IPART
New South Wales

Independent Pricing and Regulatory Tribunal

Review of regulated retail tariffs and charges for gas 2010-2013

Gas — Draft Report
April 2010

IPART
New South Wales

Independent Pricing and Regulatory Tribunal

Review of regulated retail tariffs and charges for gas 2010-2013

Gas — Draft Report
April 2010

ISBN 978-1-921628-39-9

The Tribunal members for this review are:

Mr James Cox, Acting Chairman and Chief Executive Officer

Ms Sibylle Krieger, Part Time Member

Inquiries regarding this document should be directed to a staff member:

Aaron Murray	(02) 9290 8440
Stephanie Biesaga	(02) 9290 8429
Fiona Towers	(02) 9290 8420

Independent Pricing and Regulatory Tribunal of New South Wales
PO Box Q290, QVB Post Office NSW 1230
Level 8, 1 Market Street, Sydney NSW 2000

T (02) 9290 8400 F (02) 9290 2061

www.ipart.nsw.gov.au

Invitation for submissions

IPART invites written comment on this document and encourages all interested parties to provide submissions addressing the matters discussed.

Submissions are due by 14 May 2010.

We would prefer to receive them by email <ipart@ipart.nsw.gov.au>.

You can also send comments by fax to (02) 9290 2061, or by mail to:

Review of regulated retail tariffs and charges for gas 2010-2013
Independent Pricing and Regulatory Tribunal
PO Box Q290
QVB Post Office NSW 1230

Our normal practice is to make submissions publicly available on our website <www.ipart.nsw.gov.au>. If you wish to view copies of submissions but do not have access to the website, you can make alternative arrangements by telephoning one of the staff members listed on the previous page.

We may choose not to publish a submission—for example, if it contains confidential or commercially sensitive information. If your submission contains information that you do not wish to be publicly disclosed, please indicate this clearly at the time of making the submission. IPART will then make every effort to protect that information, but it could be subject to appeal under freedom of information legislation.

If you would like further information on making a submission, IPART's submission policy is available on our website.

Contents

1 Introduction and executive summary

For the past 7 years, the retail gas market in NSW has been open to competition: all small retail gas customers have been able to choose their retail supplier and negotiate a retail supply contract. However, customers have also had the option to remain on a regulated retail tariff with the Standard Retailer in their area.[1] Although the NSW Government (along with other Australian governments) has agreed to phase out this regulation where effective competition can be demonstrated,[2] it has decided to retain the option of regulated retail gas tariffs at least until 2013.[3]

Since the current arrangements for setting regulated retail gas tariffs and charges are due to expire on 30 June 2010, the Minster for Energy has asked the Independent Pricing and Regulatory Tribunal of NSW (IPART) to put new arrangements in place for the period 1 July 2010 to 30 June 2013.

This report sets out our draft decisions on these new arrangements and our reasons for making them. We invite all stakeholders to make submissions in response to these decisions, which we will consider before making our final decisions in June 2010.

1.1 Summary of draft decisions

Under the current arrangements, each of the Standard Retailers has a Voluntary Transitional Pricing Arrangements (VTPA) with us.[4] They are obliged to set their regulated tariffs and charges in line with this agreement, and we monitor their compliance.

---

1 All customers that consume less than 1terajoule (TJ) per year (around $17,000 per annum) are eligible for supply under a standard form customer supply contract.

2 Council of Australian Governments' Meeting, *Communiqué*, 10 February 2006, Appendix A to Attachment B, p 8.

3 NSW Government, *NSW Energy Reform Strategy: Defining an Industry Framework*, March 2009, p 4.

4 Sun Gas (now AGL Sales (Queensland) Pty Ltd) is a Queensland supplier which also supplies a small number of customers located in the Tweed area of NSW. Previously, Sun Gas' customers were charged the retail prices regulated by the Queensland Government. With the removal of gas retail price regulation in Queensland these customers have access to the competitive retail market in Queensland. We have monitored the tariffs for these customers over the current regulatory period and concluded that the prices charged under the competitive market are reasonable. We also note that its customers are charged the same tariffs as those in South East Queensland.

To help us decide on appropriate new arrangements for the coming years, we asked the Standard Retailers to propose revised VTPAs. We then assessed the reasonableness of their proposals, considered stakeholder submissions, and made the following draft decisions:

- For AGL, our draft decision is to agree to its proposed VTPA. However, we request that AGL submits a revised proposal on non-tariff fees and charges that includes specific changes to the late payment fee and administration fee. We agree to AGL's proposed price path for tariffs and note that it has committed to smooth the impact of its proposed tariff rebalancing over the regulatory period.
- For Country Energy, our draft decision is to agree to its proposed VTPA.
- For Origin Energy, our draft decision is to agree to its proposed VTPA. However, we request that Origin Energy submits a revised proposal on non-tariff fees and charges that includes specific changes to the late payment fee. We agree to Origin Energy's proposed price path for tariffs.
- For ActewAGL, our draft decision is to reject its proposed VTPA on the grounds that its costs are not consistent with the costs that an efficient and prudent retailer would incur in supplying small retail customers. We seek a revised proposed VTPA from ActewAGL that is consistent with its efficient costs over the regulatory period.

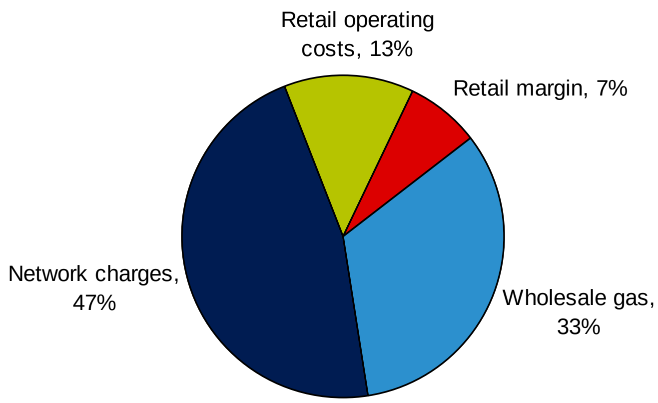
These draft decisions reflect our view that the current light-handed form of regulation, which includes VTPAs, and a weighted average price cap (WAPC) on the retail component of tariffs with no additional constraints on individual bills, is the most appropriate form of regulation for regulated retail gas tariffs. The decisions also reflect our view that it is appropriate for retailers to pass through their network costs to customers (as they have no control over these costs) as well as their compliance costs if the Commonwealth Government introduces new climate change mitigation measures (such as the Carbon Pollution Reduction Scheme (CPRS)) during the regulatory period.

