

**VOLUNTARY TRANSITIONAL PRICING ARRANGEMENTS FOR AGL RETAIL ENERGY
LIMITED FOR SUPPLY OF NATURAL GAS TO SMALL GAS CUSTOMERS
(CONSUMING 0-1 TJ A YEAR)**

1 July 2010 to 30 June 2013

The Independent Pricing and Regulatory Tribunal of New South Wales (IPART) and AGL Retail Energy Limited (AGLRE) each agree to the following Voluntary Transitional Pricing Arrangements (VTPA).

1. Background and overview

- 1.1 IPART and AGLRE wish to continue the light-handed approach to Default Prices for Small Gas Customers that was established under the *Voluntary Pricing Principles July 2001 to June 2004* and continued under *Voluntary Transitional Pricing Arrangements July 2004 to June 2010*.
- 1.2 IPART notes that AGLRE is of the view that at the cessation of the VTPA, prices should be set by market forces, but that this will ultimately be a matter for government policy.
- 1.3 This VTPA sets out the pricing arrangements for Default Prices and Miscellaneous Charges.
- 1.4 IPART notes that AGLRE has advised that the pricing increases for the Retail Component of the Default Prices for each Financial Year for the period 1 July 2010 to 30 June 2013 are expected to be at or below the change in CPI.

2. Application

- 2.1 This VTPA will apply to the Default Prices for Small Gas Customers for the period 1 July 2010 to 30 June 2013.
- 2.2 This VTPA replaces any previous such voluntary transitional pricing arrangements between IPART and AGLRE.
- 2.3 Nothing in this VTPA affects IPART's ability to impose a gas pricing order pursuant to section 27 of the Gas Supply Act or any other powers of IPART.

3. Default Prices

3.1 At the commencement of this VTPA and:

- (a) prior to commencement of a Carbon Pollution Reduction Scheme: the Default Prices will be comprised as follows:

$$R + N;$$

- (b) on and from the commencement of a Carbon Pollution Reduction Scheme: the Default Prices will be comprised as follows:

$$R + N + C;$$

where

- (c) R refers to the Retail Component;
- (d) N refers to the Network Component; and
- (e) C refers to the Carbon Component.

4. Arrangements for Default Prices

4.1 AGLRE undertakes to:

- (a) make Default Prices available to all Small Gas Customers; and
- (b) allow Small Gas Customers who have accepted a competitive market offer to revert to AGLRE's Default Prices without penalty once they have met their contractual obligation.

4.2 Subject to clauses 4.3 and 4.4, AGLRE may vary the Default Prices for Small Gas Customers without approval from IPART provided that:

- (a) the Weighted Average Price Increase for the Retail Component of the Default Prices for the next Financial Year is at or below the change in the CPI for the previous Financial Year;
- (b) the Network Component is equal to:
 - (i) the Network Charges actually incurred by AGLRE; or
 - (ii) the figure verified by AGLRE to fairly and accurately reflect the actual Network Charges having regard to the Network Charges incurred by AGLRE and the total revenue to be derived from the Network Component; and
- (c) the Carbon Component (if applicable) is determined in accordance with clauses 4.10 and 4.11.

4.3 AGLRE may only vary the Retail Component of the Default Prices in accordance with clause 4.2 once for each Financial Year.

4.4 At least one month before any change in Default Prices takes effect, AGLRE is required to:

- (a) advise IPART of the increase in Default Prices;
- (b) provide supporting information showing that each component of the Default Prices has varied in accordance with clause 4.2; and
- (c) provide IPART with sufficient information in respect of the Network Component, Retail Component and (if relevant) Carbon Component to permit IPART to verify the Retail Component of the Default Prices comply with the Weighted Average Price Increase for Year t+1 by providing at least:
 - (i) the Retail Component and Network Component of the Default Prices for Year t and Year t+1 together with customer numbers and volume for Year t-1; or

