

# Review of Gas Regulated Retail Tariffs

AGL Retail Energy Limited



*Australian for Gas and Electricity*



# Policy objectives

- Promote a competitive gas market and ensure that the public receives benefit from competition
- Take proper account of interests of small retail customers in respect to pricing [*avoid unacceptable price shocks*] and other terms of supply
- Take proper account of business interest of persons supplying small retail customers
- Reduce reliance on regulated tariffs



# Competitive market in gas

- By June 2004 Market open to competition for 2.5 years
- Estimate that > 50% gas customers have received market offers
- Churn activity is high and growing
- AGLRE has signed up a significant number of customers to market offers
- Market systems are in place, tested and operating effectively

***Time to move to a lighter-handed approach for customers to take advantage from growing competition***



# Light Handed Regulation

- Competitive maturity
- Removal of price control
- Final transition phase to market based prices



# AGLRE Proposal

## CPI Approach

- If price proposals lead to increases in average regulated prices of CPI or less, allow without further review
- Where a “CPI Plus” increase is proposed then a formal price justification - as and when required
- Tariffs structures should be broadly cost reflective but not regulated
- Transition path may require agreement to constraints



# AGLRE proposals

## Non -tariff charges

- To be determined on a a fair and reasonable basis
  - Same as the South Australia approach
  - Are avoidable charges applied on a user/causer pays principle
  - Ensures cost recovery on services provided
- Supported by AGLRE’s hardship management program “*Staying Connected*”



# Customer benefits

- A default tariff available for customers who choose not to take market offers
- Customers can return to default tariffs at any time, subject to contractual arrangements
- Customers in hardship benefit from AGLRE's "*Staying Connected*" program
  - avoid non-tariff charges by contacting AGLRE and entering into arrangements to pay their bill
  - referred to financial counsellors and government support agencies if required
- Receive energy advice from AGLRE is managing their bills



# Benefits of approach

- Meets Government's policy objectives
- Enables stable price path in transition to market based default prices
- More effective management of year to year cost variations - smooth price path for customers
- Promotes competition by reflecting market outcomes - competitive pressures may deliver  $<$  CPI
- Reduces regulatory risk of getting benchmarks wrong
- Sound business platform for enhancing competition
- Reduces costs of regulatory intervention in the market





THANK YOU



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