

**SOUTH AUSTRALIAN FEDERATION OF RESIDENTS
AND RATEPAYERS ASSOCIATION INC (SAFRRA)
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Essential Services Commission of South Australia

Attention: Tamsyn Hinksman

Australian Gas Networks Regulatory

Framework Review 2021 - 2026

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Dear Tamsyn

**SAFRRA INC., SUBMISSION
Australian Gas Networks Regulatory
Framework Review 2021 - 2026**

SAFRRA wishes to thank ESCOSA for the opportunity to comment regarding the ‘Australian Gas Networks Regulatory Framework Review 2021 - 2026’.

Overview - SAFRRA Inc., submission of the “Australian Gas Networks Regulatory Framework Review 2021 - 2026”. SAFRRA Inc., truly wish to reinforce that most ratepayers and residents in South Australia are finding Gas prices and the associated services charges are far too high. There are too many South Australian’s in particular the low income families, self-funded retiree’s, aged pensioners, single parents and those with disabilities who are ongoing under utilities’ financial stress. We believe the recognition of gas customer’s ability to pay the current gas prices and service charges by the many very low income individuals and families where gas prices are unaffordable to these customers. We believe the Australian Gas Networks implement with compassion, hardship programs in conduction with the State Government / Federal Government funded support (concessions).

We believe the State and Federal Governments to be responsible body for concessions to vulnerable ratepayers and residents in this Australian Gas Regulatory Framework Review 2021 – 2026 period and for the Government/s to have these concessions in place for vulnerable gas customers. The residents of South Australia in particular have seen high rises in utility prices (electricity, gas, water) and can no longer afford the sudden spikes (rises) in gas prices. We accept that the business, manufacturing, mining and agricultural sectors must have gas pricing that is affordable, competitive compared to the rest of Australia for all these industries to grow, expand and employ more South Australia’s throughout this State, especially in some of the depressed employment regional areas of South Australia. We commend Australian Gas Networks green energy projects in South Australia – Hydrogen mix.

SAFRRA Inc., Submission

1. Pricing - SAFRRA Inc. believes Australian Gas Networks must keep gas prices as low as possible, keeping bills affordable to all South Australians. We commend AGN better understanding of vulnerable customers and acknowledge that AGN do not have customer details; their names / addresses like SA Water and the Electricity retailers of vulnerable customers. We support AGN introducing a 'pay it forward' option, developing hardship policy, employing social equality liaison staff. AGN is supporting / encouraging the Federal Government to consider raising the Newstart allowance and are working with the gas retailers billing services to be more customers friendly. We support the Residential Customers 8% gas price cut from the 1st July 2021, equal to \$40.00 per year bill reduction but we would have preferred a higher reduction where possible. Employing South Australians the Business Communities Gas price reduction of \$360.00 per year helps business but it is still small reduction and the Industry gas price reduction of around \$20,000 helps Industries to better financially afford employing more South Australians especially in the Regional areas of South Australia. AGN's delivering their Environmental and Socially Responsibilities – **ESCOSA please make sure AGN's do implement meaningful hardship programmes.**

2. Safety and Reliability – AGN must be commended by their own research that the general public are very comfortable with the safety and reliability of gas which has been ongoing for a very long time. It has been noted that AGN's Number 1 priority must be public safety to the customer's gas supply which must never be taken for granted and is strongly supported by SAFRRA Inc., to keep it **the number 1 priority** over all time. AGN keep doing what you do maintaining safety and reliability which is to be well budgeted in their business over the 2021 – 2026 Regulatory Framework Review.

3. Growing the Network - SAFRRA Inc. believes the AGN's needs to grow the gas network to keep gas prices as low as possible. Supply new development housing areas and old or other areas that can easily have gas connected to their home but be affordable.

4. Sustainable Cost Efficient – SAFRRA Inc. believes this is a given and we expect AGN's be reducing carbon emissions today and in the future. Residents and Ratepayers are keen to know how AGN's approach to the managing of waste as a good employer which in not negotiable and ESCOSA would expect this to be the case.

5. Innovation - SAFRRA strongly believes in green energy – Hydrogen carbon free gas blend. New Hydrogen production projects (green energy) AGN's Hydrogen Park SA project in South Australia. SAFRRA Inc. believes AGN's is working with industry benchmarks to be cost efficient well above industry benchmarks for the benefit of ratepayers and residents in South Australia. Delivering profitable growth can be achieved but not by the over gas pricing supply and high service charges to make an excessive profits, resulting too high gas prices for consumers. **2.**

6. Meter Reading – SAFFRA Inc. believes AGN should make smart meters available to customers at a modest fee, when they choose. We believe when new housing estates are planned and are being built that smart meters be installed by the contractor or AGN's expense but not for the customer to pay for this innovation. Some gas supply areas we have been led to believe there is a cost advantage for AGN to install smart meters which are cost efficient, especially when replacing damaged or old redundant meters by AGN. We believe in the future smart meters will be more acceptable to most customers and will be rolled out in most areas.