- (ii) the total revenue forecast to be recovered from each of the Retail Component, and Network Component for Year t and Year t+1 together with customer numbers and volume for Year t-1.
- 4.5 IPART will notify AGLRE in writing whether it is satisfied with the proposed increase in Default Prices within 10 business days of receipt of the information from AGLRE under clause 4.4.
- 4.6 If IPART is not satisfied with the proposed increase in the Default Prices:
 - (a) IPART agrees to provide to AGLRE details of the reasons it is not satisfied;
 - (b) AGLRE agrees to submit to IPART an amended proposal within 5 business days following receipt of details from IPART of the reasons why it is not satisfied with AGLRE's proposed increase in Default Prices; and
 - (c) IPART agrees to notify AGLRE whether it is satisfied with that amended proposal within 5 business days of receipt of the amended proposal.
- 4.7 AGLRE will publish its Default Prices on its website within 5 days of IPART notifying AGLRE that it is satisfied with the proposed price changes.
- 4.8 Should AGLRE consider it necessary as a result of special circumstances (as defined in paragraph 4.9 below) to vary average Default Prices outside of the limits in paragraph 4.2, then:
 - (a) AGLRE must advise IPART no later than 4 months before the date of effect of the increase (eg by 1 March for 1 July increase). This period may be varied by the mutual agreement of AGLRE and IPART;
 - (b) AGLRE must provide a justification statement to IPART specifying the basis of the increase and providing relevant information supporting the increase;
 - (c) IPART may undertake an investigation of relevant costs incurred by AGLRE to reasonably satisfy itself of the validity of the increase proposed;
 - (d) AGLRE will provide reasonable cooperation with IPART during such reviews;
 - (e) IPART will notify AGLRE in writing of its decision on the proposed price variation no later than 15 business days prior to the proposed date of effect of the increase; and
 - (f) AGLRE will publish its revised prices on its website within 5 days of IPART notifying AGLRE that it approves the revised prices.
- 4.9 For the purposes of paragraph 4.8, special circumstances include, but are not limited to, events that result in changes to costs such as regulatory changes, taxation changes, unanticipated field price review or fundamental changes to gas market frameworks and arrangements.
- 4.10 If a Carbon Pollution Reduction Scheme is introduced and AGLRE intends to introduce or change the Carbon Component, AGLRE:

- (a) must advise IPART of the Carbon Component no later than 2 months before the date of the proposed use of the Carbon Component or date of effect of the proposed increase (eg by 1 May for 1 July increase);
- (b) can vary the period for notification with IPART's agreement; and
- (c) must provide IPART with sufficient information to demonstrate and verify:
 - (i) how it has calculated the Carbon Component; and
 - (ii) that the Carbon Component is reasonable.

4.11 If IPART considers the amount charged by AGLRE for any period for the Carbon Component is, in IPART's opinion, materially different to the costs actually incurred by AGLRE as a result of the introduction of a Carbon Pollution Reduction Scheme, IPART may require AGLRE to:

- (a) provide IPART with additional information regarding the quantification of the Carbon Component;
- (b) provide IPART with reasonable assistance for any review by IPART of those charges; and
- (c) comply with any requirement by IPART that the Carbon Component be amended:
 - (i) to an amount considered reasonable by IPART; and
 - (ii) to compensate for the over-recovery or under-recovery by AGLRE.

5. Arrangements for Miscellaneous Charges

5.1 In relation to Miscellaneous Charges, IPART and AGLRE agree that:

- (a) any variation to existing Miscellaneous Charges other than to reflect changes in CPI or to pass through third party costs other than Network Charges are subject to IPART's agreement prior to implementation; and
- (b) any proposed new Miscellaneous Charge will not be introduced without IPART's agreement. AGLRE agrees that new Miscellaneous Charges will be established on a cost-reflective basis.

5.2 In relation to late payment fees, AGLRE agrees that late payment fees will be applied on issue of the reminder notice and that late payment fees will not be levied:

- (a) where the customer indicates that payment or part payment has been made by an Energy Accounts Payment Assistance voucher;
- (b) where the customer has contacted AGLRE before the due date in relation to a billing complaint and the billing complaint is unresolved;
- (c) where the customer has entered into and remains on an instalment arrangement between the customer and AGLRE to pay the gas retail bill; or
- (d) where the customer is a Hardship Customer.

- 5.3 At least one month before any change in Miscellaneous Charges take effect, AGLRE is required to:
- (a) advise IPART of any increase in Miscellaneous Charges; and
 - (b) provide supporting information showing that Miscellaneous Charges have varied in accordance with clause 5.1.
- 5.4 IPART will notify AGLRE in writing whether it is satisfied with the proposed increase in Miscellaneous Charges within 10 business days of receipt of the information from AGLRE set out in clause 5.3.
- 5.5 If IPART is not satisfied with the proposed increase in Miscellaneous Charges:
- (a) IPART must provide to AGLRE notice that IPART is not satisfied with the proposed increase together with details of the reasons it is not satisfied;
 - (b) AGLRE agrees to submit an amended proposal within 5 business days following receipt of details from IPART of the reasons why it is not satisfied with AGLRE's proposed increase in Miscellaneous Charges; and
 - (c) IPART agrees to notify AGLRE whether it is satisfied with that amended proposal within 5 business days of receipt of the amended proposal.
- 5.6 AGLRE will publish its Miscellaneous Charges on its website within 5 days of IPART notifying AGLRE that it agrees with the proposed changes in Miscellaneous Charges.
- 5.7 Where AGLRE proposes an increase or introduction of a Miscellaneous Charge that requires IPART's agreement:
- (a) AGLRE must advise IPART no later than 4 months before the date of effect of the Miscellaneous Charge (e.g. by 1 March for 1 July increase). This period may be varied by the mutual agreement of AGLRE and IPART;
 - (b) AGLRE must provide a justification statement to IPART specifying the basis of the Miscellaneous Charge and providing relevant information supporting the increase;
 - (c) IPART may undertake an investigation of relevant costs incurred by AGLRE to reasonably satisfy itself of the validity of the Miscellaneous Charge proposed;
 - (d) AGLRE will provide reasonable cooperation with IPART during such reviews;
 - (e) IPART will notify AGLRE in writing of its decision on the proposed increase or introduction no later than 15 business days prior to the proposed date of effect of the increase or introduction; and
 - (f) AGLRE will publish its revised Miscellaneous Charges on its website within 5 days of IPART notifying AGLRE that it approves the revised Miscellaneous Charges.

