

Independent Pricing and Regulatory Tribunal

Our reference: [REDACTED]
Your reference: [REDACTED]

18 February 2014

Andrew Gee MP
Chair
State and Regional Development Committee
Parliament House
Macquarie Street
Sydney NSW 2000

www.ipart.nsw.gov.au

Dear Mr Gee

INQUIRY INTO DOWNSTREAM GAS SUPPLY AND AVAILABILITY IN NSW

Thank you for your letter dated 30 January 2014 requesting additional information from IPART in relation to the above inquiry. A response to each of the questions raised is provided below.

1) Can effective competition in the gas market play a role in driving down gas distribution network prices for retail customers?

We consider that effective competition in the retail gas market does not have a direct influence on distribution network prices. This is because distribution networks are monopoly businesses (within their area) and their prices are subject to economic regulation by the Australian Energy Regulator. Therefore, it is the regulatory framework surrounding network prices that will be most important for driving down these prices to efficient levels. However, as discussed in question 3 below, effective competition in the retail gas market is important for providing customers with more choices and better overall price and service outcomes.

2) The submission from IPART states that action is required to address policy settings that are leading to higher than necessary gas network prices.

What actions should be taken to drive down gas network prices to levels that reflect efficient operating costs?

The actions referred to in our submission were in relation to the limited merits review regime applying to decision-making in the electricity and gas sectors. We noted that at that time, important changes to this regime recommended by an expert panel were yet to be implemented. However, since we made this submission amendments have been made to the National Electricity Law and National Gas Law in relation to the limited merits review regime, which substantially incorporate the panel's recommendations.

3) Assuming that competition in the gas market is the most effective means of keeping retail gas prices at appropriate levels for customers, is there a role for formal price regulation of retail gas?

We consider that where there is effective competition in a market there is no need for formal price regulation. In our 2013 review of regulated retail gas prices in NSW we noted that it is likely that competition in the market now provides sufficient protection to customers, as well as offering more choices and better price and service outcomes.

4) Do any regulatory barriers exist that restrict efficient competition in the retail gas market?

We are not aware of any regulatory barriers that exist in the retail gas market. The Australian Energy Market Commission (AEMC) assessed whether there were barriers for retailers to enter the market and compete for customers as part of its 2013 review of retail energy market competition in NSW. While the AEMC found that competition in the retail gas market was providing discounts and other benefits to most customers, it noted that there were some barriers for new retailers entering the market due to problems accessing gas supply and pipeline capacity with a small customer base. In our view this is not a regulatory barrier, but an issue related to the physical nature of the gas market and the manner with which wholesale gas is currently traded (ie, largely on a confidential basis between producers and retailers).

5) What incentives can be provided to encourage service providers to expand existing gas distribution networks to rural and regional areas?

We consider that the current access arrangements for gas distribution already provide an incentive regime by allowing businesses to earn an appropriate return on capital. These arrangements support the market-driven expansion of the gas distribution network into areas where it is commercial to do so.

If you have any questions in relation to this letter, please contact [REDACTED]

Yours sincerely

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