

FACT SHEET

Regulated retail gas prices from 1 July 2014 to 30 June 2016

10 June 2014

IPART today released its final report on regulated retail gas prices in NSW for the period 1 July 2014 to 30 June 2016. Regulated gas prices will increase from 1 July 2014. Average regulated retail prices will increase by between 14.6% and 18.1% over the next 2 years depending on the supply area.

These price increases will affect small gas customers¹ who remain on regulated prices after 1 July 2014. More than 75% of small gas customers are no longer on regulated prices and have instead chosen to enter into a market contract with a gas retailer.

How does IPART regulate retail gas prices?

For the past 10 years, we have regulated retail gas prices by making multi-year pricing agreements (known as Voluntary Pricing Arrangements) with each Standard Retailer (AGL, ActewAGL and Origin Energy). This approach reflects the significant level of competition in the retail gas market.

The Standard Retailers then set their own regulated prices to comply with these agreements, and we monitor their compliance. In 2013, we reached new pricing agreements with the Standard Retailers, for the period 1 July 2013 to 30 June 2016.

In line with these agreements, the Standard Retailers submitted their original pricing proposals for 2014/15 and 2015/16 to us in February 2014. Revised proposals (which proposed smaller increases) were submitted in March 2014. In reaching our decision to accept the retailers' revised proposals, we took into account stakeholder comments on the proposals and considered how well the proposals would meet the objectives of the *Gas Supply Act 1996*, including protecting the interests of customers and encouraging development of the competitive market. In particular, we assessed the proposals to ensure they reflect the efficient costs a new entrant retailer would incur in supplying gas to customers and facilitate the continued development of competition. A competitive market drives efficiency, innovation and protects customers from unreasonable price increases.

¹ Small gas customers are those that consume less than 1,000 gigajoule (GJ) per year.

What are the price changes for each Standard Retailer?

Our decision is to accept the proposed increases in regulated retail gas prices from 1 July 2014 to 30 June 2016 as shown in Table 1.

Table 1 IPART's decision on regulated average retail gas price increases from 1 July 2014 to 30 June 2016 (including inflation, %)

Standard Retailer	2014/15	2015/16	cumulative
AGL (Greater Sydney region and inland NSW)	17.3%	0.7%	18.0%
ActewAGL (NSW/ACT border and Shoalhaven)	17.2%	0.4%	17.8%
Origin Energy (Albury/Murray Valley)	18.7%	-3.4%	14.6%
Origin Energy (Wagga Wagga)	20.5%	-2.0%	18.1%
NSW average weighted by customer numbers	17.8%	-0.04%	17.7%

Note that the regulated prices for 2014/15 include a forecast cost of carbon for this year, while those for 2015/16 include a zero cost of carbon (reflecting the market's expectation that the carbon pricing mechanism will be repealed). The removal of carbon costs in 2015/16 offsets the forecast increase in wholesale gas costs that year, resulting in small increases or decreases in average regulated retail prices. If no carbon component is applied from the start of 2014/15, then for example the nominal increase in AGL's regulated retail prices over the next 2 years would be 11.7% in 2014/15 and 5.8% in 2015/16.

Why are gas prices increasing?

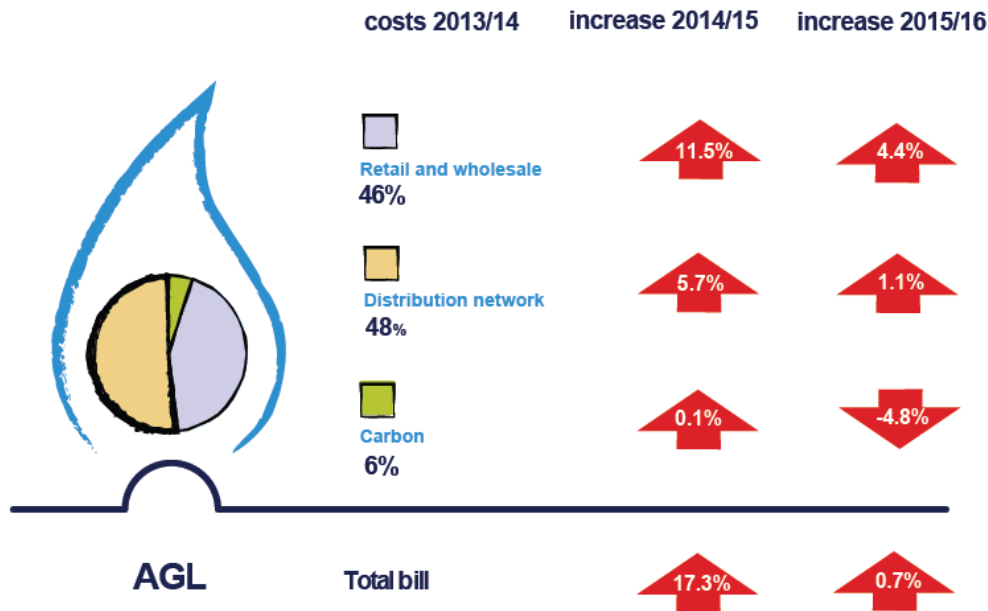
The main driver for price increases is a fundamental change in the wholesale gas market, with gas reserves being directed to export. Eastern Australia is becoming part of a single global market for commodity gas, and wholesale gas prices are being influenced by international prices. Higher wholesale gas prices, combined with relatively small changes in other retail costs, account for the majority of the retailers' overall proposed price increases for 2014/15.

