where there is a conflict of interest; and
 - (e) neither Envestra nor the APA Group are part of the same group of companies.

28. Envestra acquired the Wagga Wagga network from Country Energy (now Essential Energy) in October 2010. Relative to Envestra's other networks, the Wagga Wagga network is small, accounting for around 2% of Envestra's total revenue, gas delivered and capital and operating expenditures.

3.4. Current Consumption

29. The Wagga Wagga network delivered approximately 1.7PJ of gas to just over 20,000 end users in 2011/12. The residential segment comprises the largest number of customers connected to the network and contributes the greatest amount of revenue recovered from the network.

Table 2: Customer Segmentation – 2011/12 Actual Data

Segment	Customers	Volume Delivered (PJ)	Revenue (\$M)
Residential	19,700	0.8	9.1
Commercial (<10TJ)	500	0.1	0.5
Industrial (>10TJ)	15	0.8	0.6

30. Comparing residential customer numbers against the total number of households (22,000) reveals a penetration rate of gas connections of 90%. The average residential consumer utilises approximately 42GJ per annum. Consistent with Envestra's other networks, the most common gas appliances used by the residential segment in Wagga Wagga are:
- Cooker;
 - Water Heater; and
 - Space Heater
31. Commercial (<10TJ pa) and Industrial (>10TJ pa) customers comprise a mix of industries typical of regional areas. The large industrials of note include:
- a. Industrial Recyclers (Renewed Metal Technology and Southern Oil);
 - b. Defence (Kapooka Army Barracks and RAAF Base); and
 - c. Health (Southern Health Service).

3.5. Future Demand

32. Country Energy concluded an Access Arrangement Review with the AER prior to divesting the Wagga Wagga network. The term of the Access Arrangement is 1 July 2010 to 30 June 2015. The Access Arrangement contains projections of gas demand as required by Rule 72 (j)(i) of the NGR. These projections were completed after considerable review by Country Energy and the AER. Envestra therefore considers the Access Arrangement growth rates of customers and volumes, which are set out in tables 3 to 6, provide the most reasonable estimate of demand over the foreseeable future.

Table 3: Residential Segment Access Arrangement Forecast

Residential	2010-11	2011-12	2012-13	2013-14	2014-15	CAGR (%)
Customers	18,756	19,036	19,316	19,596	19,876	1.5%
Volume (TJ)	800	808	814	821	828	0.8%
Customer Average (GJ pa)	42.7	42.4	42.1	41.9	41.6	-0.6%

Table 4: Commercial (<10TJ pa) Segment Access Arrangement Forecast

Commercial (<10TJ)	2010-11	2011-12	2012-13	2013-14	2014-15	CAGR (%)
Customers	204	214	224	234	244	4.6%
Volume (TJ)	119	124	128	133	137	3.5%
Customer Average (GJ pa)	585	579	572	566	561	-1.1%

Table 5: Industrial (>10TJ pa) Segment Access Arrangement Forecast

Industrial (<10TJ)	2010-11	2011-12	2012-13	2013-14	2014-15	CAGR (%)
Customers	14	14	14	14	14	0.0%
Volume (TJ)	646	646	646	645	645	-0.1%
Customer Average (GJ pa)	46,167	46,143	46,118	46,093	46,068	-0.1%

Table 6: Total Access Arrangement Forecast⁴

Total	2010-11	2011-12	2012-13	2013-14	2014-15	CAGR (%)
Customers	18,974	19,264	19,554	19,844	20,134	1.5%
Volume (TJ)	1,566	1,578	1,588	1,599	1,609	0.7%
Customer Average (GJ pa)	82.5	81.9	81.2	80.6	79.9	-0.8%

33. Comparing actual 2011/12 consumption (table 2) against the Access Arrangement forecast (tables 3 to 6) reveals some minor variations regarding customer numbers and demand. Current customer numbers are higher than the Access Arrangement as a result of migrating customer data from the Country Energy billing system to the Envestra billing system. Also, a new industrial customer has connected to the network which has increased load.
34. Envestra does not consider the small variations noted above impact on the veracity of the load growth rates determined in the Access Arrangement. The trend decline in average consumption (customer average (GJ pa)) is evident in all of Envestra's networks and can be attributed to continuous improvements in energy efficiency (appliance efficiency and building thermal efficiency), customer appliance preferences (electric reverse cycle air conditioning instead of gas space heating) and warmer weather of recent years. Importantly, the variances do not affect the assessment of the utilisation of the network (see section 3.6).
35. Envestra considers a growth rate of 0.7% per annum in overall volumes to be the best available projection of load on the Wagga Wagga network in the near term. However, the outlook for demand

⁴ Access arrangement information for the access arrangement for the Wagga Wagga gas distribution network, April 2010, page 19

in the medium to longer term is clouded by the expected increase to domestic east coast wholesale gas prices from approximately \$4.50 per GJ to \$12 - \$14 by 2020⁵. Such substantial increases to wholesale gas prices will cause reductions in gas demand and precipitate a further consumer shift to electricity. This scenario is more likely in NSW where electricity generation is dominated by coal and therefore electricity costs are relatively impervious to shifts in the price of wholesale gas.

3.6. Capacity Utilisation

36. Capacity utilisation of the Wagga Wagga network is currently quite low. The table below shows the most recent peak daily flow across the Bomen and Uranquinty gate stations compared against the design capacity of each gate station:

Table 7: Peak Day Capacity Utilisation

Gate Station	Capacity (m ³ /day)	Peak Flow (m ³ /day)	Peak Day Utilisation (%)
Bomen	480,000	173,171	36%
Uranquinty	240,000	104,471	44%

37. Average flow through the Bomen and Uranquinty gate stations was approximately 84,000 m³/day and 46,000 m³/day in 2011/12, implying an average utilisation of only 18% and 19% respectively. The low utilisation reflects the refurbishment of the Bomen gate station in 2008/09, which refurbishment improved the reliability of supply as well as doubling the available capacity.
38. The figures below show the daily flow through each gate station from June 2011 to November 2012. The profile demonstrates the seasonality of gas consumption across the network, with winter having higher use due to the heating load. Critically the figures, along with the peak day capacity utilisation shown in Table 7 above, demonstrate the underutilisation of the network and consequently its ability to easily absorb the projected future load growth of 0.7% per annum (to the extent this load growth eventuates).

⁵ AEMO *op. cit.* table 1-1

Figure 3: Bomen Gate Station Usage Profile - June 2011 to November 2012

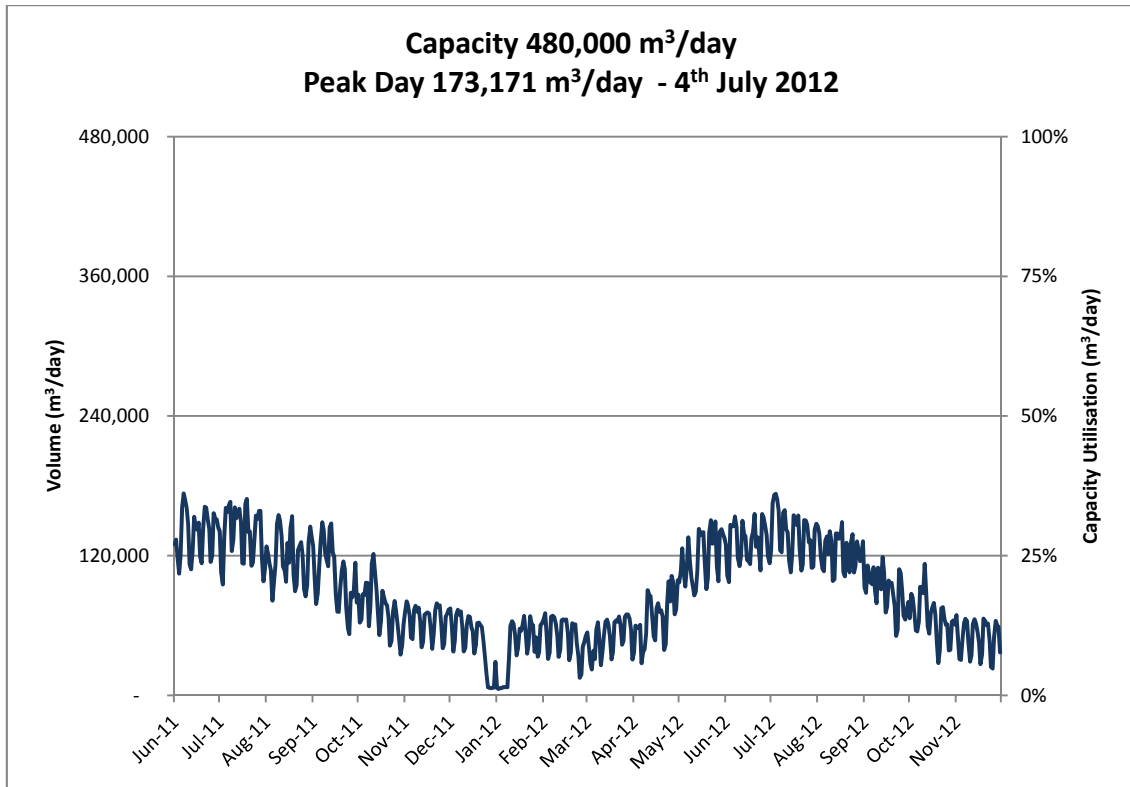
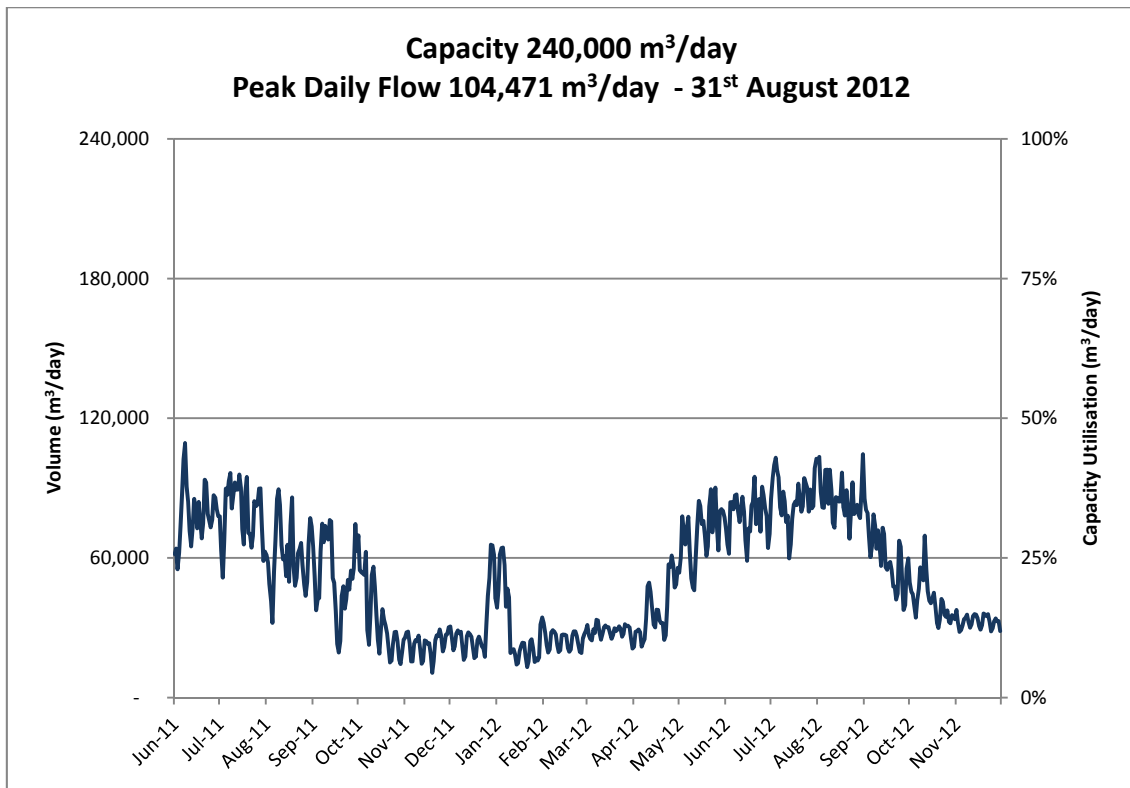


