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AGL

AGL proposal for regulated retail gas prices in NSW for 2016-17

Public submission

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Executive Summary

Introduction

The current Voluntary Pricing Arrangements (***VPA***) between AGL Retail Energy Limited (***AGL***) and IPART for the supply of natural gas to small customers expire on 30 June 2016. The NSW Government has announced that retail price regulation will be removed from 1 July 2017 on the condition that the level of competitive offers is increased in regional NSW.

This price proposal outlines the change in Retail Component and likely change in the regulated retail price for one year only from 1 July 2016 to 30 June 2017. However, this proposal also includes the likely changes in the Retail Component for 2017/18 and 2018/19 in order to provide indicative changes in retail prices for these subsequent years.

For 2016/17, AGL is proposing that, in nominal terms, the Retail Component be limited to CPI, that is, no increase in the Retail Component in real terms.

Wholesale gas market developments

The Australian east coast gas market is undergoing significant change with the advent of three large LNG projects located at Gladstone in Queensland. All three of these projects have commenced LNG exports, are developing additional trains and are expected to reach full production by 2017/18.

The domestic price of gas is a function of domestic supply and demand, with the LNG projects being a significant driver of demand. The Queensland LNG projects continue to be long term buyers of domestic gas, and also hold significant gas reserves that will only be developed for the purpose of supplying the LNG projects. The supply/demand balance is tight, and there are limited opportunities to bring on economically recoverable sources of gas from new or existing gas production facilities in eastern Australia in the short term. A major proportion of gas in the southern states is supplied from the Gippsland Basin.

Retail gas competition in NSW

Notwithstanding the disruption and uncertainty in the wholesale gas market, retail gas competition in the small customer market in NSW remains effective:

- The churn rate is high in terms of world rankings, considered to be at or close to the highest rank of "hot active markets";
- There are currently 7 retail brands competing in the NSW gas market after the entry of a new retailer in 2014 and 2015;
- Retailers are offering a range of discounts of up to 12% to 20%; and
- AGL and other retailers have moved to remove early termination fees

The AEMC confirmed in 2015 that the NSW retail gas market is effective, despite being less intense than the retail electricity market.

The key to this success in retail competition is the balance achieved in setting the regulated price at a level which provides a safety net for consumers while encouraging competition and new entry.

Deregulation of NSW gas prices

In October 2015, the Minister for Industry, Resources and Energy has announced that retail gas prices will be deregulated from 1 July 2017, on the condition that there is a considerable increase in the level of competitive offers available to customers in regional NSW. AGL is actively working with the NSW Government to address those areas of concern, but AGL notes that none of the regional areas of concern are in AGL's standard retailer area.

AGL's proposal will see regulated retail prices remaining stable, providing retailers with the confidence necessary for them to remain active and for competition to remain effective in notwithstanding the upstream uncertainty. AGL is of the view this stability is essential to ensure a smooth transition to a deregulated environment.

Proposed Retail Component

The Retail Component is comprised of the wholesale gas costs, retail operating costs and retail margin. While there is a possibility for real increases, AGL proposes to limit the increase in the Retail Component for 2016/17 to no more than the change in CPI.

	Proposed 2016/17	Indicative 2017/18	Indicative 2018/19
Change in Retail Component	CPI	CPI	CPI

Proposed retail price path

Based on the AER's final determination for the 2015-20 access arrangements for Jemena Gas Networks and assuming a CPI of 1.5%, the indicative changes in the average regulated retail price are as follows:

	Proposed 2016/17	Indicative 2017/18	Indicative 2018/19
Change in Regulated Retail Price	-3.5%	-1.2%	-0.3%

Subject to tariff rebalancing, final network charges and CPI, the annual bill of a typical residential gas customer using 23 GJ a year is about $810 including GST in 2015/16 and is expected to fall by $28 in 2016/17.