The specific changes we seek from AGL, Origin Energy and ActewAGL are summarised in section 1.4 below.

1.2 Implications of draft decisions for customers

Figure 1.1 shows the contributions that the retail and network components of regulated gas tariffs make to a small gas customer's overall bill. It indicates that the retail component – which comprise wholesale gas costs, retail operating costs and retail margin – accounts for around 50% of the total customer bill. The network component – which comprises the network charges retailers incur in using the distribution network to deliver gas to their customers – accounts for the other 50%.

Figure 1.1 Composition of typical small gas customer's bill under draft decision, 2010/11



We do not regulate the network component of retail gas tariffs. This component is either regulated by the Australian Energy Regulator (AER) or is unregulated. The AER is currently reviewing the prices the network providers can charge retailers. It has made its final decisions on Country Energy and ActewAGL's Queanbeyan network area, and released a draft decision for Jemena's network (which affects AGL and ActewAGL's capital region). For Country Energy and ActewAGL's Queanbeyan customers the increase in the network charges is substantial. Each of the retailers has proposed to pass through in full the network charges as they have no control over these costs. We consider this to be reasonable.

To present the impact of our draft decisions on typical customer bills we have used the AER's final decisions on Country Energy and ActewAGL's Queanbeyan network area, forecast network charges provided by Origin Energy and ActewAGL, and the AER's draft decision on Jemena to calculate an increase in the network component. We have added this to the increase provided by our draft decisions on the retail component to come up with a total increase in tariffs and typical customer bills which are presented below. The final customer impacts will not be known until the AER makes its final decision on network charges for Jemena in May 2010. We will update our analysis for AGL and ActewAGL in our final report to reflect the AER's final decision.[5]

5 It should be noted that ActewAGL has 3 network areas. It is the network provider in its Queanbeyan area but in its Capital area (Goulburn, Yass and Young) Jemena is the network provider. ActewAGL's tariffs in the Capital area will depend on the AER's final decision on Jemena's network charges. ActewAGL also has a small network in the Shoalhaven.

It should also be noted that the analysis below is presented in nominal terms; that is, it includes our estimate of the impact of inflation: 2.1% in 2010/11 and 2.7% in the remaining two years.[6]

Our draft decision sets the price path for the retail component of tariffs. For most Standard Retailers, our draft decisions mean that they will be allowed to increase the retail component of their regulated retail tariffs, on average, by the change in the CPI in each year of the regulatory period.

Table 1.1 shows how our draft decision contributes to the indicative average increase in regulated retail tariffs over the regulatory period. It shows that apart from Origin Energy's customers the retail component (R) of tariffs is increasing in line with or below CPI as a result of our draft decisions while the network (N) component is increasing by more than CPI for Country Energy and ActewAGL (this is explained further below).

Table 1.1 Indicative average increase (N + R) in regulated retail tariffs under the draft decision – R and N contributions (nominal)

	2010/11	2001/12	20012/13	Cumulative total	Cumulative CPI
R contribution					
AGL	1.1%	1.4%	1.4%	4.1%	
Country Energy	1.0%	1.2%	1.2%	3.8%	
Origin Energy	6.4%	2.3%	2.1%	11.2%	
ActewAGL	0.6%	0.9%	0.9%	2.7%	
N contribution					
AGL	1.5%	2.1%	2.1%	5.8%	
Country Energy	7.2%	2.8%	2.9%	13.5%	
Origin Energy	1.6%	1.8%	1.1%	4.8%	
ActewAGL	8.4%	3.2%	2.2%	14.3%	
Total (N + R)					
AGL	2.6%	3.5%	3.5%	9.9%	7.7%
Country Energy	8.3%	4.1%	4.1%	17.3%	7.7%
Origin Energy	8.0%	4.1%	3.2%	16.0%	7.7%
ActewAGL	9.0%	4.1%	3.0%	16.9%	7.7%

Note: Cumulative total includes the compound effect of each year's individual price increase. Totals may not add due to rounding. Assumed inflation is 2.1%, 2.7% and 2.7% for 2010/11, 2011/12, 2012/13.

6 CPI for 2010/11 is calculated as CPI all groups, capital cities, December Quarter 2008 divided by December Quarter 2009. The 2011/12 and 2012/13 estimates are based on inflation indexed swaps as at 8 February 2010.

While the average increase in tariffs from our draft decision on the retail component is moderate, some regulated customers' annual gas bills are likely to increase by more than this for a number of reasons:

- For AGL, there is considerable uncertainty about how the network component of the customer's bill will change until the AER makes its final determination on network charges. In addition, AGL proposes to restructure its tariffs such that the fixed charge for residential customers will increase, while the fixed charge for business customers is not increasing over the regulatory period. This will improve the cost reflectivity of tariffs. Overall, a typical residential customer's bill is likely to increase by 3% from 1 July 2010 and by 12.5% over the 3 years. A business customer's bill will remain unchanged over the 3 years.
- For Country Energy, while the retail component is only increasing by CPI the network component of the customer's bill is increasing by more. As this component makes up around 50% of the total bill, the typical residential customer's bill is likely to increase by 8% from 1 July 2010 and by 17.5% over the 3 years. A business customer's bill is likely to increase by similar amount – 16% over the 3 years.
- For Origin Energy's customers in the Albury region, the network component of the customer's bill has increased substantially over the current regulatory period but current tariffs do not reflect these increases. Therefore, tariffs need to increase to restore them to cost-reflective levels for the 2010-2013 regulatory period. Overall, the bill of a typical residential customer in the Albury region is likely to increase by 9% from 1 July 2010 and by 17% over the 3 years. A business customer's bill is likely to increase by only 9% over the 3-year period.
- Origin Energy's Murray Valley customers will face more modest gas bill increases. For these customers, a typical residential bill is likely to increase by 3% from 1 July 2010 and by 9% over the 3 years.
- While we have made the draft decision to reject ActewAGL's proposal to increase the retail component of its tariffs in real terms and have modelled our view that a real decrease is appropriate, its customers are still likely to face increases in their gas bills as the network component of the customer's bill is likely to increase. As this component makes up around 50% of the total bill, the typical residential customer's bill in the Queanbeyan area is likely to increase by 3.5% from 1 July 2010 and by 12.5% over the 3 years. A typical business customer faces similar increases.[7]

For all Standard Retailers the increase in tariffs would be greater if the CPRS were to be introduced. However, the impact on gas tariffs would not be as substantial as on electricity tariffs, as gas is less carbon intensive than electricity. Also, note that for our recent electricity review, the terms of reference required that we determine energy costs inclusive of the impact of the CPRS. However, in this gas review, each of the Standard Retailers proposed to pass through these costs if the CPRS is introduced.