Figure 4: Uranquinty Gate Station Usage Profile - June 2011 to November 2012



3.7. Retailers

39. Origin Energy and EnergyAustralia are the only two shippers of natural gas to, and active gas retailers in, Wagga Wagga despite there being a total of 8 licensed gas retailers in NSW. Origin Energy is the major retailer in the network with EnergyAustralia being limited to a very small share of the market. It is worth noting that full gas retail contestability in NSW is over a decade old, having been introduced in January 2002.

Table 8: Retailer Breakdown

	Customers (%)	Volume Delivered (%)
Origin Energy	c-i-c	c-i-c
EnergyAustralia	c-i-c	c-i-c

40. IPART currently regulates the retail prices charged to a mass market (<10TJ pa) customer not on a market contract with a retailer in NSW and is currently reviewing the retail prices to apply from 1 July 2013 to 30 June 2016 (see section 3.8.1 below). The AEMC are currently conducting a review into the effectiveness of retail price regulation in NSW with the Final Report due by 30 September 2013.

3.8. Alternative sources of energy

41. The Wagga Wagga gas distribution network is in competition with other fuels for the delivery of energy to end users. Electricity and Liquefied Petroleum Gas (LPG) are the two main alternative energy sources for natural gas end users in the region. Gas appliances in the residential and business segments are easily replaceable with appliances that either have electricity or LPG as the fuel source, given each gas appliance has an electric or LPG equivalent.
42. In the large industrial sector where natural gas is often used for process heat, not only are electricity or LPG alternate fuel sources, but direct connection to the transmission pipeline (ie bypass of the distribution network) is also often available.

3.8.1. Electricity

43. Electricity is a readily available substitute for all natural gas applications, as it can be used for cooking, water and space heating. Moreover, and unlike gas, electricity is not a discretionary fuel and therefore has a 100% penetration rate.
44. The market position of natural gas relative to electricity in the residential segment is currently comparable. The average residential gas customer in Wagga Wagga using 42GJ of gas for cooking, hot water and space heating will pay approximately \$1,090 in 2012/13. The electric equivalent of those appliances yields a cost of \$1,094 in 2012/13⁶.
45. The future market position of natural gas relative to electricity is expected to significantly worsen as a result of projected increases to the price of wholesale gas, which increases will affect the cost of delivered natural gas more than delivered electricity. IPART in its recent review of regulated retail gas and electricity prices has indicated that, for Wagga Wagga, retail electricity prices are expected to decrease by around 4% between 2013/14 and 2015/16⁷.

⁶ Electricity use is 3,000kWh pa for hot water and 2,000kWh for heating and cooking.

⁷ IPART *Review of regulated retail prices for electricity, 2013 to 2016, Electricity - Draft Report* April 2013

46. In contrast, retail gas prices are forecast to increase in nominal terms by 6.4% in 2013/14⁸. Prices for 2014/15 and 2015/16 will be established closer to the relevant years as IPART has identified that there are:

“... too many uncertainties to reach agreements on these price changes now. However we consider it likely that regulated retail prices will rise further over the following 2 years, driven by sustained increases in gas network costs under distribution pricing determinations already in place⁹, and the structural changes that are likely to emerge in the wholesale gas market. These structural changes, which mean that Australia's domestic gas markets will be increasingly influenced by the international market, are likely to put upward pressure on wholesale gas costs, which currently make up around 30% of regulated retail gas prices”.¹⁰

47. As part of IPART's retail gas price review, ACIL Tasman have been engaged to establish projections of wholesale gas costs over the next three years, including 2014/15 and 2015/16¹¹. ACIL Tasman's projections suggest wholesale gas prices will increase by approximately 50% in 2014/15 and effectively remain at that level for 2015/16¹². An increase of 50% to wholesale gas cost translates to an increase of approximately 15%¹³ to the total gas invoice of residential and small commercial users. The resultant increases for larger commercial and industrial users will be greater as the wholesale gas costs form a much larger part of their total gas invoice.
48. The IPART review also states that gas consumers in Wagga Wagga will experience further increases in prices due to the transitioning of regulated retail prices to more “appropriate levels”. IPART determined an appropriate increase on the retail component for 2013/14 of CPI plus 20% whereas Origin Energy, the host retailer for the network, proposed an increase of CPI plus 4.9%¹⁴ a difference of 15%. Origin Energy has indicated it intends to transition regulated gas prices to a higher, more appropriate level over the 2014 to 2016 period¹⁵. This suggests Wagga Wagga residential and commercial customers will likely incur annual increases of CPI plus 4%¹⁶ on their total invoice over the next two years arising from this price transitioning, which increases exclude the impacts of the likely increases to the wholesale gas price.
49. Combining the aforementioned projected price changes, IPART's retail pricing reviews indicate that a residential or small commercial user's total invoice will be approximately 35% higher for gas and 4% lower for electricity by 2015/16 from 2012/13 levels in nominal terms¹⁷. All else equal, and following on from the analysis done in paragraph 44, Envestra estimates that residential gas bills will be around 40% higher than a residential electricity bill by 2015/16.
50. This price differential is of significant concern to Envestra given the considerable worsening of the competitive position of gas relative to electricity overtime. These pricing pressures will therefore

⁸ IPART *Review of regulated retail prices and charges for gas, 2013 to 2016, Gas - Draft Report* April 2013

⁹ Ibid. page 3 footnote 11 - This relates to the Jemena NSW Gas Network

¹⁰ Ibid. page 3

¹¹ ACIL Tasman *DRAFT Cost of gas for the 2013 to 2016 regulatory period* April 2013

¹² Ibid. pages 36 and 37 tables 9, 10 and 11

¹³ IPART *Review of regulated retail prices and charges for gas, 2013 to 2016, Gas - Draft Report* April 2013 page 3- assumes wholesale gas costs make up 30% of a residential and small commercial users total gas invoice

¹⁴ Ibid. page 38

¹⁵ Ibid. page 39

¹⁶ Assumes annual increases to the retail component of CPI plus 7.5%, being half the 15% differential between IPART's and Origin Energy's regulated retail component price increases (Ibid. page 38). As IPART indicated the retail component makes up approximately half of a customer's entire invoice (Ibid. page 7), an annual increase to the retail component of 7.5% translates to approximately 4% on a customer's entire bill.

¹⁷ Ibid. page 2 footnote 5 - Assumed inflation 2.8%

place significant constraints on Envestra's ability to raise prices above that required to recover the efficient cost of providing access to the natural gas distribution network.

51. Envestra therefore does not have the ability and incentive to raise prices above efficient costs as its competitive position relative to electricity is weak. Any move to do so will provide a greater incentive for customers to use electricity in preference to gas by switching from gas to electric appliances over time, or alternatively, by choosing not to connect to gas at all.

