



**Government
of South Australia**

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10MEN/2129

Mr Andrew Reeves
Chair
Australian Energy Regulator
GPO Box 520
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Dear Mr Reeves

Thank you for the opportunity to comment on the 2010 Review of Envestra's Distribution Gas Access Arrangement.

The tariff schedule of the Proposed Revision indicates tariff increases averaging CPI plus 10.6 per cent per annum over the five years of the Access Arrangement period. An increase of this size must be justified in terms of genuine cost drivers, reduction in gas leakage and improved reliability and security outcomes for consumers. The interest of consumers requires AER to carefully analyse this proposal and ensure that appropriate prices are set.

It is of concern that gas leakage has reached the current levels and AER should ensure sufficient funding for Envestra to reduce this amount and thereby meet its regulatory obligations.

Consideration should also be given to the expenditure of funding provided for the current access arrangement period for projects that are incomplete. Any requests to provide funding for similar projects and associated efficiency gains from non expenditure will require careful deliberation.

The Weighted Average Cost of Capital (WACC) proposed by Envestra is well above other recent decisions. Envestra proposes a nominal post-tax WACC of 10.64 per cent for its South Australian and Queensland gas distribution businesses for the period 2011 to 2016. In determining whether the Envestra proposal is fair, reasonable and consistent with the National Gas Objective, it must be benchmarked against recent decisions on the WACC of other gas distributors determined by AER.

A balance is required between minimising prices to consumers and ensuring businesses meet customer needs with particular regard to reliability and security.

Should you wish to discuss this submission please contact Mr Vince Duffy,
Executive Director of the Energy Division, Department for Transport, Energy and
Infrastructure on (08) 8204 1724.

I look forward to receiving AER's draft decision in the new year.

Yours sincerely



HON PATRICK CONLON MP
MINISTER FOR ENERGY

25 November 2010