

Regulated retail gas tariffs and charges from 1 July 2011

20 June 2011

Last year we agreed Voluntary Transitional Pricing Arrangements (VTPAs) with each of the standard gas retailers. Under these agreements the retailers must submit proposed changes to their prices to us prior to any increase. Each of the retailers has proposed prices for 2011 and we have checked these proposals. We can confirm that they comply with the VTPAs. Therefore, regulated retail gas tariffs and charges will increase from 1 July 2011.

The following sections summarise for each retail area the price changes and the impact on customer bills, and the reasons behind the increases.

AGL

The majority of NSW gas customers are in AGL's retail area. From 1 July 2011, AGL's small retail customers face an average increase in tariffs of 4%. This is made up of a 2.65% increase in the retail component and a 5.4% increase in the network component. The retail component comprises about 50% of a typical gas customer's bill with the other 50% made up of network charges. Network charges are the costs retailers incur by using the gas pipelines to deliver gas to their customers.

While the average increase of 4% is modest, individual customers will face substantially different outcomes depending on the amount of gas they consume.

- ▼ Low usage residential customers will face either reductions or small increases in their bills. Customers who use gas primarily for cooking are likely to be low usage residential customers.
- ▼ Typical usage residential customers will face larger bill increases. Customers who use gas for water and heating are likely to be typical usage residential customers.
- ▼ Higher usage residential customers will face either modest increases or reductions.
- ▼ Typical business customers will face modest increases of around 2%.

Table 1 shows the estimated change in gas bills for each of these 4 types of customers.

Table 1 Indicative annual bill for AGL regulated retail customers (\$ incl GST)

Type of customer	2010/11	2011/12	% increase	\$ increase
Small residential – 5 GJ per annum	307	310	1.1	3
Typical residential – 23 GJ per year	651	716	10	65
Large residential – 40 GJ per year	838	881	5.2	43
Typical business – 184 GJ per year	3,289	3,350	1.9	61

Source: IPART calculations.

Outcomes differ between customers because the gas network owner in NSW, Jemena, has substantially altered its tariff structure. Jemena has reduced the fixed part (supply charge) of its network tariffs by over 50% and has increased its usage charge for the first block of usage by over 50%. It has also reduced its usage charge for the remaining usage blocks. A substantial number of residential customers who use around 9 to 26 gigajoules (GJ) of gas a year face increases of more than 8%. This amounts to 160,000 residential customers or 40% of AGL's total regulated customers. And 125,000 of AGL's regulated residential customers (30%) will experience either a reduction in their bills or a small increase. The remaining 30% will face increases around the average of 4%.

We have some concerns about the outcome of this tariff restructuring. Although the average increase is 4% many typical residential customers will face increases of up to 10%. We are also concerned that substantial reductions in the fixed part of tariffs may not be cost reflective because network businesses typically have substantial fixed costs.

However, the revised tariff structure has been approved by the Australian Energy Regulator (AER). AGL as a gas retailer cannot avoid paying these increased network charges so they are legitimate businesses expenses. We have therefore agreed to AGL's proposal to pass the increased network costs through to retail customers.

ActewAGL

From 1 July 2011, ActewAGL's small retail customers in the Capital area will experience modest average increases in their tariffs.¹ Because this area is also serviced by the Jemena network some customers will experience larger than the average price increases. On average, retail tariffs will increase by 3.5%. The retail component will increase by 1.65% and the network component will increase by 6%.

Table 2 Indicative annual bill for ActewAGL regulated retail customers in the Capital area (\$ incl GST)

Type of customer	2010/11	2011/12	% increase	\$ increase
Small residential – 5 GJ per annum	310	281	-9.4	-29.27
Typical residential – 23 GJ per year	653	717	9.8	63.78
Large residential – 40 GJ per year	954	1,026	7.5	72.01

Source: IPART calculations.

Low usage residential customers will face a significant decrease in their bills, while typical and larger users will face increases. As with AGL, we have some concerns with the outcome of this tariff restructuring and in particular the impact on typical residential retail customers. However, the revised tariff structure has been approved by the AER. ActewAGL as a gas retailer cannot avoid paying these increased network charges so they are legitimate businesses expenses. We have therefore agreed to ActewAGL's proposal to pass the increased network costs through to retail customers.

Customers in the Queanbeyan region face an average increase in tariffs of 7.4%. The retail component increases by 1.65% and the network component increases by 16.3%. Unlike customers in the Capital region, the bills for most customers will increase in percentage terms by around the average because there is no tariff restructuring. A typical residential customer's bill will increase by \$57 a year or 9.4%. The increase in the network component of tariffs is driven by pass-through into network costs of the ACT Government's Utilities Network Facilities Tax. The AER has approved this increase in network charges. As this is an unavoidable cost to ActewAGL we have decided to pass the increased network costs through to customers.

Tariffs in the Shoalhaven will increase on average by 2.2%. Both the retail and network components are increasing by small amounts. A typical residential customer's bill will increase by \$20 a year or 3.2%.

¹ Capital area includes areas to the north and west of the ACT including Goulburn, Yass and Young.

Origin Energy (Albury Region)

From 1 July 2011, tariffs in the Albury region will increase by an average of 4%. A typical residential customer will face slightly higher increases. Their annual bills will increase by \$25 or 5.8%. In the Murray Valley towns the increase is an average of 3%. Most customer bills will increase by around this average.

Country Energy² (Wagga and surrounds)

From 1 July 2011, Country Energy's tariffs will increase by an average of 4.6%. Residential customers on average will face slightly higher price increases (4.8%) than business customers (3%). In each of its regions, the bills for a typical Country Energy residential customer will increase by 4.8% or \$25 to \$30 a year.

Non-tariff fees and charges will increase by 2.65% for all the standard retailers.

² On 1 March 2011, Origin Energy bought Country Energy's retail business. The new owner is continuing to use the existing brand name (Country Energy).