3.8.2. Liquefied Petroleum Gas (LPG)

52. LPG in cylinders and refills are supplied in NSW by four major suppliers and around 20 smaller suppliers. Of these suppliers, some supply the LPG directly to customers while others on-sell the LPG to other agents to sell directly to customers. There are currently four LPG cylinder retailers (i.e. Elgas, Supagas, Origin and Kleenheat) operating in Wagga Wagga, indicating an active market in this fuel.
53. Whilst in many respects LPG can be a direct substitute for natural gas, it cannot be comingled in the same pipe as natural gas because it has different physical characteristics that, in high concentrations, will alter the heating value of the gas. These different physical characteristics mean that natural gas appliances must be converted, or new appliances purchased, in order to use LPG. The cost of conversion has been estimated to be approximately \$300 per appliance.
54. Unlike electricity, the competitive position of reticulated natural gas in Wagga Wagga relative to LPG is strong. The per unit cost for a 45kg bottle of LPG is \$56/GJ compared to \$26/GJ for reticulated gas for the average residential user (42GJ pa). However, the economics of LPG relative to reticulated gas improve for smaller customers (8GJ pa or less) as the fixed charge component of the reticulated natural gas tariff is recovered from a smaller quantity of delivered gas. As a result, the unit cost of LPG is lower than reticulated natural gas for these low consumption customers.
55. As with electricity, the future market position of natural gas relative to LPG will come under pressure from the projected increases to the price of wholesale gas, which increases will affect the cost of delivered natural gas more than LPG. This is because the domestic market for LPG is already exposed to the international market and therefore local LPG prices already reflect global prices. Natural gas however is about to undergo this transition as the Liquefied Natural Gas (LNG) terminals in Queensland are completed over the coming years and begin exporting. The domestic east coast natural gas market for the first time will be exposed to global prices, resulting in projected commodity cost increases from \$4.50 per GJ to \$12 - \$14 per GJ by 2020¹⁸. Again, this will further act to constrain Envestra's ability to raise prices for access to the natural gas distribution network.

¹⁸ AEMO *loc. cit.*

Part B – Coverage Criteria

56. Envestra is seeking coverage revocation for the Wagga Wagga network. Envestra considers coverage is not warranted as pipeline coverage criteria (a) and (d) are not satisfied. The sections below assess the network against each of the coverage criteria.

4. Coverage criteria – criterion (a) material increase in competition

57. Criterion (a) will be satisfied where it can be shown that access (or increased access) to the services provided by the pipeline would promote a material increase in competition in at least one other market.
58. Envestra believes that continued coverage of the network will not promote a material increase in competition in either the upstream or downstream dependent markets and notes that coverage to date appears to have had no material effect on competition. Envestra is therefore of the view that the Wagga Wagga network does not satisfy criterion (a).
59. Criterion (a) implies coverage is warranted to enhance the environment for competition in a dependent market if the service provider has the ability and incentive to exercise any market power it may possess to adversely affect competition in an upstream or downstream market(s).
60. To determine whether access to the Wagga Wagga network is likely to promote a materially more competitive environment in a dependent market, consideration has been given to:
- (a) the relevant dependent (upstream and downstream) markets, which include:
 - *upstream markets* – the market for transmission services and the wholesale gas supply market (which includes gas supplied from the Gippsland, Bass, Otway, Cooper and Bowen/Surat basins); and
 - *downstream markets* - the market for gas sales in the area serviced by the network¹⁹.
 - (b) the ability and incentive Envestra has to exercise market power to the detriment of competition in these dependent markets.
61. In relation to the latter of these factors, the NCC Coverage guideline identifies three mechanisms²⁰ by which the use of market power by a service provider may adversely affect competition in a dependent market:
- (a) A service provider with a vertically related affiliate may engage in behaviour that is designed to advantage the competitive position of its affiliate in a dependent market;
 - (b) Where a service provider charges monopoly prices for the provision of the service, those monopoly prices may restrict participation in the dependent market; and/or

¹⁹ In its Final Recommendation for the "Application for revocation of coverage of the South West Slopes and Temora distribution networks under the National Gas Access Code" September 2003, the NCC concluded (pp 23 – 24) the relevant downstream market for the gas distribution network "... is the market for gas sales in the areas serviced by the SWS and Temora network. The council does not consider it necessary to narrow the market for gas sales to a particular type or types of customers (e.g., on the basis of type of premises or good or service produced). Envestra has applied this definition of the relevant downstream market in this revocation application.

²⁰ NCC *Coverage, revocation and classification of pipelines* May 2012 p. 52

- (c) Explicit or implicit price collusion in a dependent market may be facilitated by use of a service provider's market power. For example a service provider's actions may prevent new market entry that would lead to the breakdown of a collusive arrangement or understanding or a service provider's market power might be used to 'discipline' a market participant that sought to operate independently.

Envestra does not consider the mechanism described in point (c) above is relevant to the Wagga Wagga network, particularly as Envestra will continue to offer non-discriminatory access to the network if revocation of coverage is granted. The discussion below therefore focuses on points (a) and (b).

4.1. Vertical Integration

62. Envestra is prohibited by clause 139 of the NGL from engaging in any retail activity or being involved in marketing on behalf of any retail entity. Envestra does not therefore own or have an equity interest in any retail business nor will it seek to enter this market if coverage is revoked. Furthermore, Envestra has no "most favoured customer" clauses in its Access Arrangements, which clauses would favour one retailer at the expense of another.
63. Envestra also does not have an interest in the wholesale gas supply market or any of the adjoining gas transmission pipelines. Also, the transmission pipelines to which the Bomen and Uranquinty gate stations are connected are both owned by APA. It is therefore meaningless for Envestra to favour one transmission pipeline over another by increasing capacity through one gate station at the expense of the other.
64. In the absence of any vertical interests, there is simply no scope or incentive for Envestra to exert market power for the purposes of limiting competition in the dependent upstream or downstream markets, for example, by refusing/minimising supply from a particular transmission pipeline or gas basin, by blocking access to a retailer or offering terms on a discriminatory basis.
65. To the contrary, given the low capacity utilisation of the network, Envestra has a strong incentive to facilitate competition in the dependent markets because to do so will encourage greater utilisation of the Wagga Wagga network.

4.2. Monopoly Pricing

66. The sections below detail the constraints on Envestra to set prices above efficient costs if revocation of the network is granted.

4.2.1. Competition from alternative fuels

67. The Wagga Wagga gas distribution network is in competition with other fuels for the delivery of energy to end users. The availability of substitutes for reticulated gas has a material impact on the level of competition and the bargaining position of Envestra, users and potential users. Unlike electricity, gas is a discretionary fuel. It is therefore more feasible to substitute away from gas in the event of price increases than to substitute away from electricity. This point was recognised in the MCE Expert Panel's report on energy access pricing²¹

"Gas and electricity markets also display different characteristics in terms of the price elasticity of demand and the ability of consumers to seek substitutes. Energy services,

²¹ MCE Expert Panel on Energy Access Pricing: Report to the Ministerial Council on Energy (April 2006) pp 49-50.

and in particular electricity services, are generally considered to have relatively inelastic demand. This inelasticity reflects the essential nature of electricity to commercial and industrial activity and to modern domestic life. This is less so for gas which is considered to be a 'fuel of choice'; meaning that it is subject to more competition from substitutes.

While the cost of network services is only part of the final energy price seen by energy consumers, the energy price responsiveness of users can impose some constraints on the exercise of market power in some circumstances.

For gas, it could be said that there is a stronger substitution effect, particularly for locations that do not require space heating in any great extent. Electricity, in general, provides a better substitute for gas than gas does for electricity. Consumers are better able to exercise a choice on the source of their energy supply where there are competing sources of supply to a common area."

68. As shown in section 3.8.1 above, the competitive position of reticulated gas versus electricity in the residential segment is currently comparable. There is little difference in operating cost for an average residential customer utilising gas or electricity as their fuel source. However, the recent energy price review by IPART indicates that gas prices could increase by around 35% relative to a 4% decline in electricity prices by 2015/16. This would put natural gas at a significant competitive disadvantage relative to electricity (see also section 3.8.1).
69. Such considerable relative increases in gas prices constrains Envestra's ability to increase prices as to do so will further increase the incentive end-users have to shift from natural gas to the significantly cheaper electricity, particularly in an environment of rising wholesale gas prices. The resultant reduction in throughput across the network would be contrary to the long term viability of the network and Envestra's commercial incentives more generally.
70. To this end, Envestra notes a recent inquiry initiated by the NSW Government into downstream gas supply and availability in New South Wales (where downstream relates primarily to gas transmission and distribution networks). Envestra understands that one of the key focus areas of the inquiry is to understand the reasons for and explore potential solutions to the low utilisation and availability of existing gas distribution networks in New South Wales, including in regional areas such as Wagga Wagga.
71. In summary, the combination of large sunk costs, low utilisation and lack of competitive advantage relative to electricity provides Envestra with a strong incentive to increase throughput as this has the effect of facilitating lower unit costs of access to the network. This in turn makes gas more competitive when compared with alternate fuel sources and therefore more attractive to existing and potential end users, which is essential given the discretionary nature of natural gas and forecast for considerable gas price increases in New South Wales.

4.2.2. Trend decline in consumption

72. The 2010 to 2015 Access Arrangement forecasts a continued decline in average demand per connection. The trend decline is largely driven by the residential segment due to improvements in energy efficiency, customer appliance preferences and milder weather trends.
73. Efficiency improvements for gas hot water have arisen from the increased penetration of instantaneous gas water heaters, which are approximately 15% more efficient than a gas storage hot water heater. Also, federal and state government policies promoting solar boosted hot water units

has increased the prevalence of those units at the expense of straight gas units (instantaneous or storage), which use approximately 50% less than a non-solar boosted hot water unit.

