

Regulated gas retail tariffs

Decision and statement of reasons – ActewAGL’s
2008 application for a special circumstances price
increase

Gas — Final Decision and statement of reasons
March 2008

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Gas08/02

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1 Decision

IPART has decided that it is appropriate for ActewAGL to increase the average prices for regulated gas customers by \$0.75/GJ from 1 April 2008¹. For a typical residential customer in Queanbeyan, with annual consumption of 46 GJ, this translates into a 6.1 per cent increase in the customer's annual bill. For a typical residential customer in the Capital Region, with annual consumption of 38 GJ, this translates into a 5.8 per cent increase in the customer's annual bill. This increase replaces the CPI increase that would have otherwise occurred on 1 July 2008.

2 Background

On 30 June 2006 the then Minister for Energy wrote to IPART requesting that it continue to regulate default tariffs for small retail customers by ensuring that either new voluntary pricing principles or a gas pricing order under section 27 of the *Gas Supply Act 1996* operate until 30 June 2010.

In June 2007 IPART finalised voluntary transitional pricing arrangements (VTPA) with the standard gas suppliers in NSW for the regulated retail prices.² IPART developed a specific agreement with each of the standard suppliers, including ActewAGL. The agreements provide for annual price increases of the consumer price index (CPI) or less. In special circumstances a supplier may apply to IPART to vary prices outside of this limit.

2.1 ActewAGL's application for a price increase resulting from special circumstances

On 8 February 2008 ActewAGL submitted a proposal for average price increases to regulated tariffs of \$1.13 per GJ to apply from 1 April 2008, which is different to the standard arrangements of a CPI price increase on 1 July of each year that is provided for in the VTPA. ActewAGL submitted that the special circumstances under which it sought approval to increase gas prices by more than CPI arose from a recent decision by AGL Wholesale Gas, ActewAGL's wholesale gas supplier, to pass through certain costs relating to the supply of winter gas from producers in the South Australian Cooper Basin (SACB) and increased costs of services on the Moomba to Sydney Pipeline (MSP).

These increased costs have been considered by IPART in its assessment of AGL's January 2008 application for a special circumstances price increase. AGL provided more detail on the cost increases, citing two specific events:

¹ 0.75/GJ is before the impact of inflation, however the 6.1 and 5.8 per cent increases include inflation.
² IPART, *Promoting retail competition and investment in the NSW gas industry, Regulated gas retail tariffs and charges for small customers 2007 to 2010, Gas - Final Report and Voluntary Transitional Pricing Arrangements*, June 2007.

1. AGL was unsuccessful in securing sufficient transmission on the Eastern Gas Pipeline for gas required for peak winter usage - as a result, AGL is seeking to replace the 34.8 TJ/day lost capacity by entering into a supply agreement with producers in the SACB and transporting the gas on the MSP.
2. A significant change in the contractual arrangements for transport on the MSP, specifically relating to the introduction of park charges and imbalance charges.

AGL submitted that these two events lead to a substantial increase in costs during 2008/09 and that these additional costs should be recovered from tariff customers.

IPART decided that it was appropriate for AGL to increase average prices for regulated gas customers by \$0.75/GJ from 1 April 2008 (the AGL decision).

2.2 Process for this review

The VTPA requires the supplier to give IPART four months notice of price increases resulting from special circumstances. However, in the report that accompanied the VTPA, IPART said:

The notice period for suppliers to inform the Tribunal of special circumstances can be varied with the agreement of the Tribunal and the supplier. This provides flexibility where the change in circumstances is relatively straightforward (and so can be assessed in less than 4 months), or where it requires more complex analysis (entailing a longer lead time before prices changes are approved).³

In response to ActewAGL's request, IPART agreed to undertake an expedited review of whether the incremental costs that AGL identified are reasonable and should be passed onto tariff market customers. IPART did not undertake formal public consultation of this incremental review, but consulted privately with key stakeholders and engaged Frontier Economics to provide expert advice to assist its decision making.

3 The price increase and statement of reasons

Decision

IPART has decided that it is appropriate for ActewAGL to increase the average prices for regulated gas customers by \$0.75/GJ from 1 April 2008. For a typical residential customer in Queanbeyan, with annual consumption of 46 GJ, this translates into a 6.1 per cent increase in the customer's annual bill. For a typical residential customer in the Capital Region, with annual consumption of 38 GJ, this translates into a 5.8 per cent increase in the

³ IPART, *Promoting retail competition and investment in the NSW gas industry, Regulated gas retail tariffs and charges for small customers 2007 to 2010, Gas - Final Report and Voluntary Transitional Pricing Arrangements*, June 2007, p 3.

customer's annual bill. This increase replaces the CPI increase that would have otherwise occurred on 1 July 2008.

In assessing this price application, IPART relied on the analysis that it undertook for the AGL decision. To calculate the incremental cost, IPART established the incremental cost of the SACB gas and added the incremental cost of transporting it down the MSP. From this additional cost, IPART deducted the value of the gas that AGL now has available in Victoria plus the expected costs of transporting that gas on the Eastern Gas Pipeline (EGP). In its AGL decision, IPART decided:

- ▼ That the additional gas was indeed required to meet forecast demand for the Sydney and ACT markets for winter 2008.
- ▼ That the cost of winter gas for 2008 was the cost of the SACB contract less \$4/GJ, representing the value of the gas now available to AGL in the Victorian market.
- ▼ That the new park and imbalance charges on the MSP should be recovered from 1 April 2008, less the expected saving of \$2.55/GJ to AGL from not having to transport the gas on the EGP.
- ▼ That the appropriate allocation of incremental costs was 80 per cent to the tariff market and 20 per cent to the contract market.

IPART has decided that the same increase (\$0.75 per GJ) that it has decided for AGL should apply also to ActewAGL's customers.

3.1 Price change date for 2008

The VTPA established price changes for 1 July each year. IPART has agreed to ActewAGL's request for a 1 April 2008 price change instead of the 1 July price change. Bringing the price change forward by three months lessened the increase in the tariff necessary for ActewAGL to recover the appropriate costs. Further, the cost securing supply for winter 2008 will be incurred prior to 1 July 2008.

There will not be a further price change on 1 July 2008 – the 1 April 2008 price change includes the CPI adjustment (amended to reflect its early implementation).

4 The costs of supplying gas in winter 2009

This price increase arose from special circumstances relating to the supply of gas to the Sydney and ACT market for winter of 2008. IPART does not expect these circumstances to be replicated in 2009.

However, it does consider that the cost of supplying gas to the Sydney and ACT market could be more expensive than it has been over the earlier part of this decade, due to increased demand for gas and its transportation. This increased demand stems in part from more demand from gas-fired power stations.

Anecdotally IPART has been informed (and seen evidence) of a reduction in active competition in the retail gas market for both contract and tariff customers.

IPART has decided to conduct a review of costs prior to the 1 July 2009 price change. IPART considers that it is appropriate to review costs to ensure that prices remain at cost reflective levels.