7. Customer Experience –AGN's customers around 30% do see digital as "the way of the future", being more convenient, accessible and earlier to use. SAFFRA believe these services (digital) should be a part of the existing service costs and AGN should not increase costs to the customers for these future digital services in their networks for the customers.

8. AGN's Rate of Return – SAFFRA Inc. believes AGN is to apply the AER's Rate of Return Guidelines which is 4.82%. Currently with our low inflation rate assessed at 2.34%, low interest rates, low or no taxation dedicated costs are very low. The Australia and the World Economies can change dramatically over night then the rate of return will need further adjusting over the five year period from 2021 - 2026. We believe AGN's rate of return over five years is really a line in the sand / estimate and to be adjusted over short periods of time where required.

9. Regulated Asset Base / Adjusting the RAB – SAFFRA Inc. believes where the RAB reflects past investments which we have been told are not recovered by investors. With the current RAB over 1.5 billion there is a need to consider the economic life of AGN's assets instead of historically at every five year review, we believe the RAB should this be done more regular yearly to give the business and the customers a true indication, having more accurate data of what is happening to AGN's assets base rather than wait five years for further adjustments which may see severe changes in the inflation targets.

10. Depreciation / Regulatory Depreciation – SAFFRA Inc. believes AGN's must factor in as a business and within the regulatory framework for 2021 – 2026 uncertainties. We support the need to decarbonise consistent with global requirements in Australia to reduce emissions. Uncertainties net zero carbon frameworks by 2050 which is still not clear that economic life of network not exceed 2050, again still requires modification in our changing global economic framework. Ratepayers and residents in South Australia renewables – hydrogen versus methane, the trial interstate in Victoria predict further extra costs to gas suppliers in South Australia, adding \$40.00 extra to the gas customer's bill which we would not be favourable to our communities. SAFFRA Inc., have seen the standard useful life of asset categories approved by the AER for the current AA period and very much favour the 'Year by year' tracking approach by AGN.

10. Depreciation / Regulatory Depreciation Continuation—The standard useful life of assets 60, 40, 20 15, 10, 5 years over the course of time in the regulatory periods will need reviewing as replacing especially mains and inlets (both 60 year useful life) is expensive and spikes in gas customers bills to be avoided at all costs. We have been led to believe AGN's depreciation of \$477 million including mains replacement is to be completed by the end of 2025 / 26. Will this be completed in that time frame and will AGN's replacement works be completed in 2025 - 2026?

11. Demand / Forecasting Methodology - The projected demand forecasts and SAFFRA Inc. believes the greater numbers of customers in SA is very good for local employment considering SA's high unemployment rate, the forecasting residential and small commercial demand and these principles are employed by the Australia Energy Market Operator but still requires continuing monitoring and technology new green products modifications.

Demand Residential Forecast Methodology – Regarding new connections that are based on the Housing Industry Association (HIA), new dwelling connections. AGN needs to be very proactive in the market place to increase new gas customer's connections, to be customer friendly and cost affiant. We believe that AGN where possible work should work more closely with Electricity conversions for customers to have dual appliances marketing in new home developments and green energy gas is promoted more. We have seen within the residential methodology used by AGN that residential customer number growth has decline in volume by 1%.

We would encourage AGN go out of their way to promote increased residential growth especially with new customers and have a better ability to supply gas that is cost effective for the business of AGN in South Australia to supply gas to customers with extra infrastructure for future expansion. Can we expect with more customers' connected overall cheaper gas and service fees?

Demand Commercial Forecast Methodology – SAFFRA Inc. believes AGN, work closely with the South Australian Government in the promotion, expectations of increased economic activity especially in regional areas of SA and new ventures - Hydrogen mix, green gas for South Australia. We believe price is very important over the next AA period. Commercial demand for using the current methodology forecasts result in a volume growth of .8% per year, South Australia must aim for a higher volume growth by more State and Federal Government initiatives to bring industries back to South Australia.

Demand Industry Forecast Methodology - SAFFRA Inc. believes AGN needs urgent consultation as soon as possible with both the State and Federal Governments taking into account South Australia's depressed decline of industry gas connections of 1.4% which equates to a decline in capacity of .9% per annum. South Australia needs more industry not less and we believe growth in green gas connections must increase to employ more South Australia's to build our State future. AGN you do need our government's support

12. Incentives / Economic Regulation Framework, Mechanisms, Capex, Innovations, Customer Service – SAFRRA Inc. support AGIG expenditure being extensively tested against the National Gas Rules ensuring AGIG is achieving the lowest sustainable cost, lower gas prices for all consumers. Safety and maintaining existing services must not be compromised and levels of demand well taken care off.