74. Space heating load requirements have reduced due to improvements in the thermal efficiency of homes. The NSW government's BASIX standards requires new homes and renovations to existing homes²² to meet minimum thermal energy efficiency standards. A BASIX compliant new or renovated home requires a 25% greenhouse gas reduction compared to the average home for NSW²³. All other things equal, this implies a new or renovated home will use 25% less energy when compared to the average.
75. Also, Australian Bureau of Statistics (ABS) data show the penetration rate of reverse cycle air conditioners continuing to climb in NSW. The proportion of homes with an air conditioner increased from 43.5% in 2002²⁴ to 64.2% in 2011²⁵, an increase of nearly 50%. The increase in the penetration of air conditioners reflects the reduction in the capital cost of air conditioning units and their ability to both heat and cool. As the penetration rate of air conditioners continues to grow the gas space heating load will continue to decrease as heating load is transferred to electricity.
76. The trend in reduced consumption has a compounding effect. As consumption falls the effective delivered price of gas needs to increase as the sunk costs of the network are recovered over lower volumes and customers. As tariffs increase the competitive position of gas over alternative fuels further decreases and the economics of a connection become more marginal. This means that Envestra has a strong incentive to reverse this trend by increasing throughput by competing vigorously on price.
77. To this extent Envestra has actively marketed natural gas in Wagga Wagga for the past two years (since taking ownership of the network). This has involved advertising through local television and radio as well as offering direct rebates to customers for installation of new appliances. Envestra is once again intending to undertake this program over the 2013 winter.

4.2.3. Countervailing power of end users

78. The vast majority of the Wagga Wagga network's connections are to residential users. All of these users also have an electricity connection. To charge monopoly prices in this environment would risk residential customers continuing to switch away from natural gas to electricity over time, particularly as the NSW Government has recently announced the removal of the ban on electric storage hot water systems^{26,27}. The ability of these users to switch to alternative cost competitive energy sources means that they have a reasonable degree of countervailing power and can therefore be expected to act as a constraint on Envestra's behaviour.
79. Monopoly prices would also increase the financial viability of network bypass for large industrial users. The majority of large industrial users connected to the network are located within close proximity to the transmission pipelines. These customers have the option of buying gas

²² <https://www.basix.nsw.gov.au/basixcms/about-basix/legislation.html> accessed 15 February 2013. Additions and alterations above \$50,000 in value must obtain BASIX certificates.

²³ <https://www.basix.nsw.gov.au/basixcms/about-basix/basix-assessment/basix-targets.html> accessed 28 March 2013

²⁴ ABS 4602.0.55.001 - *Environmental Issues: Energy Use and Conservation* March 2002 Table 4.16

²⁵ ABS 4602.0.55.001 - *Environmental Issues: Energy Use and Conservation* March 2011 Table 15

²⁶ Media Release 28 November 2012, *NSW Government Reverses Labor's Ban on Electric Hot Water Systems*, The Honourable Christopher Hartcher, Minister for Resources and Energy.

²⁷ Hot water for a gas distribution network is a crucial "foot in the door" onto a customer's property. From this appliance it is then possible to promote other applications of gas eg space heating and cooking. The NSW government's change in policy will have the opposite effect, allowing customers to switch all gas appliances to electricity in response to price.

transportation services from the transmission pipeline instead of Envestra's distribution network. This option gives large industrial users bargaining power with respect to negotiating network access and therefore works to constrain access prices.

4.2.4. Countervailing power of gas retailers

80. As shown in table 8 above, Origin Energy is the major gas retailer in the Wagga Wagga area with the vast majority of customers and gas delivered. This suggests coverage has not facilitated competition in the downstream market in a material way (if at all), particularly considering full retail contestability of gas commenced in January 2002. Revocation of coverage will therefore not negatively impact on the current competitive dynamics of the Wagga Wagga network.
81. Origin Energy is one of the largest energy wholesalers and retailers in Australia with 4.4 million energy customers and a market capitalisation of around \$14 billion compared to Envestra's \$1.7 billion. Origin Energy is a vertically integrated entity with upstream gas reserves, wholesale and retail assets, and as such, has a sophisticated understanding of the gas and electricity industries. It is one of the "Moomba to Sydney Pipeline's" and the "Victorian Declared Transmission System's" largest customers and also has haulage agreements on all of Envestra's networks.
82. Origin Energy is an active participant in the Australian energy regulatory framework and holds various positions on representative panels. Origin Energy has taken a keen interest in gas and electricity distribution prices, consistently making submissions to the AER on the Access Arrangements for Envestra's networks.
83. Envestra outsourced the operation and maintenance of its networks to Origin Energy via an outsourcing contract prior to its current agreement with APA (Origin Energy sold its operating business to APA in 2007). Origin Energy therefore has extensive experience in developing, constructing and operating pipelines. Information asymmetry is therefore minimised as Origin Energy has a significant understanding of the underlying cost drivers of Envestra's distribution networks, which understanding considerably strengthens Origin Energy's negotiating position with Envestra.
84. Envestra's experience with Origin Energy to date has demonstrated its willingness to exercise its strong negotiating position. Origin Energy, who is the sole retailer in Envestra's uncovered Mildura network (approximately 6,000 customers), has not agreed to any increase in price that is in excess of the Consumer Price Index (CPI).
85. Despite having a small presence in Wagga Wagga, EnergyAustralia is a very large industry participant, retailing gas and electricity to 2.7 million customers with considerable investment in electricity generation. Like Origin Energy, EnergyAustralia has extensive experience and understanding of all aspects of the energy supply chain and can therefore be expected to participate in robust negotiations of the terms and conditions of access to the Wagga Wagga network.

4.2.5. Re-coverage of the network

86. Revocation of coverage of the Wagga Wagga network is not necessarily permanent. Any party in the future may lodge a coverage application to the NCC for the network – in effect seeking to recover the network. Envestra therefore is highly motivated to avoid coverage in the future and will have no incentive to charge above efficient costs such that market participants will find valid reason to reapply for coverage.

4.3. Conclusion on criterion (a)

87. On the basis of the preceding discussion, it is apparent that continued coverage of the network will not promote a material increase in competition in any of the identified upstream or downstream dependent markets because Envestra has neither the incentive nor ability to act in a manner that is contrary to the long term interests of consumers and its investment in the network. In particular:
- Envestra has no related retail, transmission or gas wholesale interests to which it could leverage any market power into a dependent market;
 - Envestra is indifferent between the sources of gas and transmission pipelines used to supply the network given both transmission connection points are under common ownership;
 - Envestra has a strong incentive to increase throughput on the network given the large sunk costs, low network utilisation and the lack of any competitive advantage relative to electricity. Increasing throughput has the effect of lowering the unit cost for access to the network, which in turn makes gas more competitive when compared against alternate fuel sources and therefore more attractive to existing and potential end users;
 - Envestra's pricing decisions are constrained by the ability of customers to substitute electricity in preference to gas (particularly given the considerable worsening of the competitive position of gas relative to electricity in New South Wales);
 - Envestra's pricing decisions are also constrained by the ability for large industrial users to bypass the distribution network and connect directly to a transmission pipeline; and
 - Envestra's pricing decisions are further constrained by the countervailing power of retailers given they are large, vertically integrated participants with a sophisticated understanding of the energy market.
88. Also noteworthy is that, while full retail contestability has been in operation for the past decade and the Wagga Wagga network has been covered for this time, there continues to be only one major retailer in the area (see table 8). This demonstrates that coverage has not led to a material increase in competition in the downstream market and reinforces Envestra's view that the revocation of coverage will have no adverse effect on the current competitive dynamics of the Wagga Wagga network.
89. Moreover, coverage will not impact on upstream markets given the very small size of the Wagga Wagga natural gas market, which market accounts for just 0.3% of the gas consumed in the eastern Australian gas market.
90. Finally, Envestra considers its commercial incentives, which are to increase throughput by offering access on competitive terms, thereby sustaining the long term viability of its investment, aligns with the NGO, which objective is to:

"... promote efficient investment in, and efficient operation and use of, natural gas services for the long term interest of consumers of natural gas with respect to price, quality, safety, reliability and security of supply of natural gas".

5. Coverage criteria – criterion (b) development of another pipeline

91. Criterion (b) will be satisfied where it can be shown that it would be uneconomic for anyone to develop another pipeline to provide the pipeline services provided by means of the pipeline. For the reasons set out below, Envestra believes that the Wagga Wagga network satisfies this criterion.
92. The significant excess capacity in the network and limited prospects for growth in demand for natural gas indicates the network has sufficient capacity and ability to meet demand for natural gas in the service area for the foreseeable future. Coupled with large sunk costs a new entrant would confront, Envestra considers it would be uneconomic (unprofitable) for anyone to duplicate the network.

6. Coverage criteria – criterion (c) human health and safety

93. Criterion (c) will be satisfied where it can be shown that access (or increased access) to the pipeline services provided by means of the pipeline can be provided without undue risk to human health or safety.
94. The NGL and gas distribution licence conditions impose strict obligations on Envestra to ensure safe and reliable operation of the pipeline irrespective of the pipeline being covered or uncovered. Therefore, coverage of the pipeline will not (and has not) caused undue risk to human health and safety. Envestra is therefore of the view that the Wagga Wagga network satisfies criterion (c).