1 Introduction

1.1 AGL as standard retailer in NSW

AGL is the standard retailer with the largest supply area in NSW which covers Sydney, Wollongong, Newcastle, Dubbo, Orange, Parkes and parts of the Riverina. These areas are serviced by the gas distribution network system owned by Jemena Gas Networks. AGL Sales (Queensland) Pty Ltd also supplies to the border regions of NSW and Queensland under arrangements which are not regulated by IPART and therefore not included in this proposal.

AGL's regulated gas retail prices in NSW are agreed with IPART under the Voluntary Pricing Arrangements (VPA) which covers residential and small business customers who use up to 1 TJ of gas per year in the supply areas in NSW where AGL is the standard retailer. The current VPA expires on 30 June 2016.

In this price proposal, AGL is proposing a regulated price for one year only, from 1 July 2016 to 30 June 2017, and indicative price forecasts for 2017/18 and 2018/19.

1.2 Deregulation of retail gas prices in NSW

In October 2015, the Minister for Industry, Resources and Energy has announced that retail gas prices will be deregulated from 1 July 2017, on the condition that there is a considerable increase in the level of competitive offers available to customers in regional NSW. AGL is actively working with the NSW Government to address those areas of concern, but AGL notes that none of the regional areas of concern are in AGL's standard retailer area.

As 2016/17 could be the final year of regulated retail gas prices in NSW, AGL proposes to continue with the approach and methodology that were used in the 2010-13 and 2013-16 price reviews. In this price proposal, the benchmarks implied in current 2015/16 prices are maintained in real terms for 2016/17.

1.3 Expert reports commissioned by AGL

AGL has engaged two consultants to support this price proposal.

In 2014, AGL engaged MDQ Consulting to provide an assessment of the prevailing wholesale gas market conditions in NSW and forecast the likely pricing conditions for 2014/15 and 2015/16. For this review, MDQ has updated its report for 2016/17 conditions.

Frontier Economics has been also engaged to examine the supply and demand conditions in the wholesale gas market in eastern Australia for 2016/17. Frontier Economics were not asked to forecast gas prices, but were asked to provide their views on whether their analysis is consistent with the observations made in the MDQ Consulting as to new entrant market prices.

1.4 Structure of this proposal

This proposal is presented in the following structure:

- Section 2 reviews the developments in the wholesale gas market,
- Section 3 considers the developments in competition in the retail gas market, and
- Section 4 outlines the price proposal including wholesale gas costs, retail operating costs and retail margins, and likely changes in retail gas prices

2 Wholesale gas market developments

2.1 The Australian east coast gas market is in transition

The development of the three liquefied natural gas (LNG) projects – QCLNG, GLNG and APLNG - at Gladstone in Queensland continues to transform the gas industry in the east coast of Australia. The first LNG shipment from QCLNG commenced in December 2014, GLNG in October 2015 and APLNG in January 2016. Additional trains will be commissioned throughout 2016. The three projects could reach full production by 2018 and is expected to triple the demand for gas in the east coast.

Aside from the significant demand for gas by the LNG exporters, increased investment in infrastructure capacity and bi-directional flows have resulted in changes in gas flows as gas moves away from traditional gas markets towards Queensland. Gas flows from southern supply sources towards Queensland have increased. The decline in international oil prices, partially offset by the reduction in the Australian dollar have resulted in further changes to commercial arrangements.

The concerns about the impact on the domestic gas market have resulted in a number of regulatory reviews and inquiries.

2.2 ACCC East Coast Gas Inquiry

In response to a direction from the Minister for Small Business, the ACCC commenced an inquiry on 13 April 2015 regarding the competitiveness of the Wholesale Gas Industry. The matters to be considered by the inquiry include:

- the availability and competitiveness of offers to supply gas and the competiveness and transparency of gas prices
- the competitiveness of, access to, and any restrictions on market structures for gas production, gas processing and gas transportation
- the significance of barriers to entry into the upstream production sector
- the existence of, or potential for, anti-competitive behaviour and the impact of such behaviour on purchasers of gas; and
- transaction costs, information transparency including gas supply contractual terms and conditions, and other factors influencing the competitiveness of the markets.

