

Inquiry into downstream gas supply
and availability in NSW

SUBMISSION

June 2013



CENTRAL NSW
COUNCILS



Centroc's Mission is to be recognised as the lead organisation advocating on agreed regional positions and priorities for Central NSW whilst providing a forum for facilitating regional co-operation and sharing of knowledge, expertise and resources; effectively nurturing sustainable investment and infrastructure development.

www.centroc.com.au

12 June 2013

Reference: kk:vp 061312
Enquiries: Ms J Bennett: 0428 690 935

Mr Andrew Gee
Chair
State and Regional Development Committee
Parliament House
Macquarie St
Sydney NSW 2000

Dear Mr Gee,

Re: NSW Legislative Assembly - Inquiry into downstream gas supply and availability in NSW

Thank you for the opportunity to contribute to the inquiry into downstream gas supply and availability in NSW.

We understand the Terms of Reference to be:

- (a) the adequacy of transmission pipeline systems and distribution networks for future downstream gas needs and supply challenges;
- (b) barriers to the expansion of downstream gas supply and distribution networks;
- (c) the effectiveness of competition in the downstream gas market and consumer pricing implications;
- (d) the effectiveness of existing protections for consumers and measures to facilitate access to gas connection and supply; and
- (e) possible measures to encourage gas network operators to extend existing distribution networks, including financial incentives of licence obligations, particularly in regional centres that do not have access to reticulated gas.

About Centroc



By way of background information, Central NSW Councils (**Centroc**) is a large and long-standing voluntary association of councils of varying sizes, ranging from populations of around 2,500 to populations of close to 40,000. Centroc has received national recognition for its work in delivering measurable benefits to the members it serves. This recognition includes commentary and awards at the State and National levels; for example - the Productivity Commission and most recently from the Minister for Local Government for NSW, The Hon Don Page. Most importantly, it is valued very highly by its members.

Centroc Organisation and Structure



Centroc comprises the Local Government Areas of Bathurst, Blayney, Boorowa, Cabonne, Cowra, Forbes, Harden, Lachlan, Lithgow, Oberon, Orange, Parkes, Upper Lachlan, Weddin, Wellington, Young and Central Tablelands Water.

Centroc has two objectives, one around advocacy and the other around supporting members' operations.

For more detailed information about Centroc's activities please see the attached most recent Annual Report 2011/2012.

The Centroc Board is made up of the 34 Mayors, elected representatives and General Managers of its member Councils that determines the priorities for the region. These priorities are then progressed via sponsoring Councils.

For more advice on Centroc's programming and priorities, please go to our website at www.centroc.com.au/publications

Centroc responds to the Inquiry's Terms of Reference as follows:

(a) *the adequacy of transmission pipeline systems and distribution networks for future downstream gas needs and supply challenges;*

Centroc is aware that the main Sydney to Moomba gas pipeline (MSP) runs through a number of the Centroc Local Government areas and, as such, the MSP already has a significant transmission pipeline infrastructure in place.

Centroc is also aware that there are a number of junctions along the MSP that could be utilised and converted to gas offtake stations so as to distribute gas via lateral pipelines to any number of nearby towns and villages if the State Government had the drive and strategic foresight to implement such a program of gas pipeline expansion.

(b) *barriers to the expansion of downstream gas supply and distribution networks;*

Apart from the barriers identified below, Centroc is unaware of any other barriers to any proposed expansion of downstream gas supply and distribution networks.

On 23 May 2013 the Australian Energy Market Commission (AEMC) issued a draft report entitled *Review of Competition in Retail Electricity and Natural Gas Markets in NSW (AEMC Report)*. The AEMC Report did not find any significant barriers to the expansion of downstream gas supply.

However there are some barriers to retailers entering the market. Accessing gas supply and pipeline capacity for a retailer with a small customer base would be difficult, given that larger retailers already have a dedicated connection which would mean a new retailer entering the market would face significant costs in obtaining access to natural gas by means of building metering offtake stations and lateral pipelines. However Centroc believes that this should not be the case.

Indeed, Centroc is further of the belief that expanding downstream gas supply and distribution networks to encompass the rural areas of New South Wales would be of enormous socio-economic benefit to the State as a whole. Currently, much of the State's commercial enterprise is conducted in areas that originally were zoned light or heavy industrial in major cities such as Sydney or Canberra or major centres such as Wagga Wagga, but industries are now being encroached upon by the ever-increasing population seeking availability of land for residential purposes. This then means that industries are either forced to move further out geographically so as to remain financially viable or remain in their same location without any ability to increase the size of their business, thus impacting on the economic development of the State.

Whilst the smaller rural areas of New South Wales are without such a natural gas supply infrastructure in place, those areas have no way to develop commercially by providing incentives to companies to relocate to country towns.

These areas all have to rely on electricity as their major source of energy supply, apart from those who have access to firewood for heating. Many of the smaller country towns have an aging population and in having a single source of energy for heating puts those residents at a real health risk.

(c) the effectiveness of competition in the downstream gas market and consumer pricing implications;

Given that a number of Centroc's Local Government areas do not have access to natural gas, Centroc is not fully aware of the level of competition in the downstream gas market and therefore not adequately qualified to comment on this particular Term of Reference. However Centroc believes it feasible to assume that expanding the infrastructure of supplying natural gas to a larger number of end-users would be advantageous, not only to those communities, but to the State as a whole, especially from an economic development aspect.

The Executive Summary of the AEMC Report includes the following statements:

"We have found that competition in the electricity and natural gas markets for small customers in NSW is delivering benefits to customers"; and

"Some stakeholders commented that competition is not yet sufficient in rural areas for price caps to be removed. While competition is less effective in rural areas than urban areas, we consider competition to be sufficient to enable these customers to benefit from the removal of price caps."