7. Coverage criteria – criterion (d) public interest

95. Criterion (d) will be satisfied where it can be shown that access (or increased access) to the pipeline services provided by means of the pipeline would not be contrary to the public interest. For the reasons set out below, Envestra believes that the Wagga Wagga network does *not* satisfy this criterion.
96. A key element in establishing whether or not coverage would be in the public interest is to assess the relative benefits and costs associated with coverage. The benefits of coverage can be assumed to be those benefits identified under criterion (a) as well as any other benefits not captured by this criterion. The costs of coverage have been described in the NCC's Coverage guideline as including direct regulatory costs, disruption costs and adverse impacts on investment and economic efficiency arising from regulation (i.e. 'indirect regulatory costs')²⁸.
97. As explained in section 4 above, criterion (a) is not satisfied, such that there are no competition benefits arising from coverage. Envestra is also unaware of any other public benefits arising from coverage. Given this, any detailed consideration of the costs of regulation is theoretically not required.
98. Envestra however considers an assessment of regulatory costs will be beneficial to this revocation submission, which assessment is detailed below. Envestra has only quantified direct regulatory costs, which regulatory costs are readily enumerable. No provision has been made for disruption costs as these are largely negligible or for indirect regulatory costs as these are largely subjective arguments and can be difficult to convert into quantitative valuations.

²⁸ NCC *Coverage, revocation and classification of pipelines* May 2012 pp. 68-74

7.1. Costs of Coverage

99. A covered pipeline could be subject to either full regulation or light regulation, each of which places different obligations (and costs) on service providers:
- (a) *Full regulation pipeline* - requires the service provider to submit and the AER to approve a full access arrangement proposal, which proposal relates to both the price and non-price terms governing access to the network; and
 - (b) *Light regulation pipeline* - requires the service provider to publish on its website the price and non-price terms governing access to the network. Envestra would also submit to the AER for approval a limited access arrangement proposal, which proposal relates to the non-price terms only.
100. The Wagga Wagga network is currently subject to full regulation, and as such, the focus of this submission is on the costs of full regulation. While light regulation is not the subject of this application, Envestra considers it may be worthwhile to comment on the costs of light regulation.

7.1.1. Full Regulation

101. The main cost of full regulation is the requirement for Envestra to submit a full Access Arrangement proposal to the AER in accordance with the specific and detailed requirements of the NGR. For the Wagga Wagga network Envestra is required to submit an amended full Access Arrangement proposal (and Access Arrangement information) to the AER for review in July 2014 and every 5 years thereafter.
102. When considering the expense to be incurred by Envestra in preparing the next Wagga Wagga Access Arrangement, it is instructive to consider Envestra's recent experience with full regulation in its Victorian, South Australian and Queensland networks. The table below provides a breakdown of costs by category.

Table 9: Envestra costs for the most recent Access Arrangements

Category	Victoria ^a (\$'000s)	SA (\$'000s)	QLD (\$'000s)
Consultants	730	1,160	890
Legal Fees	370	360	240
Internal Labour ^b	2,800	1,500	1,500
Sub Total	3,900	3,010	2,630
Merits Review ^c	n/a	410	410
Total	3,900	3,420	3,040

a: Costs incurred to date

b: Internal labour costs of Envestra and APA Group related to the Access Arrangement reviews over a two year period

c: Legal and Consultant Fees

103. Each full Access Arrangement review takes up to two years to complete (i.e. one year for Envestra to develop the proposal and another year to go through the AER review process). Any merits review process will add to the time and resources required, as shown above.

104. It is important to note that the costs associated with a full Access Arrangement review process are to a large extent independent of the size of the network due to the prescriptive nature of the NGR – the requirements of the NGR are the same irrespective of the size of the network. For example, the Queensland network has an annual revenue of approximately \$70 million compared to South Australia of \$240 million and yet incurred similar regulatory costs.
105. For example, determining the appropriate input values to be used when deriving the weighted average cost of capital (WACC) is independent of network size. Twenty consultant reports were submitted to the AER by Envestra supporting its WACC derivation as part of the Victorian network's recent full Access Arrangement review (and indeed a similar number were submitted for the South Australian and Queensland reviews that were finalised just prior to the commencement of the Victorian review process). Envestra would expect to submit a similar number of reports for Wagga Wagga if revocation is not granted.
106. Other costs, however, are sensitive to the size of the network. Costs related to preparing the capital and operating expenditure forecasts for Wagga Wagga will be less than those for Victoria and South Australia as the network is considerably smaller.
107. These factors need to be considered when projecting the costs for the upcoming Wagga Wagga full Access Arrangement review. Another factor influencing the Access Arrangement review cost is that the Wagga Wagga network is a stand alone network for Envestra, thereby limiting the ability to share costs with another network. Costs for Envestra's South Australian and Queensland networks were shared while the three Victorian gas distribution networks (Envestra, Multinet and SP Ausnet) shared costs where possible.
108. Critically, Envestra does not consider future regulatory costs will diminish over time. The Better Regulation program currently being undertaken by the AER is expected to impose new requirements on businesses with regards to stakeholder consultation and the requirement for increased and more detailed benchmarking.
109. In addition to the full Access Arrangement review process, there are also ongoing costs associated with ensuring annual compliance with Access Arrangements such as:
- (a) annual tariff escalation processes, involving preparation of submissions to the AER for tariffs to apply in the following year; and
 - (b) annual regulatory reporting, involving preparation of a detailed (and audited) Regulatory Information Notice (RIN) for submission to the AER.
- The annual cost of these regulatory obligations is approximately \$20,000 per annum, or \$100,000 over the five year regulatory period.
110. The AER also incurs costs in reviewing and approving a full Access Arrangement proposal and monitoring compliance with the NGL, NGR and approved Access Arrangement.
111. For regulators, the AEMC recently found that the direct costs of a revenue or pricing assessment process ranges from \$0.5 million to \$3.0 million²⁹. Envestra has assumed the regulator's expense for the Wagga Wagga network will fall at the lower end of the range as the AER will at the same time be reviewing the much larger Jemena NSW gas networks and the South Australian and Queensland electricity distribution networks, thus providing the AER with economies of scope. Envestra has

²⁹ AEMC *Review into the use of Total Factor Productivity for the Determination of Prices and Revenues: Perspectives on the Building Block Approach* 30 July 2009 p 10.

therefore taken the conservative assumption that the AER will incur \$0.5 million in reviewing the Wagga Wagga Access Arrangement, all of which is avoided if coverage is revoked.

112. Envestra has not included any costs associated with retailer or consumer participation in the regulatory process. Envestra notes this is a further conservative assumption.

7.1.2. Estimate of Wagga Wagga's regulatory costs

113. Envestra has determined the regulatory costs for the Wagga Wagga network of undertaking a full Access Arrangement review to be \$2.8 million for every regulatory period (i.e. 5 years), which includes \$2.3 million directly attributable to Envestra (refer table 10 below). The estimate of Envestra's costs are considerably less than that incurred in our recent Victorian, South Australian and Queensland review processes, which estimate has incorporated the following assumptions:

- removal of all costs associated with developing operating and capital expenditure forecasts – reflected in a \$1.4 million reduction in internal labour costs when compared to Victoria;
- removal of all legal costs – reflected in a \$0.4 million reduction when compared to Victoria; and
- removal of all appeal costs.

114. Reducing the regulatory costs to a per customer basis reveals an amount of approximately \$100 per customer over a five year period, which amount reflects the largely fixed cost nature of meeting the prescriptive regulatory obligations set out in the National Gas Rules and the small size of the network.

Table 10: Wagga Wagga expected regulatory costs, per regulatory period (5 years)

	(\$'000s)
Envestra	
Consultants	700
Internal Labour	1,500
Access Arrangement process	2,200
Avoided Compliance Reporting	100
Total Envestra Costs	2,300
AER	
Access Arrangement process	500
Total	2,800

7.1.3. Light Regulation

115. While not the subject of this application, Envestra considers it worthwhile to discuss the expected costs of undertaking a limited Access Arrangement review process. Rule 45 of the NGR sets out the requirements of a limited access arrangement proposal, which includes to describe the services provided by the network, the terms and conditions (other than price) for access to the network and the key performance indicators of the pipeline.

116. Envestra does not have any direct experience with light regulation. All else equal, Envestra would expect the costs of light regulation to be less than full regulation by virtue of the fact that a limited Access Arrangement proposal only requires the approval of non-price terms and conditions and certain other information. Envestra estimates, based on its experience with full regulation, that such an approval process would cost around \$0.25 million for both Envestra and the AER.
117. What however is less clear is the cost of the other obligations that might be imposed on the business. For example, rule 37 of the NGR states that a service provider subject to light regulation must report to the AER on access negotiations at least annually in a manner and form determined by the AER.
118. Furthermore, and stemming from the recent changes to the National Electricity Rules, the AER has flagged its intentions to place a greater reliance on benchmarking to inform its regulatory decision making. Although it is unclear precisely how benchmarking will be used, it appears most likely that total/partial factor productivity techniques will be used. Envestra will need to participate in this process to the extent that the AER intends to include information on Wagga Wagga in its sample.
119. Finally, there is the potential for the AER to become involved in price setting matters under light regulation in the event that a dispute arises. Pending the matter subject to dispute, and the frequency of disputes, the costs of light regulation could be similar (or in the extreme higher) than that incurred under full regulation.
120. Given this, Envestra considers that the costs of light regulation are less certain and could potentially lie within a large range. Envestra considers it reasonable to assume that the costs of light regulation could be somewhere between \$0.25 million up to and including the cost of full regulation set out in table 10.