In summary, AGL's understanding of the initial findings of the East Coast Gas Inquiry, as set out by ACCC Chairman Rod Sims[1]:

- The development of the LNG projects have resulted in an uncertain supply position for domestic gas users in eastern Australia.

> *"This burst in demand for gas over a very short timeframe for the LNG industry is effectively upending the east coast gas market.*

[1] Mr. Rod Sims's speech to the Eastern Australia's Outlook Conference 2015, "The importance of adequate competition for the east coast market," 17 September 2015

…despite this early expectation of a gas production boom, the east coast market seems to be perhaps one of the few gas markets in the world which is now living under the shadow of supply uncertainty.

… the size of the LNG demand and the supply base required to meet that demand, will continue to place uncertainty and risk into the market."

- Contract terms have also changed with shorter terms and less flexibility, resulting in higher costs to manage variations in demand. In accordance with submissions made to the Inquiry, the ACCC has found that offers for gas supply are for shorter duration with less flexibility, reduced liability for non-supply by producers and for prices higher than historical gas pricing:

  "There remain, however, large changes in the terms and conditions of gas supply. Some of these are bringing increased risk for gas users.
  "Gas supply contracts now tend to be considerably shorter duration and at higher prices. The current contracts also have much less flexibility around some of the delivery conditions….

  "It may also have a lower limit of liability for a producer's non-performance in the delivery of gas, coupled with a higher obligation on the buyer to take or pay the contracted quantities. It is unlikely to include provisions for banking gas and it will have limited flexibility on usage."[2]

2.3 Recent fall in oil price

The recent fall in oil price does not impact the price a gas producer would demand for supply under a new gas supply contract. For existing supply contracts that contained oil linked pricing formulas, the price of gas (excluding consideration of any oil hedges acquired to support that oil linkage) will have dropped. However, the relevant question is the current market price of gas under a new contract and AGL does not believe this has been impacted by the recent drop in oil price. The supply/demand fundamentals of the domestic market are such that there has not been any material change to the wholesale price of gas in NSW for the relevant period.

The investment in the Queensland LNG projects was driven during a period characterised by high oil and rising LNG prices. These LNG projects are nearing completion. In the short-term, the demand for gas from these LNG projects is now tightly bound with long term LNG contractual conditions that have largely prevented any lowering of demand. As such, the supply of gas for LNG exports is largely independent of the domestic market, except in so far as the LNG projects acquire domestic gas supply in preference to developing their own committed gas reserves.

The linkage between the supply of gas for LNG exports and the domestic gas market exists where the Queensland LNG Projects continue to act as a buyer of gas from the domestic market. The reduction in oil price has limited impact on the domestic gas market demand by the LNG Projects. The LNG projects' will not reduce their production in the short-medium term, and may in fact need to acquire more gas from the domestic market as the suppressed oil price is likely to drive the LNG projects to defer investment in developing their own gas reserves.

[2] ibid

AGL's has engaged experts to consider this supply/demand balance in the Australian gas market, as summarised in section 2.4.

2.4 Expert reports commissioned by AGL

AGL has engaged two consultants to assist it with this price proposal – MDQ Consulting ('MDQ') and Frontier Economics ('Frontier').

2.4.1 MDQ Consulting

AGL has engaged MDQ to provide a commercial assessment of the wholesale gas market in eastern Australia particularly in relation to the supply-demand balance and wholesale gas price levels for a new entrant retailer for 2016/17.

Methodology

The market price of gas is determined by a number of factors namely supply/demand fundamentals, production costs of new gas supply, buyer's bearable gas price and market structure.

Based on industry knowledge and professional involvement in wholesale gas transactions, MDQ's approach was to assess the sources of gas supply into the eastern Australian gas market, to compare with domestic demand forecasts by AEMO (i.e. excluding the LNG project demand) and to assess the level of the market price of gas commodity based on the above factors including recent transactions. An assessment of the cost of swing gas is also provided based on the recent sale of the Iona underground storage to QIC.