From these statements, Centroc is of the opinion that AEMC believes that competition in the downstream gas market would be greatly improved and enhanced on a State-wide basis if smaller rural communities had access to natural gas.

Centroc is also of the belief that as natural gas is not available to a number of Local Government areas, there is a natural barrier to retailers entering or expanding in the market as well as any new retailers being able to enter into the market. Between the natural gas retailers in New South Wales there is strong competition between them to attract and retain customers. This too becomes a barrier to smaller regional areas being able to develop and grow.

(d) the effectiveness of existing protections for consumers and measures to facilitate access to gas connection and supply; and

Centroc has no issues with existing protections for consumers that have access to natural gas or are already connected to natural gas, however Centroc believes that current available pricing information is difficult for consumers to understand and therefore makes it unhelpful to them when choosing a supplier.

Centroc is also aware that there are a number of smaller villages and towns along the MSP that are already connected to natural gas and queries why other villages and towns in the Centroc shire that lie along the MSP are not connected. There appears to be a double standard at play and in this day and age that is not a viable economic situation that can or should be tolerated.

IPART has put in place a system of price increases for both the gas and electricity industries over a given period of time. However Centroc is of the view that the price increases for gas are at a far lower level than those for electricity. Many consumers are finding electricity just too expensive to use to heat their homes and as a consequence of not being able to afford the heating, become ill and end up in hospital, causing undue strain to the current public hospital system as well as a financial burden to the State.

(e) possible measures to encourage gas network operators to extend existing distribution networks, including financial incentives of licence obligations, particularly in regional centres that do not have access to reticulated gas.

It is estimated that at present some 62% of households in New South Wales have access to a natural gas connection and of that percentage, only about 40% of that number are actually connected. This means that there is great scope for future development of natural gas connectivity throughout the State (*ref AEMC Report*).

A number of our smaller communities have expressed concern regarding a lack of connection to the natural gas network. The communities of Harden, Weddin and Upper Lachlan are particularly concerned as they have no natural gas being supplied to their larger communities including Grenfell, Crookwell and Harden-Murrumburrah, despite the MSP being in or near each lga.

Upper Lachlan Council has provided advice to Centroc that the natural gas pipeline between Sydney and Moomba runs through their Shire and yet the retailers advise that the pipe cannot be “cracked” as the barrier is the absence of a large scale corporate user, such as a Coca Cola Amatil type business or other large corporation. At the same time AGL, Origin Energy, TRUenergy and Snowy Hydro have four State significant gas fired generator projects (all four projects are valued at least \$1billion each) under development within the Upper Lachlan Shire Local Government area.

Where attraction and retention of businesses to a community relies on the provision of infrastructure and utilities, Centroc’s members suggest that energy such as a natural gas supply should have some type of universal service obligation component to ensure that rural communities can be competitive on regional, national and international markets.

An energy retailer looking to enter the gas market or tap into a nearby natural gas pipeline requires access to a gas supply and the pipeline transportation capacity. Natural barriers exist to prevent or dissuade energy retailers from expanding into areas that do not currently have access to natural gas. The main reason for this is the cost to a retailer to construct the pipeline infrastructure required to access natural gas and supply it to end users, be they household or business. This then restricts the development of a cost competitive natural gas industry throughout the State of New South Wales.

Wholesale gas and pipeline capacity is usually traded under long-term contracts and for any retailer to enter into the gas market it must contract to purchase certain quantities of gas each day, quantities that may not always be taken up by the end-users, leaving them with a financial shortfall. This then is an economic barrier that the State Government needs to look at in order to overcome that barrier.

One of the recommendations in the draft AEMC Report is that price capping in the gas industry (and coincidentally, in the electricity industry as well) be removed which would result in end-users reaping the benefits of an increased choice of supplier, availability of natural gas and the scope of innovative development by suppliers.

It is known in the industry that gas producers are very likely to charge a higher price for the natural gas to low volume purchasers which would be another disincentive to a new player in the market and this is something that the State Government should be looking at in order to assist rural

development. However if the gas retailers can have comfort in the knowledge that development of these rural areas by industries would lead to residential development and associated infrastructure such as hospitals and ancillary services, it would make those retailers view expansion into areas without natural gas more financially viable.

Conclusion

The Local Government areas within Centroc all record very low temperatures during winter, down as far as -8°C. Currently residents and businesses in those areas that do not have access to natural gas have to turn to electricity, bottle gas or wood heaters to provide heating.

The latter two forms of heating raise serious safety and environmental issues. Many bottled gas heaters on the market are not flued which can lead to serious respiratory illness in residents. Wood heaters emit smoke into the atmosphere causing serious pollution issues. The Federal Government is committed to reducing carbon emissions and that commitment is not assisted by the continued use of wood heating.

If natural gas were brought to these towns the “knock on” effect would be of note – increased future viability of the towns, likely increase in commercial development and population, likely increase in retail opportunities and an increase in tourism. As a result these towns which currently are dying by degrees would be revitalised and the improvement in other infrastructure such as improved medical facilities would be sure to ensue. Currently it is very difficult to attract medical practitioners to rural areas because of a lack of facilities that would otherwise be available to them in larger cities or regional centres.

In conclusion, Centroc urges the State Government to encourage gas network operators and/or retailers to extend the existing distribution networks and to provide incentives to those operators and retailers to enable the expansion of the gas network throughout New South Wales.

Should you have any questions regarding our submission or require any further information, please contact the Centroc Executive Officer, Ms Jennifer Bennett on 0428 690 935.

Yours sincerely,



Cr Ken Keith
Chair
Central NSW Councils (Centroc)