7.2. Conclusion on criterion (d)

121. As outlined in section 4, access (or increased access) to the Wagga Wagga network will not give rise to a material (or any) increase in competition in a dependent market. This reflects a number of reasons, including that Envestra has no related retail, transmission or gas wholesale interests to leverage any market power that might exist combined with the incentive to set price at efficient costs given the lack of any competitive advantage relative to electricity. There are therefore no competition related benefits associated with coverage of the network. Envestra is also unaware of any other public benefits that would arise as a result of coverage.
122. While there are no tangible benefits associated with coverage, there are some significant regulatory costs associated with coverage (\$2.3 million for Envestra and \$0.5 million for the AER over a five year regulatory period). Envestra is therefore of the view that the Wagga Wagga network does not satisfy criterion (d), which view remains unchanged in the event Envestra had instead applied for light regulation.

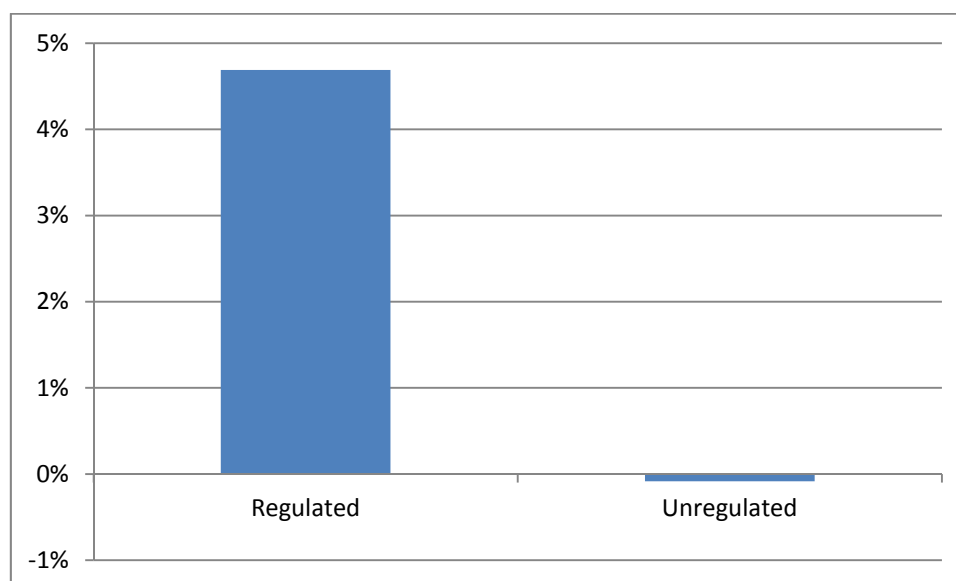
8. Stakeholder Consultation

123. Prior to lodging this application Envestra undertook a consultation process with key stakeholders from the NSW Government, the NSW regulatory authority and large customers in Wagga Wagga. The aim of the consultation was to inform stakeholders of the review process, explain the key reasons for seeking revocation of coverage of the Wagga Wagga gas distribution network and to receive feedback for consideration prior to lodging Envestra's submission. A copy of the presentation provided to stakeholders comprises attachment 1.
124. A summary of the issues discussed at the stakeholder meetings is set out at attachment 2 to this submission. Overall, the key issues raised by stakeholders included:
- (a) comparing the price outcomes achieved for our regulated and unregulated networks;
 - (b) exploring whether Envestra can align the Wagga Wagga regulatory review process with the regulatory review processes for Envestra's other regulated networks;
 - (c) ensuring that Envestra clearly articulates the benefits to customers from having coverage revoked, including the benefits through avoided regulatory costs; and
 - (d) clearly articulating the commercial arrangements that Envestra envisages will apply in the absence of regulation, including the process for agreeing terms and conditions and the notification of any price changes in the absence of regulation.
125. These issues are discussed in the remainder of this section.

8.1. Regulated and Unregulated Price Outcomes

126. Envestra has covered gas distribution networks that are subject to full regulation by the AER in South Australia, Queensland, Victoria, Albury and Wagga Wagga. Envestra also has uncovered gas distribution networks in Mildura and regional NSW (including areas surrounding the regulated Wagga Wagga network).
127. The below figure compares the average annual price increases across Envestra's regulated and unregulated networks (excluding Wagga Wagga, the appropriateness of full regulation being the subject of this submission). The average regulated price increases are determined for the regulatory period corresponding to the most recent AER decision for that network. The average unregulated price increases are determined over an equivalent period for each jurisdiction. This shows unregulated real annual price decreases (of 0.1%) have been 4.8% lower than for regulated networks (which increased by 4.7%).

Figure 5: Regulated vs Unregulated average annual real price increases



8.2. Aligning Regulatory Review Processes

128. Envestra has considered the issue raised by several stakeholders as to whether regulatory costs could be reduced if the Wagga Wagga review process was aligned with a review of one of Envestra's other regulated networks. Envestra is currently required to conduct the Wagga Wagga review on its own, while the South Australian and Queensland reviews and Victorian and Albury reviews are conducted at the same time.
129. Envestra considers, however, that there are several practical impediments to this occurring, which relate primarily to having all affected stakeholders agree to shifting the timing of the regulatory review to align with one of Envestra's other network reviews.
130. For example, the Wagga Wagga review occurs at the same time as the AER reviews gas distribution charges for the remainder of the NSW gas network owned by Jemena (including for Sydney) and the ACT gas network owned by ActewAGL. There are benefits for the AER in undertaking these reviews at the same time. Furthermore, it is likely to be difficult to find an alternate time that suits both the:
- (a) AER – given the large number of regulatory review processes that it is required to undertake; and
 - (b) Jemena and ActewAGL – given the other regulated networks owned by these businesses (and the potential for any shift in review timing to clash with their other existing network reviews).
131. Envestra notes, even in the unlikely event that the above parties were to agree to shift their reviews to align with Envestra's existing network reviews, that it would itself be constrained in undertaking three regulatory reviews at the same time – being South Australia, Queensland and Wagga Wagga or Victoria, Albury and Wagga Wagga.
132. Envestra therefore considers that there are considerable practical constraints in aligning the Wagga Wagga review with any other one of Envestra's regulatory review processes.

8.3. Benefits of Revocation

133. One of the main benefits of revoking coverage of the Wagga Wagga network is avoiding the regulatory costs associated with conducting five yearly Access Arrangement reviews. This reflects the prescriptive requirements set out in the NGR with which an Access Arrangement proposal must comply. The requirements of the NGR are the same regardless of the size of the network subject to regulation. Other benefits include greater flexibility in setting prices and responding to customer issues more generally, but such benefits are difficult to quantify.
134. Envestra has estimated its expected costs of conducting the upcoming Access Arrangement review for Wagga Wagga are \$2.3 million (refer Table 10). This forecast is significantly less than that incurred in the most recent Victorian Access Arrangement review process (\$3.9 million) and the earlier South Australian (\$3.4 million) and Queensland (\$3.0 million) review processes. Envestra expects that the AER would have incurred costs of at least \$0.5 million in addition to Envestra's costs in reviewing and approving an Access Arrangement proposal for Wagga Wagga.
135. The lower expected regulatory costs in Wagga Wagga relative to Envestra's other covered networks reflects an expectation that, given the smaller size of the network, fewer resources will be required to develop Envestra's capital and operating expenditure proposal (refer section 7.1.1). Other than that, Envestra expects that the majority of costs to be similar to that incurred for our other regulated networks (i.e. costs incurred to set the rate of return, adjust the capital base, benchmark performance and so on).
136. Envestra's intention is to pass the costs of regulation back to customers if revocation of the network were to be approved by the relevant New South Wales Minister. Pending the timing of approval, Envestra intends to:
- (a) not apply the approved 2.5% real increase in regulated network tariffs that is otherwise scheduled to occur on 1 July 2014 (but to adjust prices by the CPI only);
 - (b) to limit any further price increases to be no greater than the CPI over the following five year period; and
 - (c) to continue with marketing incentives (such as an appliance rebate programs) to enhance gas usage and/or connections.
137. Not applying the real 2.5% price increase is equivalent to passing back to customers approximately \$1.2 million over a five year period (or \$15 per customer per year). This amount reflects what Envestra's understands to be the full amount of regulatory costs included in the current regulated tariffs.

8.4. Commercial Arrangements in the Absence of Regulation

138. The approved Access Arrangement provides default terms and conditions (including prices) governing access to the distribution network. Envestra and end users, whom are predominantly retailers, negotiate a commercial agreement setting out the actual terms and conditions to apply over the Access Arrangement period. The commercial agreement, however, typically reflects the terms set out in the approved Access Arrangement.
139. Envestra intends to apply the current terms and conditions set out in the approved Access Arrangement for Wagga Wagga until such time as a new commercial agreement is agreed. Envestra would expect to apply its standard terms and conditions, which terms and conditions are consistently

applied across all Envestra's networks and with which Origin Energy and EnergyAustralia are familiar.