Findings

MDQ's analysis has concluded that:

- LNG exporters continue to be a long term buyer of domestic gas contributing to a tightening of the supply/demand fundamentals across the eastern Australian gas market. They continue to purchase large quantities of domestic gas, even during periods low oil price, reducing the quantity of gas available to domestic buyers. The domestic supply/demand fundamentals for 2016/17 are finely balance with limited spare gas production capacity in the system. Other than limited opportunities from the Cooper Basin and Gippsland Basin, new supply from existing gas production facilities in eastern Australia is not available in 2016/17.

- The cost of gas supply is increasing as conventional gas fields become depleted and more expensive sources of production are developed. Gas production costs can vary greatly from field to field.

- There is increasing reliance on supply from southern gas fields. The level of dependency on one major supplier affects the negotiation of all east Australian gas buyers. The structure of east Australian gas market does not support a market price being determined by the long run development costs of the marginal gas supplier, rather other considerations such as commercial negotiation of infrequent gas sale agreements that takes into account relevant market factors, including the negotiation power of the respective parties will influence pricing.

In relation to the cost of deliverability or gas swing cost, MDQ has assessed the market value of Iona gas storage based on QIC's recent acquisition, with significant upside if Iona prices its storage services equivalent to new entrant storage costs.

2.4.2 Frontier Economics

Frontier Economics was engaged to examine the supply and demand conditions in the wholesale gas market in eastern Australia for 2016/17 and provide its expert opinion on whether the pricing outcomes of the MDQ Consulting Report are consistent with its own analysis.

Methodology

In Frontier's view, a key to understanding the supply and demand conditions in the wholesale gas market in eastern Australia for 2016/17 is recognising that there is significant uncertainty about future gas market conditions and gas market outcomes. This uncertainty is particularly important when thinking about the pricing of contracts for the future supply of gas - gas buyers and gas sellers are likely to enter into forward contracts for the supply of gas having regard to a range of potential future outcomes, not just a central case.

Frontier's approach is to:

- Follow the approach adopted by AEMO in its Gas Statement of Opportunities and assess supply and demand conditions for 2016/17 by considering the capability of gas production infrastructure in all of eastern Australia to meet total demand for gas in eastern Australia, including gas used the domestic market and gas exported as LNG.

- Adopt as the 'central case' an analysis of supply and demand against production costs which largely aligns with the analysis conducted by AEMO;

- Develop further scenarios by conservatively adjusting the assumptions used in the central cast to reflect the current level of uncertainty as to supply and demand in the east coast gas market, and considering the impact on the supply/demand balance under those scenarios.

Findings

Frontier's analysis concluded that:

- The distribution of potential future gas price outcomes is likely to be skewed because the consequences of a moderately tighter than forecast supply-demand balance are much more significant than the consequences of the opposite. With supply capital fixed in the short-term, and demand relatively inelastic, relatively small decreases in supply can have significant consequences for market prices. In particular, as the supply-demand balance tightens, it becomes more likely that:
    - the most expensive supply options will be required to meet the demand;
    - demand reductions will be need to balance supply and demand; and
    - gas sellers will have relatively stronger bargaining position than gas buyers, increasing the likelihood that the outcome of a bilateral negotiation over prices under gas contracts will be nearer to willingness-to-pay than to opportunity cost.

- In contrast, an equivalent decrease in demand or increase in supply would likely have much smaller consequences for the market since production costs act as a floor to the market price.

- There are a range of reasonable circumstances in which the supply-demand balance would be very tight, resulting in high gas prices. In particular, Frontier's analysis indicated that the following adjustments to a central case would result in a very tight supply-demand balance:
    - Domestic gas demand remains at current levels, rather than falling as forecast by AEMO;
    - Gas processing facilities having maximum daily capacity lower than nameplate capacity, and more consistent with recently observed performance; and
    - Gas processing facilities having maximum capacity factors that are 5% lower than the highest capacity factors that have been observed over recent years.