The allowed increases in regulated retail gas prices follow increases in prices in 2012/13 and 2013/14². The main reason for these past increases were sustained rises in network costs. Further increases in network costs contribute to some of the approved increases in regulated prices from 1 July 2014. This is particularly the case for AGL and ActewAGL's capital region, which will see a further rise in network costs on 1 July 2014.

Figure 1 illustrates the cost components that make up AGL's bills in 2013/14, and shows how changes in the different components result in an overall increase in the regulated retail gas price of 18% by 30 June 2016.

² Average regulated retail gas prices in NSW increased by 14% on 1 July 2012, and another 8.5% on 1 July 2013.

Figure 1 Drivers of increase in AGL's average regulated retail gas prices from 1 July 2014 to 30 June 2016 (including inflation, %)



If the carbon price is removed from the start of 2014/15, then the nominal price increases over the next 2 years would be:

- ▼ For AGL: 11.7% in 2014/15 and 5.8% in 2015/16.
- ▼ For ActewAGL: 10.7% in 2014/15 and 6.6% in 2015/16.
- ▼ For Origin Energy (Albury/Murray Valley): 8.7% in 2014/15 and 5.5% in 2015/16.
- ▼ For Origin Energy (Wagga Wagga): 12.6% in 2014/15 and 5.0% in 2015/16.

What will be the impact on typical gas customers' bills?

Tables 2 and 3 illustrate the potential impact of the price increases on residential and business customers' bills respectively.

Table 2 Indicative annual bill for typical residential customers (nominal \$, inc GST)

Standard Retailer	Current bill (2013/14)	Estimated bill 2014/15	Estimated bill (2015/16)	\$ increase over 2 years
AGL	901	1,056	1,063	162
ActewAGL	1,292	1,515	1,522	230
Origin Energy (Albury/Murray Valley)	933	1,107	1,069	136
Origin Energy (Wagga Wagga)	1,027	1,237	1,212	186

Note: This assumes a typical customer uses 23GJ, 45GJ, 45GJ, and 37GJ of gas per annum in the AGL, ActewAGL, Origin Energy (Albury/Murray Valley) and Origin Energy (Wagga Wagga) areas respectively. Impact on bills includes GST. Estimated bill for 2014/15 includes carbon component.

**Table 3 Indicative annual bill for typical business customers
(nominal \$, excl GST)**

Standard Retailer	Current bill (2013/14)	Estimated bill (2014/15)	Estimated bill (2015/16)	\$ increase over 2 years
AGL	4,201	4,926	4,959	757
ActewAGL	4,997	5,858	5,885	888
Origin Energy (Albury/Murray Valley)	3,295	3,911	3,776	481
Origin Energy (Wagga Wagga)	3,503	4,221	4,136	633

Note: This assumes a typical customer uses 184GJ, 246GJ, 209GJ and 231GJ of gas per annum in the AGL, ActewAGL, Origin Energy (Albury/Murray Valley) and Origin Energy (Wagga Wagga) areas respectively. Impact on bills excludes GST. Estimated bill for 2014/15 includes carbon component.

What customers can do to manage their gas

Depending on where you are located, there may be a number of market offers for gas available from your current or other gas retailers. To learn more about energy offers in your area, please visit www.energymadeeasy.gov.au, or you can telephone the retailers directly.

Customers experiencing difficulty paying gas (or electricity) bills should speak to their retailer. All energy retailers are required by law to have a published hardship charter and to operate an approved customer assistance program. While retailers may have (slightly) different criteria for eligibility to their hardship programs, the common element is that customers on an assistance program are protected from disconnection due to late bill payment, and have a tailored payment arrangement to help them manage their bills.

Energy retailers generally offer options for bill smoothing, where the estimated total cost of a customer's energy bills for the next year are spread across equal monthly, fortnightly or weekly instalments. This helps customers manage their budget and cash flow, and reduces the impact of changes in bills due to seasonal energy use.