140. The AER has indicated that it intends to commence a review of the terms and conditions applying across all regulated networks under its jurisdiction. The intention is, to the extent possible, to implement standard terms and conditions across all gas distribution business in Australia. This is consistent with the intention of the National Energy Customer Framework and the related desire of retailers to standardise terms across the different network businesses.
141. Envestra also notes the AER's desire to amend the timeline for adjusting network tariffs. The key element of the change is for network businesses to provide a stakeholder 40 business days notice of any change in network tariffs, instead of the current 20 business days. The revised timeline was also requested by stakeholders during the consultation process. Envestra intends to apply this revised tariff setting timeline if coverage of the network is revoked.
142. It is important to note Envestra's intention to continue to publish on its website the tariffs for access to the Wagga Wagga network if revocation of coverage is granted. This is consistent with Envestra's objective of not discriminating between retailers in an effort to promote competition in the dependent downstream market.
143. Envestra intends to engage with retailers to determine a mutually agreeable set of terms to apply to the Wagga Wagga network in the event that coverage is revoked.

9. Summary

144. The Wagga Wagga network is a covered network for the purposes of the NGL by virtue of its inclusion in the Schedule A list of covered pipelines under the Gas Code. As such, the Wagga Wagga network owned by Envestra has not been subject to a detailed assessment as to whether it satisfies the criteria for coverage.
145. Envestra believes that coverage of the Wagga Wagga network is not warranted because it does not satisfy the following coverage criteria:
- (a) that access (or increased access) to pipeline services provided by means of the pipeline would promote a material increase in competition in at least 1 market (whether or not in Australia), other than the market for the pipeline services provided by means of the pipeline (criterion (a)); and
 - (d) that access (or increased access) to the pipeline services provided by means of the pipeline would not be contrary to the public interest (criterion (d)).
146. Continued coverage of the network will not promote a material increase in competition in upstream or downstream dependent markets because Envestra has neither the incentive nor the ability to act in a manner that is contrary to the long term interests of consumers and its investment in the network. In particular:
- Envestra has no related retail, transmission or gas wholesale interests to which it could leverage any market power into a dependent market;
 - Envestra is indifferent between the sources of gas and transmission pipelines used to supply the network given both transmission connection points are under common ownership;

- Envestra has a strong incentive to increase throughput on the network given the large sunk costs, low network utilisation and the lack of any competitive advantage relative to electricity. Increasing throughput has the effect of lowering the unit cost for access to the network, which in turn makes gas more competitive when compared against alternate fuel sources and therefore more attractive to existing and potential end users;
- Envestra's pricing decisions are constrained by the ability of customers to substitute electricity in preference to gas (particularly given the considerable worsening of the competitive position of gas relative to electricity in New South Wales);
- Envestra's pricing decisions are also constrained by the ability for large industrial users to bypass the distribution network and connect directly to a transmission pipeline; and
- Envestra's pricing decisions are further constrained by the countervailing power of retailers given they are large, vertically integrated participants with a sophisticated understanding of the energy market.

147. The fact that there is currently one major retailer of gas in Wagga Wagga, despite a decade of Full Retail Contestability, also suggests that coverage of the network has not facilitated competition in the downstream market to a material extent. Moreover, coverage will not impact on upstream markets given the very small size of the Wagga Wagga natural gas market, which accounts for just 0.3% of the gas consumed in the eastern Australian gas market.

148. With regard to criterion (d), it is in the public interest to revoke coverage of the network as there are no benefits to offset the regulatory costs associated with continued coverage of the Wagga Wagga network. The estimated regulatory cost to Envestra and the AER to apply full regulation of the network is around \$2.8 million per regulatory period. Envestra is proposing to pass back to customers the full amount of regulatory costs included in current tariffs, which is equivalent to a reduction in tariffs of around \$15 per customer.

149. Revocation of coverage will therefore result in relatively lower prices, which will in turn improve the long term viability of the network by encouraging greater utilisation of the network. Revocation will therefore benefit end users, Envestra and the local Wagga Wagga community more broadly. Given this, Envestra considers revocation of coverage is consistent with the National Gas Objective set out in section 23 of the NGL, which is to:

"... promote efficient investment in, and efficient operation and use of, natural gas services for the long term interest of consumers of natural gas with respect to price, quality, safety, reliability and security of supply of natural gas".

Attachment 1: Presentation to Stakeholders

ENVESTRA

**WAGGA WAGGA
GAS DISTRIBUTION
NETWORK**

March 2013





Overview

- Envestra seeking revocation of Wagga Wagga network
- Aim of meeting:
 - inform stakeholders of review;
 - explain rationale for seeking revocation; and
 - seek comment/input prior to submission of formal application



Background: Current Price Setting Framework

- Prices set each five years via access arrangement review conducted by the AER
 - delivered annual price increases of about 7% per annum over 2010 to 2015 period
- Regulatory process time consuming and expensive
 - two year review processes
 - legislative requirements very prescriptive
 - regulatory review costs largely fixed – independent of network size
- Envestra reviewing best approach to provide lowest sustainable prices in the long term
 - best achieved by removing regulation (referred to as “revocation of coverage”)



The network

- 690km of gas mains in Wagga Wagga and the town of Uranquinty (refer Attachment 1)
- Key metrics:

	Revenue	Opex	Capex	Customers	Demand
Wagga	\$10m	\$3m	\$2m	20,000	1,700 (TJ)

- Wagga Wagga: 2% of total Envestra revenue (refer Attachment 2)
- Supply taken from two gate stations at Bomen (northern Wagga Wagga) and Uranquinty (southern Wagga Wagga)
- The network is significantly underutilised and expected to remain so
 - average capacity utilisation of around 18%
- Current Access Arrangement expires 30 June 2015
 - revised AA due June 2014



Market for Natural Gas

- Network delivers approximately 1,700TJ to 20,000 consumers

	Residential	Business (<10TJ)	Industrial (>10TJ)
Customers	19,700	500	15
Demand (TJ)	810	120	810

- 90% of households with gas connection
 - average load 42GJ pa and projected to decline
 - loss of heating load to electric Reverse Cycle Air Conditioning
 - continuous improvements to home and appliance energy efficiency
- Origin Energy and Energy Australia two retailers
 - Full Retail Contestability commenced over a decade ago
 - IPART regulates gas retail prices for small customers
 - IPART currently reviewing gas retail prices to apply 1 July 2013 to 30 June 2016



Pipeline Coverage Criteria

- Four Pipeline Coverage Criteria (section 15 National Gas Law (NGL))
 - all criteria must be satisfied for the NCC to recommend coverage remain
- Two criteria for coverage not likely to be satisfied:
 - criterion (a) – revocation of coverage will not diminish competition in the dependent markets
 - criterion (d) – revocation of coverage will not be contrary to the public interest
- Two criteria for coverage are likely to be satisfied
 - criterion (b) – concerning duplication of the network
 - criterion (c) – concerning health and safety



Criterion (a) – Market Power

- Criterion (a) implies coverage warranted if service provider can and will use market power to adversely affect competition in a dependent market(s)
- Envestra does not have ability and incentive to exercise market power
 - does not own or have an interest in retailer, gas supplier or related transmission pipeline
 - electricity readily available and cost competitive alternative
 - large industrial customers connect to transmission pipeline, bypass our network
 - countervailing power of retailers and customers
- One dominant retailer despite FRC starting in 2002 and network coverage since 1997
 - strong incentive to encourage greater retailer competition
- Long term viability of network improved by increasing throughput
 - best achieved by applying lowest sustainable prices



Criterion (d) – Public Interest

- Criterion (d) implies coverage warranted if benefit of regulation exceeds costs
 - Access Arrangement costs largely fixed – independent of network size
 - estimated Victorian cost \$4M (not including AER costs)
 - applied to Wagga Wagga equates to \$200 per customer compared to \$8 for Victoria
 - given small customer base, cost of regulation per customer is higher than Envestra's other networks (and industry peers more generally)

Future Prices

- Pricing policy to be finalised but:
 - do not expect price changes to exceed CPI if regulation removed
 - continued use of Cost of Service regulatory pricing approach as with Mildura, Wide Bay etc
- Continue publishing tariffs on website (although not required) and offer non discriminatory access to all users retailers
 - if price dispute arises, commercial arrangements will provide for arbitration
- Option for third parties to seek coverage provides ongoing discipline on price



Summary

- Envestra believes all Pipeline Coverage Criteria not met
- Continued coverage of the network not warranted
 - Envestra does not have incentive and ability to exercise market power
 - cost of regulation high relative to network size
- Envestra believes it can constrain prices to CPI if regulation removed
- Envestra notes any stakeholder can apply to have the network re-covered
 - applies strong discipline on Envestra to ensure prices reflect efficient costs

