22 August 2014

Mr Sebastian Roberts
General Manager
2014 Jemena Gas Access Arrangement Review
Australian Energy Regulator

Dear Mr Roberts

JEMENA GAS NETWORKS - PROPOSED 2015-2020 ACCESS ARRANGEMENT

Delta Electricity owns and operates the 667 MW Colongra Gas Turbine Power Station located near Budgewoi on the NSW Central Coast. Gas for the operation of this station is drawn directly from the trunk pipeline between Wilton and Newcastle.

This submission does not consider the details behind Jemena Gas Networks' ("JGN") proposed Access Arrangement but rather addresses the seeming discriminatory treatment of industrial customers as evidenced by the proposed tariffs and deficiencies in the consultation process.

Tariff Changes for Industrial Customers

The documentation accompanying the draft Access Arrangement highlights that the average residential customer could expect a 20% decrease in real gas costs over the FY2016-20 period with a 6.44% increase in the first year. The corresponding changes for an average commercial customer are an 11% decline over FY2016-20 with a 0.37% drop in FY2016. In contrast, an average industrial customer is expected to contend with an expected 2.5% increase in each year of the Access Arrangement period.

While the calculation for the average residential and commercial customer is transparent and verifiable (being set out in *JGN Reference tariffs and customer outcomes (RIN Appendix M)-PUBLIC.xlsm*) the corresponding annual bills for the average industrial customer are "hard-coded" in that spreadsheet. This makes it difficult to verify the claim of a 2.5% increase. It is not clear, when the characteristics of the average industrial customer are set out, why the cost calculation cannot be set out in detail. Delta is particularly concerned about this for two reasons:

- in attempting to determine the annual bill for the average industrial customer, Delta's calculation suggests that the real change in the first year is more than three times the claimed 2.5% (*Delta is prepared to accept that this may be incorrect but, as stated above, there is insufficient information provided to check the calculation*); and

- applying the proposed FY2016 tariffs to Delta's contract for haulage services results in a 4.4% increase in real terms, a step change from the current Access Arrangement period within which there was no annual increase above 2.0% in real terms..

Seeming to confirm this separation between the statements concerning industrial customers and the actual tariffs I refer to Table 10-3 in the Tariff Structures Statement. This table states that the first block in the Demand capacity tariffs is expected to increase at a rate above an average of 2.4%, while the second block will increase at a rate below that figure. The remaining four blocks are expected to be at the average. Examination of the rates proposed confirm the situation for the first two blocks in FY2016 (being 7.35 and 1.9% respectively). However, the increase in each of the next three blocks appears to be 27.4%. It is only in the sixth block that the proposed tariffs represent a 2.4% increase over the equivalent FY2015 rate.

Given these tariff block changes, and noting that the single fixed charge proposed appears to be larger in real terms than the three charges currently applied, it does not appear mathematically possible to arrive at a 2.5% real increase for any industrial customer in FY2016.

Customer Class Re-balancing

Delta does not support Jemena's proposed rebalancing of costs allocated across customer classes. At the public forum in Sydney on Friday 15th August 2014 the cost increase for large industrial consumers was explained by Jemena management as a return to the normal cost allocation between large users and other users of 10%/90%. Such re-balancing is also referred to in the Fact Sheet entitled *Our proposed network prices*. The explanation presented for the level of 6%/94% in the FY2011-15 period was that a decision was made to alleviate cost pressure on large industrial consumers during the Global Financial Crisis (GFC).

Delta believes that the conditions in the gas market during the FY2016-20 revenue period will place far more pressure on large industrial gas users than was experienced under GFC conditions. The rationale that led to the 6%/94% split is therefore still valid and I question the logic that has been used to justify an increase in costs to the large industrial user customer class during a period of unprecedented change and uncertainty in the gas market. A reduction in the burden when industry is under pressure makes sense. To then increase the burden when that pressure is still increasing is irrational and damaging.

Further to this, the customer class allocation decision process appears to be opaque and arbitrary, building on the situation that industrial customers do not generally have a fuel switching option. Delta does not support this type of process for a regulated monopoly. We encourage the AER to review the process by which Jemena allocates costs across classes and institute a transparent and structured process.

Capital Base

I note that JGN has estimated that its total capital expenditure under the current Access Arrangement will be approximately $76 million above the allowance. Delta questions whether it is appropriate that this additional expenditure be included in the regulatory asset base for the next Access Arrangement.

Carbon cost

While it is forecast to be only a small component of JGN's operating expenditure from FY2016, Delta expects that this will be removed from the estimates under the current review process rather than in line with the true-up timetable set out in Table14-1 on page 129 of the *2015-20 Access Arrangement Information*.

Consultation

I note that JGN refers many times to the extensive consultation process it has undertaken and how the results of that engagement are reflected in the current draft proposal. In Delta's case that consultation consisted of a single teleconference held on 8 May 2014, the purpose of which was given as being "to engage with you to inform you of the changes we're proposing to the Access Arrangement". That is, apparently not to canvas Delta's views on appropriate responses to the changing gas market but to describe what was already decided. The meeting itself consisted of a run through of a number of presentations apparently given to gas retailers on 16 April 2014. In these presentations there were only two references to large customers.

1. Such customers were represented as being interested in specific issues:

   (a) Assistance in developing our demand forecasts
   (b) CD reset on commencement on new AA
   (c) Interest and eligibility for the First Response tariff
   (d) How they could be involved in our review

2. The features of the proposed Access Arrangement for customers using more than 10 TJ per year were given as:

   (a) Real price increases over the period, consistent with recent tariff variations
   (b) Grandfathering of 1st response tariff
   (c) CD reset available to all customers on commencement of new AA
   (d) CD reset will give customers the opportunity to reduce CD based on their history prior to 1 July 2015
   (e) In the Demand market the capacity block 1 to be split from 200 GJ into 50 GJ and 150 GJ. This will go from a 5 block structure to a 6 block structure.

In contrast to this limited engagement I refer to the JGN Fact Sheet entitled *How our 2015 Plan responds to the changes in the gas market*. Table 1 of that document refers to customer responses to six different issues and how those responses are proposed to be addressed. Whereas the JGN Customer Council and residential and small business customers are noted as providing input on all six issues, large industrial customers are referred to only on pricing and charges. Even within that category the only issue noted is the re-setting of charges for large customers who reduced their peak demand.

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It is concerning, although possibly not surprising, that the one consumer category reportedly to be faced with tariff increases is the one seemingly least represented in the customer engagement process. In a number of locations in the documentation JGN states that its objective for industrial customers is price stability. Delta does not accept that this is synonymous with steadily increasing prices, particularly when JGN states that both its funding and operating costs are falling.

Yours sincerely

GREG EVERETT
CHIEF EXECUTIVE