

Mr Hugo Harmstorf
Chief Executive Officer
Independent Pricing and Regulatory Tribunal
PO Box K35
Haymarket Post Shop NSW 1240

27 January 2016

Dear Mr Harmstorf,

Review of regulated retail prices and charges for gas from 1 July 2016 to 30 June 2017

ActewAGL Retail is the Standard Retailer in the Queanbeyan and Palerang, the Capital (Boorowa, Goulburn-Mulwaree, Yass and Young), and Shoalhaven regions. ActewAGL Retail currently supplies around 14,000 gas customers on regulated tariffs in these regions, comprising around 60 per cent of ActewAGL Retail's gas customer base in NSW.

On 3 September 2015, the Minister for Industry, Resources and Energy asked the Independent Pricing and Regulatory Tribunal (IPART) to continue to regulate retail prices and miscellaneous charges for small retail gas customers from 1 July 2016 to 30 June 2017 and to forecast indicative retail gas prices for each year from 1 July 2017 to 30 June 2019. The Minister has also committed to deregulate retail gas pricing from 1 July 2017 if certain conditions are met.

ActewAGL Retail confirms it is willing to enter into a new *Voluntary Pricing Arrangement* (VPA) with IPART to apply from 1 July 2016 to 30 June 2017. ActewAGL Retail also welcomes the intention to remove price regulation from 1 July 2017.

Overview of ActewAGL Retail's proposal

ActewAGL Retail supports retail gas price deregulation. ActewAGL Retail considers that continued price regulation increases costs and risks for retailers and consumers and has the potential to distort the retail gas market, denying consumers the benefits that flow from a truly competitive market free of unnecessary regulatory constraints. ActewAGL Retail considers that open competition in the market protects the interests of consumers. ActewAGL Retail has long argued that market-based outcomes will enable customers to enjoy the full benefits of greater choice and competitive price offers.¹

As outlined in ActewAGL Retail's response to IPART's issues paper, ActewAGL Retail considers that the current approach for determining average price changes, the form of price control and the mechanism for managing risk and uncertainty should all be retained as it avoids unnecessary costs, uncertainty and risks associated with any new or revised regulatory approach in this final transitional year to deregulation.

¹ ActewAGL, *Review of Regulated Retail Tariffs and Charges for Gas 2013-2016*.

This submission sets out ActewAGL Retail's pricing proposal for 2016/17. ActewAGL Retail's approach is to seek to continue to deliver competitive market outcomes while also facilitating a smooth and low-cost transition to price deregulation.

ActewAGL Retail proposes to update its retail cost component (R) by the consumer price index (CPI) so that changes in R move with inflation. ActewAGL Retail intends to adjust the network cost component (N) to reflect any changes in network charges arising from the current network price review process that will be finalised by the Australian Energy Regulator in April 2016. This approach provides the assurance to ActewAGL Retail's customers that ActewAGL Retail's voluntary pricing proposal is being set in accordance with commercial benchmarks given the NSW retail gas market is open to competition and was found to be competitive in the Australian Energy Market Commission's (AEMC) most recent market assessment.²

ActewAGL Retail believes that this proposed approach for 2016/17 appropriately keeps regulatory costs low in the transition year to price deregulation and is consistent with IPART's light handed regulatory approach.

ActewAGL Retail notes that IPART has also been requested to provide forecasts of indicative retail gas prices for each year from 1 July 2017 to 30 June 2019. ActewAGL Retail is unable to provide clear guidance on indicative retail gas prices mostly because wholesale gas costs are a key driver of these prices and there is considerable uncertainty in pricing gas in the wholesale gas market. ActewAGL Retail's wholesale gas supply is managed through a commercial arrangement with AGL and ActewAGL Retail refers IPART to AGL's submission in response to this matter.

ActewAGL Retail's proposal for regulated retail price offers in 2016/17

Calculating the retail component

ActewAGL Retail proposes that the retail component remains the same in real terms, i.e. is escalated by the CPI to take inflation into account. The retail component is comprised of the following costs:

- *Wholesale gas costs* – Wholesale gas costs represent the costs of procuring gas for supplying retail customers. While IPART's issues paper contained lengthy discussion about the factors impacting wholesale gas prices, ActewAGL Retail has no direct access to wholesale gas markets and therefore cannot comment authoritatively on the direction of wholesale gas prices. AGL manages on ActewAGL Retail's behalf the risks associated with supply and demand in short-term and long-term wholesale gas markets. By outsourcing the management of wholesale gas purchasing to AGL, ActewAGL Retail's customers benefit through AGL's economies of scale.
- *Retail operating costs* – Retail operating costs refer to costs for managed gas services, such as billing and revenue collection, management of a customer contact centre, office space, debt collection, IT system costs and general operating

² Australian Energy Market Commission (AEMC), *2015 Retail Competition Review*, Final Report.

expenditure. Customer acquisition and retention costs are also included to recover the costs required to attract and retain gas customers in a competitive market.

- *Retail margin* – The retail margin represents the return that a gas retailer requires in order to attract the capital to provide retail services. Retailers need to earn a sufficient return in order to compensate for the risks associated with providing an energy retail service.

The network component

ActewAGL Retail intends to continue to pass through the network cost component (N) to consumers. The final value for N will be updated to reflect the actual network charges approved for 2016/17 once the AER makes a final determination on regulated prices for the Jemena and ActewAGL Distribution gas networks.

ActewAGL Retail also notes that ActewAGL Distribution is changing its gas network tariff structure and ActewAGL Retail is working through the implications of these changes.

Consumer Price Index

ActewAGL Retail intends to use IPART's methodology for calculating the change in CPI, which is the annual change to the March quarter CPI index to two decimal places. The March 2016 quarter CPI, issued by the Australian Bureau of Statistics, is scheduled for release on 27 April 2016.

Miscellaneous fees and charges

ActewAGL Retail proposes to use the same mechanism in the 2016/17 VPA proposal for the treatment of miscellaneous fees and charges as applied for the 2013/14 to 2015/16 regulatory period. That is:

- to increase miscellaneous fees and charges by no more than the change in CPI on average in the 2016/17 regulatory period;
- the standard retail miscellaneous charges be aligned with corresponding network miscellaneous fees and charges; and
- to continue to add an administration fee, annually adjusted by CPI, to network miscellaneous charges.

ActewAGL Retail does not propose any new miscellaneous charges for the 2016/17 regulatory period. However, ActewAGL Retail proposes that the current clause in the VPA relating to the introduction, amendment or removal of miscellaneous fees and charges remain.

Special circumstances clause in the VPA

ActewAGL Retail proposes to retain the existing clause in the VPA for special circumstances. This is the best way to manage uncontrollable and unexpected changes in costs.

Please contact David Graham, Director Regulatory Affairs and Pricing on (02) 6248 3605 if you would like to discuss any aspects of ActewAGL Retail's proposal.

Yours sincerely,



Ayesha Razzaq

General Manager Retail