- There are a number of other factors, not explicitly accounted for in their analysis, which would tend to result in higher prices for gas buyers. Key amongst these factors are:
    - The variability about production costs, which is not reflected in the production cost estimates from Core Energy that Frontier uses in its analysis;
    - Uncertainty about production costs, with estimates from the MDQ Consulting Report suggesting that production costs are higher than estimated by Core Energy;
    - The potential for gas to have higher valued alternative uses, in which case the opportunity cost may be higher than production cost; and
    - The potential for gas sellers to negotiate a price in excess of production costs as part of a bilateral contract negotiation.

- Market outcomes could well result in prices for gas contracts for 2016/17 that are consistent with the observations made in the MDQ Consulting Report.

- In scenarios where the supply-demand balance would be much less tight, these cases are likely to have a less material effect on gas prices than those cases in which the supply-demand balance tightened.

2.4.3 Consistency of findings by ACCC and AGL's consultants

The findings by the ACCC (preliminary) and AGL's consultants are consistent in that there is clear recognition that the supply-demand balance in the eastern Australian wholesale gas market is tight. There is uncertainty in supply of and demand for gas and the level of domestic gas prices. In addition, other costs to manage the swing in demand have increased.

3 Retail gas competition in NSW

3.1 Current level of competition

AEMC Report 2015

The 2015 AEMC retail competition review has found the competition in the retail gas market in NSW is effective though less intense than the NSW retail electricity market. There are currently 7 retail brands competing in the NSW gas market after the entry of a new retailer in 2014 and 2015. Importantly, the "big three retailers" i.e. Origin, AGL and Energy Australia, are active in both the NSW electricity and gas markets

Churn

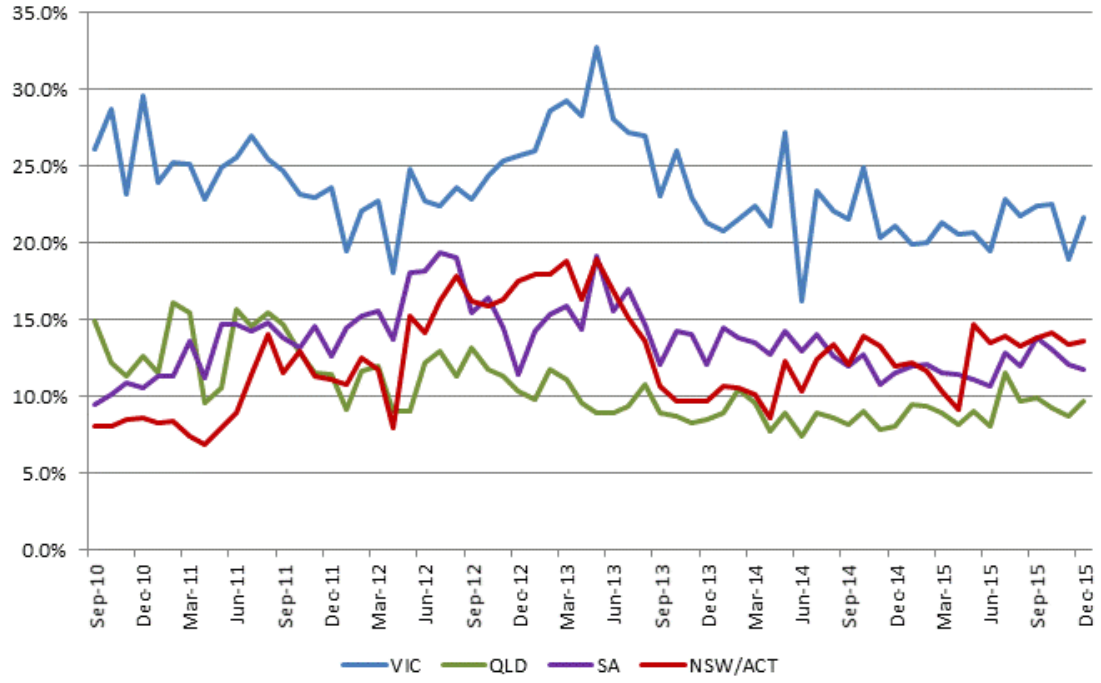
Over the past 5 years, annualised monthly churn for NSW gas varied from 8% to 19% and is similar to the churn rates in South Australia and Queensland. At the start of this period, the three government-owned energy retailers were privatised and competition intensified particularly from unsuccessful bidders.

