

*Energy Consumers Coalition of
South Australia*

Australian Energy Regulator

SA Gas Distribution Revenue Reset

AGN Application

A response

by

Energy Consumers Coalition of South Australia

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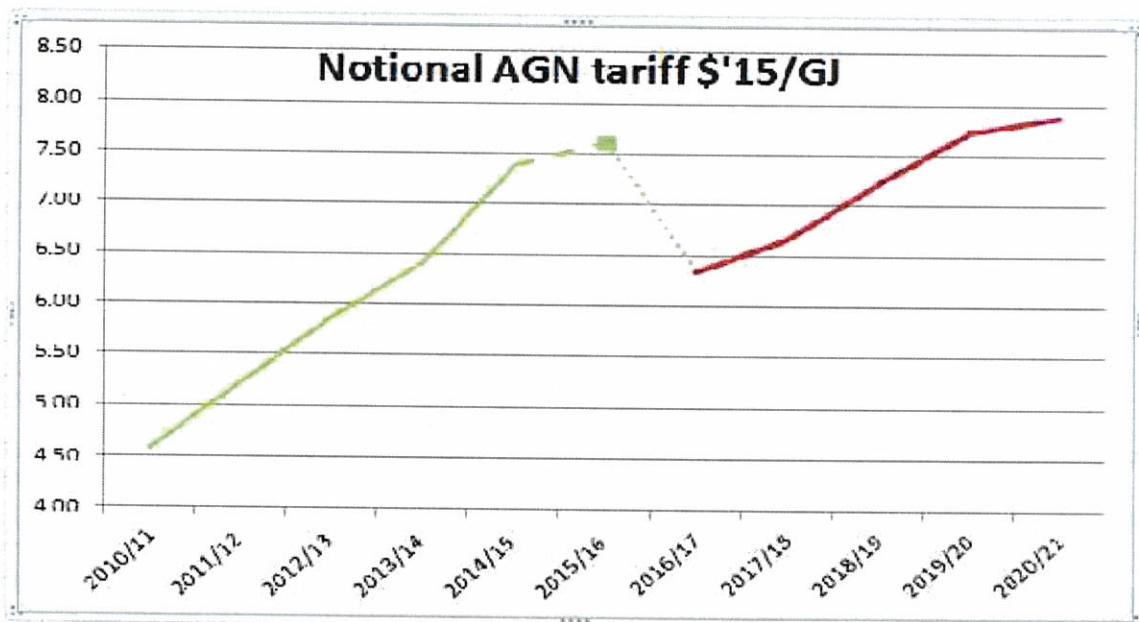
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The content and conclusions reached are the work of the ECCSA and its consultants.

Executive Summary

The Energy Consumers Coalition of South Australia (ECCSA) welcomes the opportunity to provide its review of the AGN SA gas distribution application for its revenue reset.

Overall, AGN is seeking a very large increase in tariffs and the impacts of the low utilisation of the network and the large capex programs from the current period and forecast for the next period are shown in the following chart.



Source: AGN RIN, AGN/Envestra proposals, ESCoSA, AER decisions

The causes of the increases in the current period are attributable to a very large capex allowance combined with an excessively high WACC, all measured against a declining amount of network capacity being sold. AGN seeks to further expand its capex in the next period and partially conceals the impact of the increase through a WACC that is low because current low interest rate costs. If the WACC was assessed on long term average costs for capital, there would be no reduction in the average tariff in the early years of the next period.

This is the fourth regulatory review of AGN and the AER should be able to assess AGN's efficient costs based on past performance. Whilst opex has been self benchmarked and analysis shows the areas where AGN has over claimed, the claims for capex and rate of return exhibit outcomes totally at odds with the provision of an efficient gas transport network.

ECCSA is extremely concerned about the cumulative impact of the current period high capex program coupled to the expanded capex program proposed for the next period. The ECCSA has calculated the impacts of the capex programs on the regulatory asset base and related these to the volumes of gas transport (actual for small customers and annualised MDQ for large customers)

should ensure that AGN applies strict cost reflective approaches to developing the tariffs and their bands.

Overall, the AGN proposal shows all the hallmarks of an entity seeking to maximise its revenue despite the clear indications that the utilisation of its network is falling to dangerously low levels relative to the value of the assets involved. The proposed high tariffs coupled to the already increasing pressures from gas price rises, will merely increase the already apparent decline in gas usage throughout the network.

The ECCSA sees that the AER has a major task ahead to balance the interests of consumers against the desires of AGN for continuing to increase its revenue from the network regardless of market realities.