---

7 For retail component we have assumed a CPI-3% price path over the period.

Given these differences between gas and electricity, our indicative estimates suggest that if the CPRS is introduced a typical residential customer's bill would increase by an additional $15 or 2% in 2011/12, and by $40 or 6% in 2012/13, assuming a carbon price of $10 per tonne in 2011/12 and $26 per tonne in 2012/13. A typical business customer's bill would increase by an additional $120 or 4% in 2011/12 and by $320 or 10% in 2012/13 assuming the same carbon prices.[8] Please note that if a new climate change measure such as the CPRS were to be introduced during the 2010-2013 regulatory period, we would review and approve the Standard Retailers' compliance costs prior to these being passed onto customers.

For ActewAGL we have modelled a price path that assumes it resubmits a revised proposal in a form we would be able to agree to.

Table 1.2 Indicative annual bill for typical residential customers of each Standard Retailer (nominal $)

	Current (2009/10)	2010/11	2011/12	2012/13	Cumulative $ increase	Cumulative % increase	Cumulative CPI increase
AGL	618	636	664	694	77	12.4%	7.7%
Country Energy	573	620	646	673	100	17.5%	7.7%
Origin Energy	380	414	432	446	66	17.2%	7.7%
ActewAGL	583	603	635	655	71	12.3%	7.7%

Note: Bills include GST. Assumed inflation is 2.1%, 2.7% and 2.7% for 2010/11, 2011/12, 2012/13. Calculations may not add due to rounding. Calculated using 23 GJ per annum multiplied by the average price derived from the N + R values of following tariffs: AGL's Residential AGL natural gas price plan – Coastal, Country Energy's 5300 Wagga Wagga & Uranquinty Gas Residential General, Origin Energy's 03 Domestic General tariff for Albury and ActewAGL's Queanbeyan Always Home@ActewAGL plan and Saver plan. Also based on our draft decision and AER's final decision for Country Energy and ActewAGL, and AER's draft decision for Jemena. For Country Energy, Origin Energy and ActewAGL we present one outcome but it should be noted that actual bills will vary not just by tariff but by area.

Table 1.3 Indicative annual bill for typical business customers of each Standard Retailer (nominal $)

	Current (2009/10)	2010/11	2011/12	2012/13	Cumulative $ increase	Cumulative % increase	Cumulative CPI increase
AGL	3,460	3,446	3,453	3,457	-2	-0.1%	7.7%
Country Energy	2,223	2,412	2,498	2,588	365	16.4%	7.7%
Origin Energy	3,048	3,126	3,226	3,330	282	9.3%	7.7%
ActewAGL	3,326	3,446	3,657	3,778	452	13.6%	7.7%

Note: Bills include GST. Assumed inflation is 2.1%, 2.7% and 2.7% for 2010/11, 2011/12, 2012/13. Calculations may not add due to rounding. Calculated using 184 GJ per annum multiplied by the average price from N+R values of following tariffs: AGL's Business AGL standard – Coastal, Country Energy's 5302 Wagga Wagga & Uranquinty Gas Commercial tariff, Origin Energy's 13/21 Commercial / Industrial tariff for Albury and ActewAGL's Queanbeyan Industrial and commercial tariff. Also based on our draft decision and AER's final decision for Country Energy and ActewAGL, and AER's draft decision for Jemena. For Country Energy, Origin Energy and ActewAGL we present one outcome but it should be noted that actual bills will vary not just by tariff but by area.

8 IPART calculations based on information supplied by AGL. Amounts calculated as a percentage of AGL typical customer bills.

1.3 Approach we used to make draft decisions

As noted above, we started our review by inviting each of the Standard Retailers to submit a revised VTPA. While the retailers expressed the view that regulation of gas prices should be removed, they recognised that the Minister had requested continued regulation. Given this, they supported the continued use of a light-handed approach to regulation. In general, their proposed VTPAs included the continued use of a WAPC on the retail component of tariffs with no additional constraints on customer bills, and the automatic pass through of network costs.

Table 1.4 summarises the standard elements of their proposed VTPAs. Appendix A provides more detailed information on their proposals.

Table 1.4 Summary of Standard Retailers' proposals for regulated retail gas tariffs for 2010/11 to 2012/13

	AGL	ActewAGL	Country Energy	Origin Energy
Price control	WAPC of CPI applied to retail component of tariffs (R) over the regulatory period	WAPC of CPI+1.5% applied to bundled tariff (N+R) in 2010/11, assuming network costs (N) increase at CPI; WAPC of CPI applied to bundled tariff thereafter	WAPC of CPI applied to retail component of tariffs (R) over the regulatory period	WAPC of CPI+10% in 2010/11 for the Albury district, then CPI+1% thereafter; WAPC of CPI+1% for Murray Valley district applied to retail component of tariffs (R) over the regulatory period
Tariff restructuring	Yes	None proposed	None proposed	None proposed
Distribution network costs	Automatic pass through of regulated network costs (N)	Automatic pass through of regulated network costs (N)	Automatic pass through of regulated network costs (N)	Automatic pass through of network costs (N)
Costs associated with national climate change measures	Automatic pass through of costs associated with national climate change measures (C)	Automatic pass through of costs associated with national climate change measures (C)	Addressed under special circumstances clause of VTPA[9]	Automatic pass through of costs associated with national climate change measures (C)
Unforseen changes in costs	Addressed via special circumstances clause in VTPA	Addressed via special circumstances clause in VTPA	Addressed via special circumstances clause in VTPA	Addressed via special circumstances clause in VTPA
Changes in VTPA wording	Yes	Yes	Yes	Yes
Non-tariff fees and charges	Increase in late payment fee to $14; introduce admin fee on network fees and charges; increase other fees and charges by CPI	Increase fees and charges by CPI, remove admin fees on network fees and charges	Increase in late payment fee to $7.50; other retail fees and charges unchanged	Increase in late payment fee to $12; introduce admin fee of $2.50 on network fees and charges; increase other fees and charges by CPI

9 Country Energy revised its proposal to pass through costs associated with national climate change measures consistent with the other standard retailers – see Country Energy submission, December 2009, p 6.

We also asked the Standard Retailers to submit cost and other information to support their pricing proposals. We analysed this information, and also:

- obtained expert advice from McLennan Magasanik Associates (MMA) on forecast efficient wholesale gas costs
- undertook our own analysis on forecast efficient retail operating costs
- obtained expert advice from Strategic Finance Group Consulting (SFG) on the appropriate retail margin.[10]

This analysis and expert advice enabled us to form a view whether the proposals were reasonable and consistent with the costs that an efficient and prudent retailer would incur in supplying small retail customers on regulated retail tariffs over the 2010-2013 regulatory period.