6. Definitions

- 6.1 In this VTPA:

- (a) **Carbon Component** refers to that part of the Default Prices that reflects costs relating to the introduction of or participation in a Carbon Pollution Reduction Scheme;
- (b) **Carbon Pollution Reduction Scheme** means a mandatory scheme enacted or a carbon tax imposed by the Commonwealth of Australia after 1 July 2010 for the purpose of reducing greenhouse gas emissions, including but not limited to an emissions trading scheme;
- (c) **CPI** means the consumer price index, All Groups index number for the weighted average of eight capital cities as published by the Australian Bureau of Statistics, or if the Australian Bureau of Statistics does not or ceases to publish the index, then CPI will mean an index determined by IPART;

The change in the CPI for any given Financial Year (t/(t+1)) is equal to the CPI index number for the quarter ending in December of the preceding calendar year (t-1) divided by the CPI index number for the corresponding quarter of the previous year (t-2) determined as follows to 2 decimal places:

$$CPI_{t/(t+1)} = \left(\frac{CPI_{Dec(t-1)}}{CPI_{Dec(t-2)}} - 1 \right) \times 100\%$$

- (d) **Customer Hardship Charter** has the meaning given to that term under the *Gas Supply (Natural Gas Retail Competition) Regulation 2001* (NSW);
- (e) **Default Price** means a fee or charge for the supply of natural gas to a Small Gas Customer by AGLRE under a Standard Form Customer Supply Contract excluding Miscellaneous Charges and as determined or calculated in accordance with clause 3;
- (f) **Financial Year** means 1 July to 30 June of any year;
- (g) **Gas Supply Act** means the *Gas Supply Act 1996* (NSW);
- (h) **Hardship Customer** means a Small Retail Customer of AGLRE who is identified as a customer experiencing financial difficulty in accordance with AGLRE's Customer Hardship Charter;
- (i) **Miscellaneous Charge** means a fee or charge in addition to the Default Price for the supply of natural gas to a Small Gas Customer by AGLRE under a Standard Form Customer Supply Contract as published by AGLRE on its website in accordance with paragraph 5.6 (including but not limited to an account establishment fee, late payment fee, fee for dishonoured payment and fee for special meter read);

Note: The Miscellaneous Charges applicable from 1 July 2010 to 30 June 2011 (unless varied in accordance with clause 5.1) are set out in Appendix F of the report entitled Review of Regulated Retail Tariffs and Charges for Gas 2010-2013 Final Report published by IPART in June 2010.

- (j) **Network Charges** refers to:
 - (i) charges imposed by a network operator on AGLRE for network related services in accordance with the relevant access arrangement approved by the Australian Energy Regulator; and
 - (ii) charges imposed by a network operator on AGLRE for network related services under unregulated access agreements;
- (k) **Network Component** refers to that part of the Default Prices relating to Network Charges;
- (l) **Retail Component** refers to that part of the Default Prices that AGLRE may set for retail costs including but not limited to wholesale gas costs, retail operating costs and a retail margin;
- (m) **Small Gas Customer** means a Small Retail Customer whose consumption of natural gas at a premises is, or is expected to be, 0-1 TJ a year;
- (n) **Small Retail Customer** has the meaning given to that term under the Gas Supply Act;
- (o) **Standard Form Customer Supply Contract** has the meaning given to the term under the Gas Supply Act;
- (p) **Weighted Average Price Increase** means the increase in the Retail Component of Default Prices calculated by comparing the Retail Component of Default Prices for Year t with the Retail Component of Default Prices for Year t+1 for the customer numbers and consumption levels for the Year t;
- (q) **Year t** means the current financial year;
- (r) **Year t+1** means the next financial year; and
- (s) **Year t-1** means the previous financial year.

7. Interpretation

7.1 In this VTPA:

- (a) references to an Act, legislation or law includes regulations, rules, codes and other instruments under it and consolidations, amendments, re-enactments or replacements of them;
- (b) words importing the singular include the plural and vice versa (for instance, the reference to a Default Price includes Default Prices and vice versa);
- (c) references to business days are references to days on which the banks are open for retail banking business other than a Saturday, Sunday or public holiday in New South Wales;
- (d) explanatory notes do not form part of this VTPA, but in the case of uncertainty may be relied on for interpretation purposes; and

(d) headings are for convenience only and do not affect the interpretation of this VTPA.

James Cox

Signed for and on behalf of IPART by an authorised person



Signed for and on behalf of AGLRE by an authorised person

PROF. PAUL SIMSHAUSER