Although the cessation of door to door sales activity by the three big retailers in 2013 has reduced churn, the level of churn remain high. Currently, the churn rate in NSW is about 14% which is higher than that in Queensland (10%), comparable to South Australia (14%) but still below Victoria (22%).

This level of churn would have place the NSW retail gas market at or close to the highest rank of switching rates i.e. referred to as 'hot active markets' in the VaasaETT World Retail Energy Rankings.[3]

[3] The last reported ranking by VaasaETT was released on 16 December 2013.

Figure 1 Annualised Monthly Churn Rate 2011-2015



Source: AEMO Gas Retail Transfer Statistics

Decline in customers on standing contracts

A majority of NSW gas customers have taken the opportunity to reduce their gas bills by taking up market offers. AGL estimates that currently less than 16% of gas customers in JGN's distribution area in NSW remain on regulated prices with the number of customers on regulated prices continuing to decline every month, at a rate of over 2,000 customer a month in 2015.

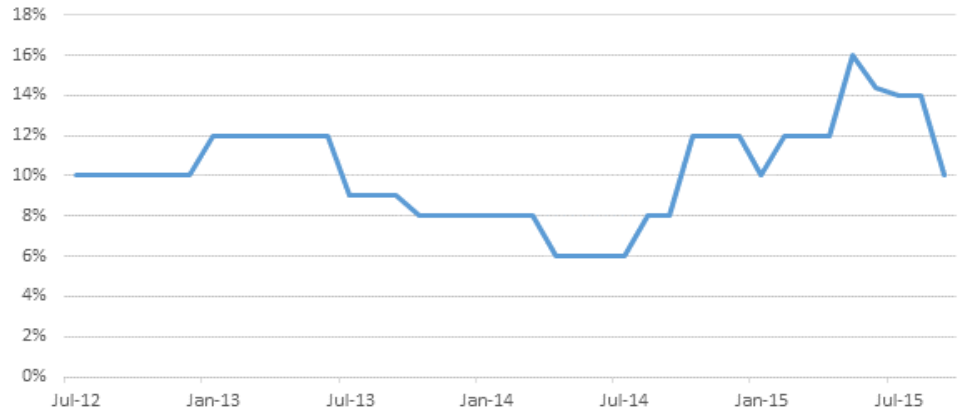
3.3 Facilitating competition through product offerings

AGL

In the NSW gas market, AGL offers a number of products with various features including the level of discounts. Aside from a guaranteed discount, there could be incremental discounts depending on timely payment, payment via direct debit and take-up of dual fuel. For customers who sign up online, a once-off credit, currently $50, is also available for a 12 month contract.

Since June 2014, the total discount on residential market offers (excluding once-off credit) offered by AGL has ranged from 6% to 16% off the usage rate (up to 18% if direct debit or dual fuel benefits are included, where applicable) to meet competition and market conditions. There are also offers for a limited time such as the "Honeymoon Offer" where a further 10% discount is provided for electricity supply for dual fuel ('Double Up Discount") and "End of Financial Year" sales.

Figure 2 Discounts offered in AGL's NSW retail gas market contracts 2012-15



Source: AGL

In addition, AGL has removed early termination or exit fees for new customers or existing customers swapping products or re-contracting since March 2015. Early termination fees for customers on existing AGL contracts have been reduced to $20 (including GST). Therefore, there is a strong incentive for AGL to offer competitive market contracts as there is no effective penalty for customers to change market offers or retailers.