In addition, we developed a set of assessment criteria for this review, to guide our analysis and decision-making (see Appendix B). These criteria reflect what the Minister asked us to do for this review, the objectives of the Gas Supply Act, and the principles of good regulatory practice. We assessed each element of the retailers' proposed VTPAs, particularly the proposed form of regulation and price control.

For AGL, Country Energy and Origin Energy, we found that the aggregate cost information they provided supported their pricing proposals and that their forecast costs were consistent with those of an efficient and prudent retailer. Therefore, we made a draft decision to agree to their proposed VTPAs (however, we are requesting that AGL and Origin Energy revise their proposals on non-tariff fees and charges).

For ActewAGL we found that its forecast retail costs initially submitted did not support its proposed price path. We also found that its forecast wholesale gas costs were higher than MMA's estimate of the prudent and efficient level for these costs, and that the forecast retail margin implied by its pricing proposal exceeded the reasonable range for this margin identified by SFG as being consistent with margins that would prevail in a competitive market. Therefore, we made a draft decision to reject ActewAGL's proposed VTPA.

Each of the retailers proposed the wording of its own VTPA. However, we developed a generic version based on the retailers' proposals and provided this to the retailers for comment. While we need to make a separate pricing agreement with each of the 4 retailers, we consider that the VTPAs should include consistently worded terms and clauses where possible, as this will improve clarity and transparency. This generic version of the VTPA (revised to respond to the retailers' comments) is provided at Appendix C for stakeholder comments. The wording of the final VTPA for each retailer will be based on this generic VTPA.

10 Both MMA and SGF prepared public versions of their reports, which have been released with our draft report.

1.4 Approach for making our final decisions

To make our final decisions, we will review the revisions to the proposed VTPAs AGL, Origin Energy and ActewAGL submit to assess whether they include the specific changes we requested. We will also consider stakeholder comments on our draft report and our draft decisions on all 4 Standard Retailers' VTPAs. The sections below summarise the specific changes we seek from AGL, Origin Energy and ActewAGL and explain how and when stakeholders can express their views.

1.4.1 Changes sought from AGL

From AGL, we are requesting a revised proposal on non-tariff fees and charges on the late payment fee and administration fee on non-tariff network charges.

AGL has proposed to increase its late payment fee from $8.30 (excl GST) to $14 (excl GST) from 1 July 2010. We consider that this is a significant increase, which is likely to have a noticeable impact on customers. Therefore, we are requesting that AGL change its proposal so that the late payment fee increases more gradually over the 3 years, so that the proposed level of $14 (plus CPI) is only charged from 1 July 2012.

AGL has proposed to maintain its current approach to administration fees on network charges, under which it appears to apply an administration fee ranging from $0 to $15 to non-tariff network charges. We are requesting that AGL change its proposal so that the level of this administration fee is capped at $2.50 from 1 July 2010 and increase by CPI in the following years. We note this level is in line with the level proposed by Origin Energy, and that Country Energy and ActewAGL have proposed not to charge an administration fee.

1.4.2 Changes sought from Origin Energy

From Origin Energy, we are requesting a revised proposal on non-tariff fees and charges that includes a change to the late payment fee. Origin Energy does not currently charge a late payment fee, and proposes to introduce one from 1 July 2010. It proposes to set the level of this fee at $12 (excl GST).

We consider that the change from no fee to a $12 fee is substantial and is likely to have a noticeable impact on customers. To lessen this impact, we are requesting that Origin Energy change its proposal so that the late payment fee is introduced at a lower level from 1 July 2010 and increases over the 3 years to reach the proposed level of $12 (plus CPI) from 1 July 2012.

1.4.3 Changes sought from ActewAGL

From ActewAGL, we seek a revised pricing proposal on the WAPC to apply to its tariffs that takes account of the following views:

- We consider it more appropriate for the WAPC to apply to the retail component of tariffs only, and for actual network costs to be passed through in full.
- Based on our analysis and that of our expert consultants, we consider that ActewAGL's forecast costs are not consistent with the costs that an efficient and prudent retailer would incur in supplying small retail customers. We seek a revised proposed VTPA from ActewAGL that is consistent with its efficient costs over the regulatory period.
- Based on our analysis of ActewAGL's efficient costs we consider that as a whole an appropriate price path is CPI-3% over the 2010-2013 regulatory period or CPI - 1% annually.

1.4.4 How and when stakeholders can express their views

As noted above, we seek stakeholder submissions on our draft report and draft decisions, which we will consider in making our final decisions. The deadline for making submissions is 14 May 2010. We also plan to hold a public forum to discuss our draft decisions on 30 April 2010.

The timetable for completing our review and releasing our final report is set out in the table below. Details on how to make a submission are provided on page iii at the front of this report.

Table 1.5 Indicative timetable for completing the 2010 review of regulated retail gas tariffs and charges

Key tasks	Time
Release draft report and consultant reports and invite stakeholder submissions on the draft report	16 April 2010
Hold public forum on draft report	30 April 2010
Receive stakeholder submissions on the draft report	14 May 2010
Release final report by	**Mid-June 2010**

1.5 What does the rest of this report cover?

The rest of this draft report discusses the analysis and draft findings that underpin our draft decisions. It is structured as follows:

- Chapter 2 discusses our draft finding on the form of regulation, and explains why we continue to consider that the most appropriate way to regulate retail gas tariffs is through voluntary pricing arrangements that include a WAPC.
- Chapter 3 sets out our draft findings on each Standard Retailer's forecast retail costs for supplying gas to small retail customers over the 2010-2013 regulatory period, and explains how we assessed whether these costs were reasonable and reached our findings.
- Chapter 4 explains our draft findings on the appropriate approach for addressing the risks and uncertainties the Standard Retailers will face through their VTPAs.
- Chapter 5 focuses on non-tariff fees and charges.
- Chapter 6 discusses the impact of our draft decision on customers.
- Appendix A provides additional details on the proposed VTPAs
- Appendix B lists the assessment criteria for this review.
- Appendix C is our generic VTPA.
- Appendices D and E provide additional details on our cost analysis.
- Appendix F lists the Standard Retailers' fees and charges.

2 Form of regulation

The form of regulation we currently use for regulated retail gas tariffs is a VTPA with each Standard Retailer. Each VTPA includes a WAPC that applies to the total tariff (ie, the combined retail and network components), with no additional price constraints. This is a relatively light-handed form of regulation. It allows the Standard Retailers to set the level and structure of their regulated retail tariffs themselves, subject only to ensuring that the average change in these tariffs is less than the WAPC.