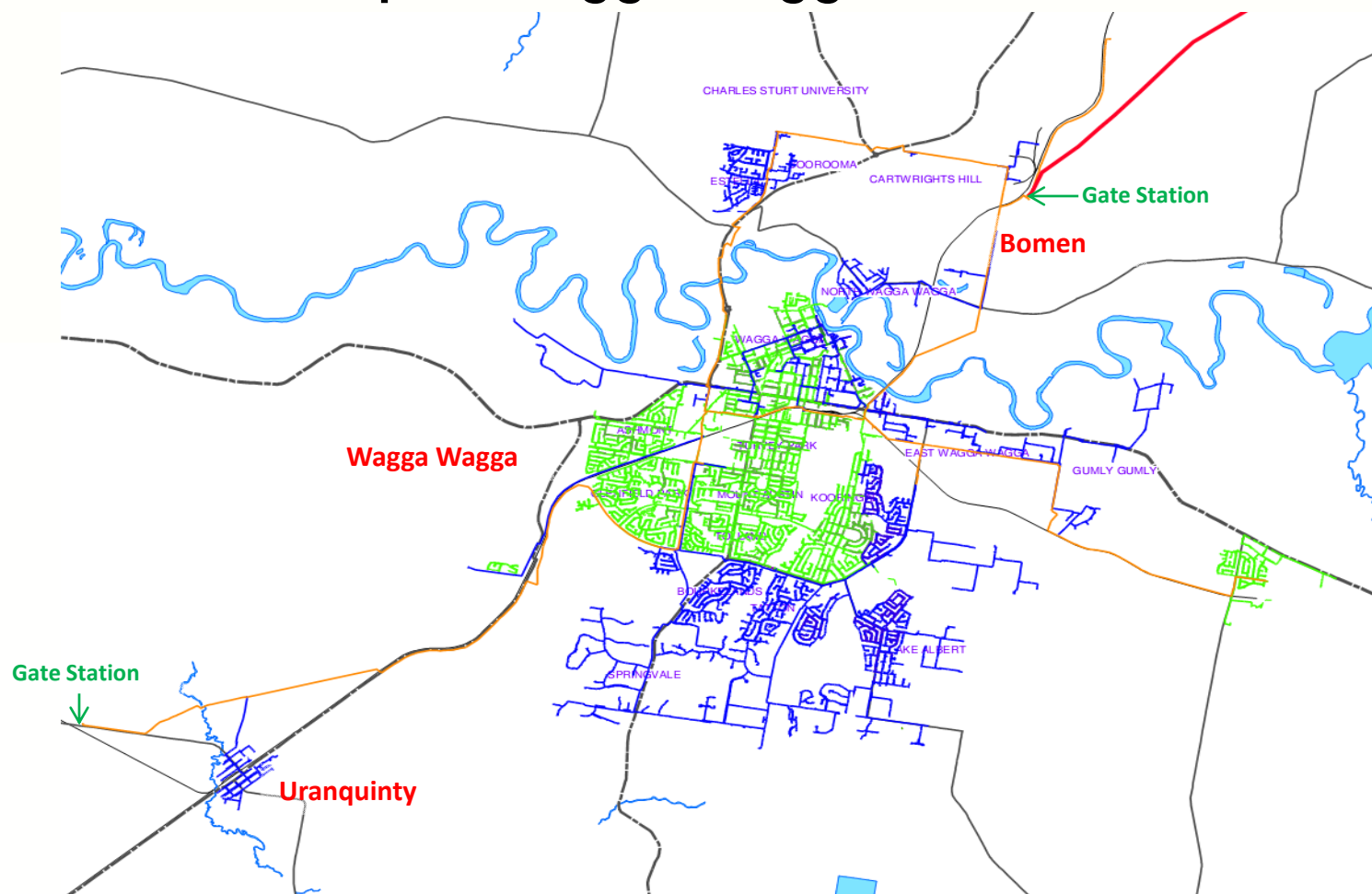


Next Steps

- Meet with key stakeholders
 - Government/Minister
 - Retailers
 - End consumers
- Aiming to submit revocation application to NCC by mid April
- Envestra's understanding of the process upon NCC receipt of the submission is:
 - NCC has four months (potential to extend) to arrive at final recommendation
 - NSW Minister for Energy has two months to consider recommendation and make decision
- Envestra however keen to engage prior to submitting
 - Ensure submission addresses all relevant matters
 - Feedback, if any, sought by end of March



Attachment 1: Map of Wagga Wagga Network





Attachment 2: Envestra

- Envestra is Australia's largest gas distribution business
 - over 1 million customers and 115 PJ of natural gas delivered annually
 - 23,000 km of natural gas pipelines (distribution and transmission)
 - Victoria, South Australia, Queensland, New South Wales and the Northern Territory



Attachment 2: Minutes of Stakeholder Meetings, 18 to 20 March 2013

NSW Government – Department of Trade & Investment, Energy Branch

- Explained that the NSW Government is interested in increasing the availability of natural gas to customers and the usage of the available infrastructure, which strategy would appear to be consistent with the commercial driver on Envestra to improve the utilisation of the Wagga Wagga network
- Expressed the view that while gas distribution is a monopoly gas business it is not a monopoly energy business given it is competing with electricity in the energy market
- Expressed concern over the impact that expected (and significant) increases in wholesale gas prices will have on the competitive position of natural gas over the medium to long term
- Agreed that safety is not likely to be affected by coverage, and as such, that criterion (c) is not a relevant consideration as to whether the network should remain covered
- Commented on the need to be clear on the benefits to customers of having coverage revoked on the network

NSW Government – Minister for Resources and Energy

- Explained that the NSW Government is focussed on addressing cost of living pressures, including through the removal of unnecessary “red-tape”, which strategy would appear to be consistent with Envestra’s intention of seeking revocation of coverage of the Wagga Wagga gas network
- Noted that it is vital that the benefits to customers from having coverage revoked are accurate and clearly explained, including the benefits through avoided regulatory costs
- Expressed interest in understanding further the price outcomes achieved in Envestra’s regulated networks against its unregulated networks
- Need to provide clarity on the commercial arrangements that will apply if regulation were to be removed

Independent Pricing and Regulatory Tribunal (IPART)

- Noted that Envestra should demonstrate to the NCC that the benefits to customers from having coverage removed are accurate and clearly explained, including the benefits through avoided regulatory costs
- Expressed interest in Envestra providing an undertaking/assurance over how it intends to set and adjust prices in an environment where regulation is removed, particularly the time for notifying stakeholders of any price changes that occur
- Commented that IPART’s ongoing role in retail price regulation might change depending on the outcomes of the current AEMC review into retail price competition

Southern Oil Refining

- Noted that Envestra's charges are a relatively small part of their overall gas bill (based on an examination of a Southern Oil gas bill that was brought to the meeting)
- Noted that certain charges can put gas at a competitive disadvantage, with the connection cost for a large customer given as an example
- Expressed interest in ensuring a greater level of retail competition in the Wagga Wagga gas market

Renewed Metal Technology

- Acknowledged the possibility of connecting directly to the gas transmission network given the proximity of the Bomen industrial estate to the transmission network
- Expressed interest in ensuring greater level of retail competition in the Wagga Wagga gas market

Wagga Wagga Council

- Noted that Envestra's charges are a relatively small part of their overall gas bill
- Noted that the Council is not responsible for arranging the energy bills on behalf of Wagga Wagga residents/business
- Commented that retailers in seeking to compete in the market would put pressure on Envestra to limit any price increase to customers

Origin Energy

- Noted the difficulties in restricting prices to the CPI in an environment of declining average consumption
- Encouraged Envestra to consider the cost of converting appliances from gas to electricity in considering the cost competitiveness of gas
- Was primarily focussed on exploring how the commercial arrangement would work between Envestra and Origin Energy if regulation is removed, including providing sufficient comfort that a commercial agreement could be reached between the parties (including on terms and conditions and notification/justification of price changes)
- Questioned whether Envestra had considered shifting the timing of the Wagga Wagga Access Arrangement review to align it with its other regulatory reviews as a way to reduce regulatory costs

Energy Australia

- Energy Australia requested that the matters discussed at our meeting held on 20 March 2013 not be disclosed in this attachment.

Attachment 3: National Gas Rules Compliance Index

Clause	National Gas Rule	Submission Location
18 (1) (a)	state the applicant's name and <i>contact details</i>	Section 1.1, page 7
18 (1) (b)	state whether the application is for revocation of coverage for the whole, or part only, of the covered pipeline	Page 7, para 1
18 (1) (c)	state the applicant's reasons for the application (including a demonstration of how the coverage revocation determination would give effect to the pipeline coverage criteria);	Part B Sections 4 through 7
18 (1) (d)	include information, and be accompanied by the documents, on which the applicant relies in support of the application	Entire application
18 (2) (a)	the capacity of the pipeline and the extent to which that capacity is currently utilised	Section 3.6
18 (2) (b) (i)	for a transmission pipeline, a description of all locations served by the pipeline (i.e. all locations at which receipt or delivery points for natural gas carried by the pipeline exist)	Not relevant
18 (2) (b) (ii)	for a transmission pipeline, a description of all pipelines that currently serve the same locations	Not relevant
18 (2) (b) (iii)	for a transmission pipeline, a description of all pipelines that currently pass within 100 km of any location served by the pipeline	Not relevant
18 (2) (c) (i)	for a distribution pipeline, a description of the geographical area served by the pipeline	Section 3.1
18 (2) (c) (ii)	for a distribution pipeline, a description of the points at which natural gas is, or is to be, injected into the pipeline	Section 3.1, para 16
18 (2) (d)	a description of the pipeline services provided, or to be provided, by the pipeline	Section 3.2
18 (2) (e)	an indication of any other sources of energy available to consumers of gas from the pipeline	Section 3.8
18 (2) (f)	the identity of the parties with an interest in the pipeline and the nature and extent of each interest	Section 3.3
18 (2) (g) (i)	a description of any relationship between the owner, operator and controller of the pipeline (or any 2 of them)	Section 3.3

18 (2) (g) (ii)	a description of any relationship between the owner, operator or controller of the pipeline and a user of pipeline services or a supplier or consumer of gas in a location or geographical area served by the pipeline	Section 4.1, para 57
18 (2) (g) (iii)	a description of any relationship between the owner, operator or controller of the pipeline and the owner, operator or controller of any other pipeline serving any one or more of the same locations or the same geographical area	Section 3.3
18 (2) (h)	an estimate of the annual cost to the service provider of regulation	Section 7.1
18 (2) (i)	any other information the applicant considers relevant to the application of the National Gas Objective or the pipeline coverage criteria in the circumstances of the present case	Entire application