Other retailers

Below is a sample of retail gas market offers by retailers in NSW over the past 12 months. It demonstrates that the market is dynamic and there is a range of offers at any point in time. Currently, retailers are offering a range of discounts of up to 12% to 20%.

Table 1 Discount on retail market offers

Maximum discount including dual fuel benefit - residential offers *	December 2015	June 2015	December 2014
AGL	14%	18%	12%
Origin Energy	12%	16%	12%
Energy Australia	15%	12%	15%
Dodo	20%	20%	n.a.
Red/Lumo Energy	10%	10%	5%

* The discount is generally applied to the usage rate only with the exception of Red Energy where the discount is applied to the total bill.

3.3 Competition and AGL's price proposal

The market is dynamic with the level of discounting varying during the year. These conditions suggest that current pricing levels are reasonable and that retail competition is working effectively despite the uncertainty in the wholesale gas market. The removal of exit fees will allow further competition to develop by removing barriers to switching.

Given the Minister's intention to remove retail price regulation from 1 July 2017 subject to certain conditions, it is important that regulated prices for 2016/17 will facilitate this transition by providing stability. Stable prices provide some certainty and allow the retailers to offer discounts on market contracts to reflect retailers' efficient costs. Retailers' offers are locked in but given the removal of exit fees, customers are able to switch offers with the same retailers or other retailers without penalty.

4 Price Proposal

4.1 Approach

Term of price proposal

Given the Minister's intention to deregulate retail gas prices from 1 July 2017 on the condition that the level of competitive offers in regional NSW are increased, AGL's proposal for regulated retail gas prices is for one year only, that is, for the period from 1 July 2016 to 30 June 2017.

In addition, indicative forecast prices are also provided for the following two years.

R + N approach

The R+N approach under the current VPA will be continued for 2016-17 whereby gas network charges are passed through to customers. Regulated gas retail prices will be made up of the weighted average of the Retail Component (R) and Network Components (N).

Market benchmarks

IPART is required to consider the objects of the Gas Supply Act 1996 and in IPART's view, its decisions need to ensure that regulated prices reflect the efficient costs a new entrant retailer would incur in supply gas and facilitate the continued development of competition.[4] This price proposal is consistent with this approach.

As in previous reviews, the retail component comprises the wholesale gas costs, retail operating costs and retail margin. These factors are based on market benchmarks to ensure that the regulated prices will allow retailers other than the standard retailer to enter and compete.

The churn rate in the NSW retail gas market is comparable to that in the deregulated markets in South Australia and Queensland, though below that of Victoria, demonstrating that the current price level is reasonable.

4.2 Proposed retail component

The retail component is comprised of wholesale gas costs, retail operating costs and retail margin.

4.2.1 Wholesale gas costs

Wholesale gas costs consist of:
- gas commodity costs
- costs of additional deliverability
- gas transportation costs, and
- AEMO market charges.

[4] Changes in regulated retail gas prices from 1 July 2014, Gas - Final Report – Gas, June 2014, IPART, p 4

Gas commodity prices, reflecting the supply-demand fundamentals and market structure at Moomba and Longford, on average, are not expected to be higher than the gas commodity costs implied in current prices.

The reduced flexibility in supply contracts, however, has increased substantially the cost of storage to manage the peak demand for gas. AGL has maintained the demand load factor used to determine current regulated prices. It should be noted that take or pay risk has not been included.

Gas transportation and AEMO market charges are similar to implied costs in current prices.

Overall, total wholesale gas costs are similar to current costs in real terms.

4.2.2 Retail operating costs

The current 2015/16 benchmark for retail operating costs will remain unchanged in real terms for 2016/17. This 2015/16 benchmark for retail operating costs is about $120 per customer.