As part of our review, we assessed whether this form of regulation remains appropriate for regulated retail gas tariffs over the 2010-2013 regulatory period. In particular, we considered whether this form of regulation was consistent with our assessment criteria for this review. The criteria most relevant to this question are 1 and 3 (see Appendix B):

- protect small retail customers by (a) resulting in regulated prices that recover the efficient costs of supplying gas to small retail customers, and (b) facilitating the development of effective retail competition, and
- be consistent with the aim of reducing customers' reliance on regulated retail tariffs.

We considered whether the VTPA and WAPC form of regulation has provided the Standard Retailers with scope to set regulated retail tariffs that are either significantly higher or lower than cost-reflective levels (while still complying with the WAPC). This included examining whether they have sought to segment their regulated customers, the number of individual regulated tariffs they have, and the effectiveness of competition in the retail market.

The sections below provide an overview of our draft finding on the form of regulation, and discuss the analysis which supports this finding.

2.1 Overview of draft finding on the form of regulation

Our draft finding is that a VTPA that allows the Standard Retailers to set the level and structure of their regulated retail gas tariffs subject to a WAPC with no additional price constraints is the appropriate form of regulation for the 2010-2013 regulatory period, but that the WAPC should apply only to the retail component of these tariffs. Our view is that it is appropriate for the WAPC to only apply to the retail component and not the whole tariff because the retailers have no control over the network component of tariffs therefore it is appropriate for these costs to be passed on in full to customers.

We consider that the available evidence suggests that the VTPAs used for the 2007-2010 regulatory period were effective in protecting customers from tariffs set significantly above cost-reflective levels. This is a view generally supported by stakeholders.[11] We also considered that the lack of evidence that retailers have sought to segment customers, their small number of regulated tariffs, and the level of competition in the retail market mean they have limited scope to set regulated tariffs significantly above cost-reflective levels in the 2010-2013 regulatory period.

Given this, we consider that allowing the retailers to determine the level and structure of their regulated tariffs is appropriate as the retailers are best placed to understand changes in their cost base and restructure individual tariffs accordingly. Further, continuing to use the WAPC approach has the advantage of increasing regulatory certainty for stakeholders, as most are already reasonably familiar with this approach.

2.2 Segmentation of customer base

We might need to change the form of regulation if we found that the Standard Retailers were able to set regulated tariffs in a way that resulted in them being significantly above or below the cost-reflective level (while still complying with the WAPC). One of the factors that influences their scope to do this is their ability to segment their customer base.

For example, if retailers were able to identify a group of customers that were unlikely to be offered a market contract, or unlikely to have sufficient understanding of the competitive market to seek one out, they may be able to move these customers on to higher regulated tariffs without the risk of them moving to a competitive supplier.

However, we found no evidence that the Standard Retailers have sought to act strategically to segment customers by using different tariffs, or to price in a way that hinders competition. In fact, there has been a trend towards reducing the number of regulated tariffs, which greatly reduces the potential for the Standard Retailers to set a regulated tariff that varies significantly from the average regulated tariff. (This is discussed further in section 2.3 below.)

11 PIAC submission, December 2009, p 2 and EWON submission, December 2009, p 2.

2.3 Small number of regulated tariffs

A second factor that influences retailers' scope to set regulated tariffs that are significantly above or below the cost-reflective level is the number of individual regulated tariffs they have. If they have a large number of these tariffs, they could potentially increase some by a lot, and some by a little and still comply with the WAPC. However, when they have only a small number of tariffs, or the bulk of their customers are on a small number of tariffs, the increase in individual tariffs is likely to be very close to the average increase allowed under the WAPC, and all tariffs should remain consistent with cost-reflective levels over time.

Currently, each retailer has only one or a limited number of regulated residential tariffs. Where they have more than one, these tariffs vary mainly due to location (to reflect different network tariffs), and the type of use (such as off-peak or hot water use). Therefore, the increases in their individual tariffs are likely to be very close to the average increase under the WAPC and additional price constraints are likely to be redundant.

AGL is a possible exception to this because, as Chapter 1 noted, it proposed some tariff restructuring, including increasing the fixed component of residential tariffs, and decreasing the fixed component for business tariffs. Potentially, this kind of restructuring could result in significant changes to some individual customers' bills, and therefore could warrant the inclusion of additional price constraints to protect such customers from price shocks. However, our analysis of the impact of AGL's overall pricing proposal (including the restructuring) on a typical residential customer's bill indicates that the increase in this bill will be close to the average increase allowed under the WAPC. The increase in any customer's bill is likely to be less than CPI plus 5% but the final outcome depends on the final network decision by the AER. Therefore, we do not consider additional price constraints are necessary. (See Chapter 6 for a detailed discussion of our analysis of customer impacts.)

2.4 Effectiveness of competition

We analysed the effectiveness of competition in the gas retail market, to determine whether it is sufficient to constrain the Standard Retailers from setting regulated tariffs significantly above the cost-reflective level. We also assessed how this competition had changed over the 2007-2010 regulatory period, and considered whether regulatory or government action is required to facilitate its continued development.

It is important to note that our analysis of competition was **not** conducted for the purpose of determining whether it is sufficiently effective for regulation to be phased out. The Australian Energy Market Commission (AEMC) is responsible for making this decision, and is scheduled to review the NSW retail electricity market for this purpose in 2011.

On balance, our analysis of the available data suggests the competitiveness of the gas retail market has not changed significantly since 2007, however it continues to increase. While most customers have access to a variety of offers by several different retailers, the choices for customers in some country regions have remained limited.

2.4.1 Definition of the market

We consider that there is only one relevant NSW market for the retail supply of gas to customers consuming less than 1TJ. Within this market, there are 5 different standard supply areas:

- ActewAGL's standard supply area, which includes the NSW regions surrounding the ACT and South East NSW (including Young, Goulburn, Shoalhaven and Yass).
- AGL's standard supply area, which contains most of the gas customers in NSW, including Sydney, Wollongong, Newcastle, Dubbo, Orange, Parkes, and parts of the Riverina.
- AGL Sales' standard supply region which is located on the NSW and Queensland border.[12]
- Country Energy's standard supply region includes South Western regions of NSW including Wagga Wagga and Gundagai and inland cities such as Tamworth.
- Origin Energy's standard supply area, which is situated on the NSW and Victorian border, and includes Albury and the Murray Valley Towns.

