

**Submission
No 14**

DOWNSTREAM GAS SUPPLY AND AVAILABILITY IN NSW

Organisation: IPART
Name: Mr Alexis van Der Weyden
Date Received: 29/05/2013

29 May 2013

www.ipart.nsw.gov.au

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

Dear Mr Gee

SUBMISSION TO NSW INQUIRY INTO DOWNSTREAM GAS SUPPLY AND AVAILABILITY IN NSW

IPART welcomes the opportunity to comment on the NSW inquiry into downstream gas supply and availability in NSW.

We are the economic regulator of gas retail prices for small customers¹ in NSW who have not entered into a market contract with a licenced retailer. For the past 10 years, we have regulated these prices using a relatively light-handed approach that involves making pricing agreements with each of the Standard Retailers in NSW – AGL, ActewAGL and Origin Energy. We also make recommendations to the Minister for Resources and Energy on the granting of gas suppliers and gas reticulator licences, and we monitor and enforce licence compliance. We are, therefore, well placed to comment on some of the issues included in the terms of reference to your inquiry.

In particular, we would like to comment on:

- ▼ The effectiveness of competition in the retail gas market and consumer pricing implications.
- ▼ Further action required to address policy settings that are leading to higher than necessary gas network prices.

¹ All customers that consume less than 1 terajoule (TJ) per year are eligible for supply under a standard form customer supply contract.

Competition in the gas retail market is effective to protect customers

Competition in the small customer gas retail market in NSW has continued to evolve over the past few years. We found that small customers are increasingly participating in the competitive market by moving from regulated prices to market contracts.

These elevated levels of customer activity are partly in response to high levels of discounting in the market. Retailers are currently offering significant discounts off regulated prices for both electricity and gas, with our *myenergyoffers*² website showing that discounts of around 3% to 10% off regulated gas prices are available.

We consider that competition in the gas retail market for small customers is now effective enough to protect customers from prices being set above efficient levels, as well as offering more choices and better price and service outcomes. Only around one-third of small customers now remain on regulated prices in NSW.

At the same time, retail price regulation has not protected customers against price shocks, with regulated residential gas prices increasing on average by around 44% over the past 5 years³.

In our view, effective competition – where retailers strive to offer customers products and services they value – is the best way to ensure that retail gas prices are driven towards the efficient cost of supply. We consider that a well-functioning competitive market is in the long-term interest of customers, and that customers can access market offers to find a deal that best suits them.

Further, the eastern Australia gas market is entering into a period of transformation. A number of gas supply contracts are expiring or being renegotiated over the next few years, and export driven demand is expected to increase due to LNG developments in QLD. This creates significant uncertainty in relation to the medium-term supply and demand dynamics in the Australian gas market.

In this context, we consider that a competitive market is best placed to manage the uncertainties that are emerging in the wholesale gas market and note that the other states have removed formal price regulation of retail gas.

² www.myenergyoffers.nsw.gov.au

³ This is the nominal change in bills for a typical residential customer consuming 23 GJ per year in the AGL supply area.

Further action is required to address policy settings that are leading to higher than necessary gas network prices

Regulated retail gas prices have risen significantly over the past 2 years driven primarily by sustained increases in network costs, particularly for AGL customers supplied by the Jemena gas distribution network. We consider it likely that regulated retail prices will rise further over the next year, partly due to sustained increases in gas network costs under distribution pricing determinations already in place.

Distribution network costs reflect the charges that retailers must pay to deliver gas through the low pressure distribution network to homes and businesses. These charges are regulated by the Australian Energy Regulator (AER) and we include these regulated costs in our regulated retail prices. These costs typically make up around 50% of overall regulated retail gas prices.

These recent network cost increases primarily result from Jemena's successful appeal to the Australian Competition Tribunal (ACT) of the maximum prices and charges they can levy on retailers for use of the distribution network.⁴

We consider that action is required to address policy settings that are leading to higher than necessary gas network prices. The current regime that applies to the economic regulation of gas networks may have resulted in customers paying more than necessary for the supply of gas. While improvements have been made to the National Gas Rules, which will allow network prices to more closely reflect efficient costs⁵, further reforms in other areas are not yet complete.

The National Gas Law includes a Limited Merits Review Regime to provide parties affected by the Australian Energy Regulator's decisions with recourse to a review mechanism. In September 2012, an expert panel recommended significant changes to the regime, including broadening of the scope of the review mechanism, increasing customer participation, and establishing a new administrative body to hear appeals under the regime. However, these changes are yet to be made. We strongly support changing the merits review framework, as outlined in our submissions to the expert panel and Standing Council on Energy and Resources.⁶

⁴ The maximum prices and charges that distribution network operators can charge retailers are set out in an Access Arrangement which is regulated by the AER. Jemena successfully appealed the AER's final decision to the Australian Competition Tribunal. Further information on the Jemena Access Arrangement can be found at <http://www.aer.gov.au/node/3800>

⁵ <http://www.aemc.gov.au/Media/docs/Information-sheet---final-rule-determination-0234dda9-acbc-4cdb-b6de-a4f3297d2d6a-0.pdf>

⁶ http://www.ipart.nsw.gov.au/Home/Quicklinks/IPART_Submissions_to_External_Reviews

If you have any queries regarding this submission, please contact Alexis van Der Weyden on 02 9290 8460.

Yours sincerely

Peter J. Boxall AO
Chairman