SAFRRA Inc., believe transparent accurate audited expenditure must be in place to make sure that any savings made by the business within a regulatory period kept by the business (AGIG) until the actual costs are made available at the next reset. As you can see how much we rely on the correct costs being audited transparent by AGIG. ESCOSA may wish for a better transparency which is understandable.

Incentive Mechanism and we know that an Opex Incentive Scheme exists in South Australia. SAFRRA Inc., strongly supports as we believe AGIG does effective, outcome-based incentives arrangements to promote the long term interests of AGN's customers by the business. We believe it is better for the gas consumers to have smooth, steady pricing controls across those years of a regulatory price control period incentives.

To have in place incentive mechanisms providing additional rewards, penalties, financial, reputational / administrative. Gas customers to be assured business efficiencies lower the cost of gas supplied to the customer foremost.

Capex Incentives – SAFRRA Inc. supports AGN's CESS for SA proposal which also applies in Victoria (National Consistency), with caution. AGN's is proposing that the share of gains / losses Business (AGN) be 30%, Customers share be 70%. With a loss to the business the poor gas customers take a 70% loss compared to a 30% loss to the Business.

We believe a poor AGN business judgement which may not happen, gas customers have the potential for higher losses which are not in the best interests of South Australian Gas Customers. The loss arrangement should be adjusted differently / changed. More appropriate being a 70% loss to business (AGN) and a 30% loss to the gas consumers to reduce undue risks / poor judgement by AGN in the business.

Innovation Incentives – SAFRRA Inc. supports AGN's application for an Innovation Scheme but we believe gas customers expect the business to be doing this as part of their normal business activities but why should the customers be expected to pay for this service that will reduce the cost of the business by AGN (supplying gas). The payback period may be longer than the regulatory period in regard to innovation incentives; AGN's should make these adjustments themselves to recover these costs, within their normal business activities.

12. Incentives / Economic Regulation Framework, Mechanisms, Capex, Innovations , Customer Service Continuation – Customer Service Incentives – SAFRRA Inc. supports AGN’s to consider a customer service or output incentive scheme which our Electricity distributors already use. These Customer Service Incentives we have been led to believe are commonly used by regulators to lift poor service outcomes by providing financial incentives when customers experience service outcomes below the set target for that service, customers receiving a target incentive payment. SAFRRA Inc. supports AGN providing these customer service incentives.

13. Financeability – AGN’s their business financeability must be one of the most important matters to them and for their customers throughout the 2021 – 2026 regulatory framework review. We can see by the Preliminary Modelling Chart AGN’s debt in 2021 / 22 of 1,045 and in 2025 /26 modelling is forecast to be 1,157 and aiming for a minimum average 9% FFO / Debt, meeting the businesses and credit rating agencies for a BBB+ / A-. These figures / forecasts are only relevant when projected internal forecasts, world markets stability is on track but world events can totally change these forecasts by increased costs, interest rate rises, higher supply costs, hydrogen mix and major restrictions in supply of gas to customers (pipelines). Only aims for outcomes that are financeable.

Five years in today’s financial environment is a long time, yearly forecasts / estimates need to be recognised by the business with internal, green energy and world environmental events as well (climate change).

14. ESCOSA – SAFRRA Inc. strongly supports ESCOSA dedicated extensive work regarding the Regulatory Framework Review 2021 – 2026 and we believe Australian Gas Networks have been one of the best gas distribution utilities engaging key South Australian businesses and community groups in a very transparent informative References Groups to achieve the most appropriate result for the Regulatory Framework Review 2021 - 2026. We support ESCOSA making minor amendments (59) to each of ESCOSA’s AGN regulatory instruments which we believe improves clarity, alignment with the national gas framework.

The maintaining of current monitory reporting regime – responsiveness to gas leaks, emergency telephone number, public reporting gas leaks unplanned gas interruptions are of course a given for AGN, always to be maintained, public safety must always be the top priority for AGN customers and the general public expect this. ESCOSA may not believe in the setting of jurisdictional service reliability standards re performance targets in the 2021 – 2026 regulatory periods.

SAFRRA Inc. believes jurisdictional service reliability standards should be set, ESCOSA believing not to? Why? Will these standards increase administration costs for AGN gas customers?

Summary

SAFRRA Inc. has seen over many years millions of dollars of taxpayer's money spent on countless reports and inquires. SAFRRA Inc. encourages ESCOSA to make sure as an independent body regarding gas prices / services to the consumers are not overinflated. Affordable pricing for all South Australians even if it means a lower cost for gas and supply charges for the most vulnerable gas customers, support increases to the NewStart Benefit.

We expect Gas prices and new products / innovations within the Gas Industry such as Hydrogen / Hydrogen Infrastructure Facilities in South Australia for South Australia's achieving green carbon free affordable gas / infrastructure which can be blended into AGN's distribution return and expect the reduction of AGN's servicing prices for all South Australian gas customers. Thank you.

Yours sincerely

Kevin Kaeding,
President
South Australian Residents and Ratepayers Associations Inc.