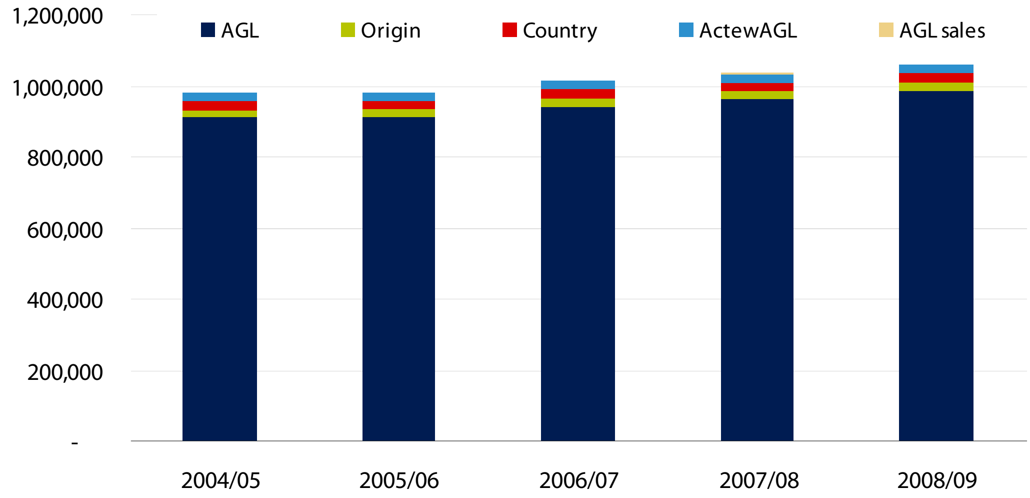
IPART does not regulate the prices in the AGL Sales' standard supply region.

The gas retail market has been defined as the whole of NSW rather than by standard supply area to take account of the most important sources of competition for a retailer or set of retailers. We found that many retailers tailor their offers to a specific standard supply area, for example, by aligning their tariffs to the regulated tariff. However, some price offerings are available across one or more standard supply areas. This means that tariffs in one standard supply area may constrain prices in another.

12 AGL Sales (Queensland) Pty Ltd (previously Sun Gas) is a Queensland supplier which also is the Standard Retailer for a small number of customers located in the Tweed area of NSW. Previously, these customers were charged the retail prices regulated by the Queensland Government. With the removal of gas retail price regulation in Queensland these customers have access to the competitive retail market in Queensland. We have monitored the tariffs for these customers over the current regulatory period and concluded that the prices charged under the competitive market are reasonable. We also note that its customers are charged the same tariffs as those in South East Queensland.

In addition, the majority of customers consuming less than 1TJ are located within one standard supply area. Figure 2.1 shows that AGL's standard supply area contains almost a million small retail connections, or 93% of all connections statewide. In comparison, the Origin Energy, Country Energy and ActewAGL standard supply areas each contain between 22,000 and 28,000 customers, which is around 2% to 3% of all connections in NSW. The AGL Sales standard supply area contains just over 1,000 customers, or 0.1% of all connections (not visible in Figure 2.1).[13]

Figure 2.1 Number of small retail customers in NSW market, by standard supply regions (customers consuming less than 1 TJ per year)



2.4.2 Structure of the market

There are currently 17 gas retailer licence holders in NSW.[14] Only 7 of these are active, and they include:

- The 5 Standard Retailers[15], which are obliged to supply if the customer is connected to gas and must offer a regulated tariff in their standard supply area. These businesses also act as second-tier retailers outside their standard supply areas and can offer negotiated contracts to customers within their own supply area.
- Two mass market second-tier retailers, which are the non-incumbent retailers that aim over time to establish a large customer base.

13 Competition has not been assessed in the AGL Sales standard supply region as it is not subject to the VTPA arrangements.

14 IPART, Choosing your energy supplier, http://www.ipart.nsw.gov.au/electricity/licensing_further_information_2.asp.

15 This includes AGL Sales, which is not subject to the VTPA arrangements. The rest of the report refers only to the 4 Standard Retailers which are the subjects of the VTPAs.

In comparison, Victoria, South Australia and Queensland have 8, 4 and 2 active retailers respectively.[16]

The retailers active in NSW participate to varying levels across the standard supply areas. Table 2.1 shows that most of them offer to supply customers in each of the standard supply areas. However, some do not offer to supply all of the regions within some of these areas. For example, within the ActewAGL supply area, some retailers offer contracts in the capital region, but not in the Queanbeyan or South East NSW regions.

Table 2.1 Retailers' standard contract and market offers in each standard supply area

	Standard supply areas				
	AGL	**Origin Energy**	**Country Energy**	**ActewAGL**	**AGL sales**
Retailers					
AGL	√				
Origin Energy	√	√	√	√	√
Country Energy			√		
ActewAGL				√	
AGL Sales					√
EnergyAustralia	√		√	√	
TRUenergy	√	√	√	√	

Note: Some retailers also have customers outside the areas shown, but are not currently offering in these areas.

Current market concentration

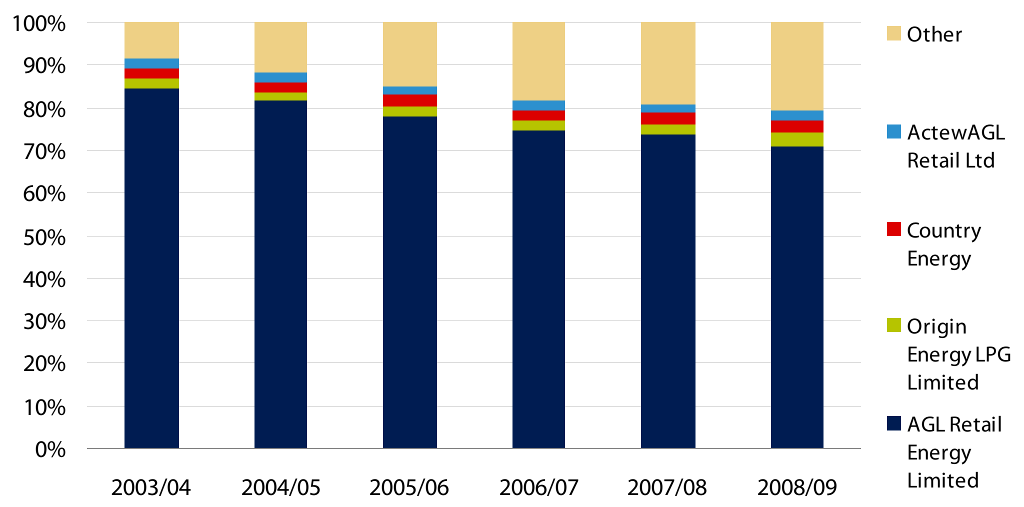
The more concentrated the market, the greater the potential for firms to exercise market power. Therefore, a market with a considerable number of firms may still not exhibit effective competition if it is concentrated in the hands of a small number of firms.