AGL notes that this benchmark is significantly below the benchmark for retail operating cost set by the Queensland Competition Authority for small retail electricity customers for 2015/16 is about $170 per customers.

4.2.3 Retail margin

In the 2013 review, the benchmark retail margin was determined by IPART to be 6.3% to 7.3%. AGL proposes to continue with a benchmark retail margin of 7% for 2016/17.

4.2.4 Proposed retail component 2016-17

In proposing AGL's approach for the retail component over the next regulatory period, AGL has taken into consideration the following:

- The wholesale gas market in the east coast is undergoing transformational changes and there is significant uncertainty in the availability of firm gas supply and firm gas prices.
- Retail competition is reasonable and is comparable, in terms of churn rates, to the deregulated markets in Queensland and South Australia.
- Early termination or exit fees have been removed so there is no penalty for customers who churn.
- Unlike regulated retail electricity prices, retail operating cost benchmark for gas prices does not include a specific allowance for customer acquisition and retention costs.
- Overall wholesale gas costs for 2016/17 are expected to be similar to current costs in real terms.
- AGL does not propose any real change to the retail operating cost benchmark.
- AGL does not propose any change to the retail margin allowance.

To provide a price path which balances the interests of consumers, the uncertainties in the wholesale gas market and the need to facilitate retail competition, AGL proposes to limit the nominal increase in the Retail Component to no more than CPI for 2016/17. This simple proposal will assist the transition to deregulation by providing stability in the retail

cost allowances. This proposal is also similar, in general terms, to the price paths under the previous VTPAs from 2004 to 2013.

Table 2 Proposed nominal change in Retail Component

	Proposed 2016/17	Indicative 2017/18	Indicative 2018/19
Retail Component	CPI	CPI	CPI

Subject to special circumstances, this proposal will limit increases in gas prices and provide confidence in the gas market for consumers and retailers. Competition will be effective in this market as customers are effectively no longer locked into contract periods.

4.3 Forecast network component

The network component represents the pass-through of Jemena Gas Networks' (JGN) charges. On 3 June 2015, the AER released their final determination on JGN's access arrangement for 2015-20. JGN network charges were reduced on average by 20.2% on 1 July 2015.

For 2016-17, the AER has determined an X-factor of 12.0% for JGN charges i.e. a real reduction of 12.0%.

However, the various components of the network tariffs and other charges may change at a different rate, so that this change is indicative only.

JGN has lodged an appeal to the Australian Competition Tribunal in respect of AER's final determination.

4.4 Forecast price path

Based on the proposed retail and network components above, an indicative price path for the NSW retail gas market, assuming a CPI of 1.5%, is as follows:

Table 3 Proposed nominal change in Regulated Retail Prices

	Proposed 2016/17	Indicative 2017/18	Indicative 2018/19
Retail Component	1.5%	1.5%	1.5%
Network Component	-10.7%	-5.6%	-3.5%
Regulated Retail Price	-3.5%	-1.2%	-0.3%

This proposed price path is anticipated to provide consumers on regulated retail gas prices with another real reduction in 2016/17 following the average reduction of 6.6% in 2015/16.

It should be noted that the price path above is subject to change, pending the JGN appeal, network tariff re-balancing and CPI, amongst other factors.

4.5 Special circumstances

In the 2013-16 regulatory period, a carbon component (C) was set up to manage the introduction of the carbon price. Following the repeal of the carbon price effective from 1 July 2014, C is zero for 2015/16. Presently, there is no proposal for the introduction of a carbon, emissions trading or similar schemes which will increase costs to retailers. AGL proposes that the introduction of such schemes will be considered as a special circumstances.

Aside from the above, as in clause 12.2 of the current VPA, the special circumstances include, but are not limited to regulatory changes, taxation changes or fundamental changes to gas market frameworks and arrangements.

4.6 Miscellaneous charges

For 2016/17, retailer charges will not increase by more than CPI while distributor/network charges will be passed through.