In the NSW retail gas market, AGL is clearly the dominant player. However, it has steadily lost market share to second-tier retailers over the period since full retail contestability began in 2002. Figure 2.2 shows that AGL's share has fallen from 84% of the market in 2003/04 to 71% in 2008/09, while the other Standard Retailers

16 Essential Services Commission Victoria, *Comparative performance report – pricing and the competitive market 2008/09*, p 3, http://www.esc.vic.gov.au/NR/rdonlyres/55E19724-CFE4-426E-9123-720C397F4328/0/FINALPRICINGANDCOMPETITIVEMARKETREPORTCOMMISSIONERS.pdf, Essential Services Commission of South Australia, Annual Performance Report South Australian Energy Supply Industry, 2008-09, p 23, http://www.escosa.sa.gov.au/library/091117-AnnualPerformanceReport_2008-09.pdf QCA, *Competitive Market Outcomes for Small Customers in Queensland,* November 2008, p iv http://www.qca.org.au/files/GR-RSCSPComp-QCA-FinalRep-1208.PDF.

maintained market shares of 2% to 3%. However, Origin Energy and Country Energy increased their customer numbers outside of their standard supply areas – between 20% and 35% of these retailers' customers were now located outside of their standard supply area by 2008/09. New-entrant retailers ('other' on Figure 2.2) have also increased their combined market share to 21% by 2008/09.[17]

Figure 2.2 Market share of gas retailers across NSW (2003/04 – 2008/09)



Data source: IPART compliance data base.

In its own standard supply areas, AGL's market share was approximately 76% in 2008/09. However, the other Standard Retailers still have market shares of between 90% and 100% in their own standard supply areas.

2.4.3 Barriers to market entry

Barriers to entry are the characteristics of a market that may make it difficult or less attractive for firms to enter or exit that market (excluding obstacles that are part of the normal process of entering any market). Generally, a competitive market does not have significant barriers to entry, which helps ensure that the behaviour of market participants is disciplined by the actual or threatened entry of new firms. Where a market does have barriers to entry, there may be more opportunity for participants to exercise market power, reducing the extent to which competitive pricing and product differentiation occurs.

17 We note that NSW Government's Energy Reform Strategy includes the sale of EnergyAustralia's gas retail business which is the largest second-tier retailer in NSW with a market share of approximately 18%. The level of competition in the NSW market is unlikely to be significantly affected if it is purchased by an existing retailer other than AGL, due to the small market share of these participants.

We considered whether the capacity constraints on the transmission pipelines and advantages to the incumbent retailers are barriers to entry in the NSW retail gas markets, and therefore limit the potential for competition in this market.

Capacity constraints on the pipelines

During the 2007-2010 regulatory period, the limited transmission capacity to Sydney for winter 2008 acted as a major barrier to entry. However, capital works have since been undertaken to expand the pipeline capacity in NSW. Other significant developments in gas transmission infrastructure are also planned, including further capacity expansion, and new pipelines, including the Queensland to Hunter Gas Pipeline (QHGP) to connect Queensland coal seam methane fields with the Gunnedah basin and Newcastle.

The significant investment and increased interconnection with new gas sources suggest that it is unlikely that access to upstream gas supplies or network infrastructure will act as a material constraint on market entry and expansion. This will also help the diversification of options available to retailers in terms of potential gas supply sources. Given the new investments in gas-fired generation plant, trends in interconnection are likely to continue. However, we note that Country Energy has argued that in the short term the increase is gas-fired generation in the eastern states may increase the demand for gas supply and capacity, which may lead to a risk of capacity constraints when contracts are renewed.[18]

Advantages for incumbent retailers

The incumbent retailers typically enter into long term contracts with pipeline owners and producers which underpin upstream infrastructure developments. This may suggest a constraint to entry if gas retailing is not viable without developing a network of supporting arrangements. While these arrangements are a common feature of the market and are likely to persist, they do not account for all supply capacity. For example, EnergyAustralia was able to develop retail operations quickly and despite not having any previous position in gas markets.

2.4.4 Market information

The conduct of retailers within a market affects the level of competition. For example, an effective retail market requires retailers to actively market their products and services so customers are aware of the offers available, and can compare them to identify those that best meet their needs and preferences.

18 Country Energy submission, December 2009, p 8.

Therefore, an effective retail market requires that customers have sufficient information to make an informed choice. Most customers are unlikely to undertake their own investigation of alternative energy offers, for a number of reasons including:

- There may be few perceived benefits of switching retailers:
  - Gas is a homogenous product which means there is no variation in the quality of the product between retailers.
  - Gas retailers generally can only compete on price savings. However, as bills represent a very low percentage of household expenditure (typically less than 0.5%)[19] and increases to gas prices have historically been modest, the impetus to switch retailers has been limited.
- The lack of readily available transparent price information.

EWON submitted that customers need to have access to accurate and independent pricing information in order to make an informed choice about their switching options. It does not consider that this information is readily available to NSW customers.[20] Similarly, PIAC submitted that it is difficult for customers to compare prices across retailers, and notes that in some cases a customer must sign up to an offer before the tariff information is disclosed.[21]

On the other hand, AGL, ActewAGL and EnergyAustralia submitted that there is sufficient publicly available information for customers to make informed choices about their gas retailer through retailer websites and comparison and information sites.[22]

In our experience, retailers' negotiated tariffs are not always easy to ascertain – for example, they are not always published on the retailer's website.[23] We found that:

- Some retailers do not provide any price information at all.
- Some retailers publish the level of discount being offered without providing the reference rates.
- Some retailers require potential customers to initiate a 'sign up process' before providing the tariff details, and may request a large amount of personal information as part of this process (including name, date of birth, address, phone number, email address and drivers licence number).

19 *ABS,* 6430.0 - Consumer Price Index: 15th Series Weighting Pattern (Reissue), Sep 2005, http://www.ausstats.abs.gov.au/Ausstats/subscriber.nsf/0/5424C607D189A7B5CA257097000636B0/$File/6430.0%2015th%20series%20weighting%20pattern.xls.

20 EWON submission, December 2009, p 2.

21 PIAC submission, December 2009, p 2.

22 AGL submission, December 2009, p 5, ActewAGL submission, December 2009, p 6, EnergyAustralia submission, December 2009, p 5.

23 The internet is an increasingly important source of information for customers, for example the AEMC's review of competition in South Australia found that 46% of customers actively seeking information about energy offers used the internet.

- It can also be difficult to compare gas offers due to a lack of consistency in the presentation of tariffs -- for example, where retailers use different time units to express the tariffs, whether GST is included, and whether the tariff presented has already had the discount applied.

We consider that the lack of transparent information and lack of consistency in tariff presentation increases the search costs for customers. Together with other transaction costs such as termination fees, these costs may exceed the benefits of finding a better offer, which makes customers less inclined to assess alternative offers and so reduces pressure on retailers to engage in competitive behaviour. Given the typical 2 year contract periods and contract termination penalties, it is critical that the information that customers are basing their decisions on is accurate to ensure the best possible consumer outcome.

We note that the NSW Government has recently announced the implementation of a price comparator service for gas and electricity customers in NSW.[24] This will allow customers to have access to consistent, accurate, up to date tariff information for each of the retail offers. We believe that such a move will assist customers in attaining more accurate information and increase the competiveness of the market.

2.4.5 Consumer behaviour and outcomes

A competitive market needs to be characterised by informed and active consumers willing and able to respond to offers for the supply of gas. Where enough consumers respond to price or quality differences by switching to products that better suit their needs, retailers will be encouraged to respond to these signals or risk losing customers and market share. Where this is not the case, retailers may develop a degree of market power that may lead to poorer price and service outcomes for customers.

Overall, significant numbers of small customers in NSW have responded to competitive offers and exercised choice between available offers when approached by retailers and given sufficient incentive. Figure 2.3 shows the number of all customers who have switched retailers over the 2007-2010 regulatory period. The overall switch rate for NSW and the ACT 2008/09 was 4%[25], down from 5%[26] in 2007/08. However, the latest switch rate for the 2009 calendar year was slightly higher again at 6%, reflecting higher switch rates between July and December in

24 John Robertson MLC, *One million households to receive energy rebate*, 18 March, 2010, p 1, http://www.industry.nsw.gov.au/__data/assets/pdf_file/0018/325035/one-million-households-to-receive-energy-rebate.pdf

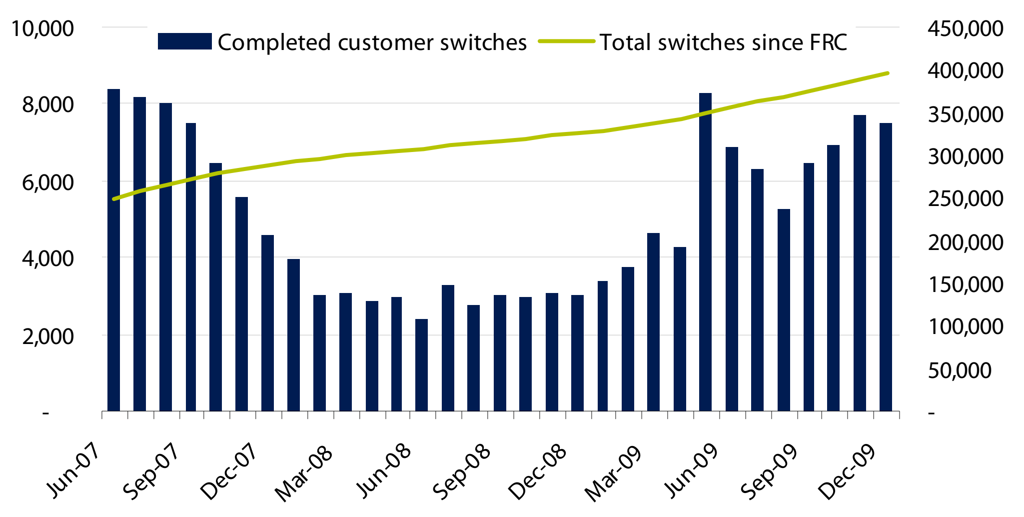
25 AER, State of the Energy Market 2009, November 2009, p 303, http://www.accc.gov.au/content/index.phtml?itemId=904614.

26 AER, State of the Energy Market 2008, November 2008, p 302, http://www.accc.gov.au/content/index.phtml?itemId=850040.

2009.[27] Cumulative switch rates at the end of 2008/09 in NSW and the ACT was 30%, compared to 115% in Victoria, and 81% in South Australia.[28]

However, switching rates do not capture the customers that have moved onto a negotiated contract with their *existing* retailer. Figure 2.4 shows that approximately 48% of all customers have switched to a negotiated contract as of June 2009. It is worth noting that the proportion of gas customers on negotiated contracts is significantly higher than for the electricity retail market (33%).[29]

Figure 2.3 Number of customers in the NSW who switch retailers during the 2007-2010 regulatory period



Note: These numbers excluded small customers moving from a regulated tariff to a negotiated contract with their Standard Retailer. The blue columns refer to the left axis and the green line refers to the right axis.

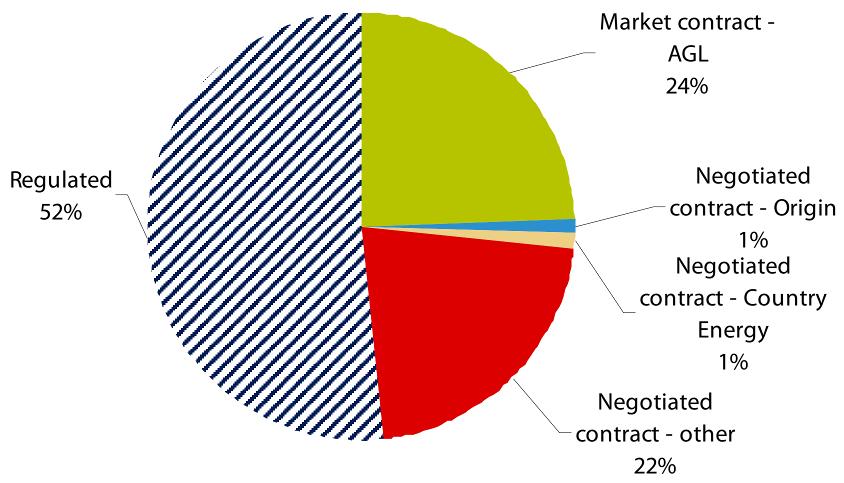
Data source: AEMO.

27 AEMO, Market Activity data: 2009 December, January 2010

28 AER, State of the Energy Market 2009, November 2009, p 303, http://www.accc.gov.au/content/index.phtml?itemId=904614.

29 The lower number of regulated customers in electricity is likely to be explained in part by the decision of the standard retailers to keep their customers on regulated tariffs to access the risk management benefits provided by the ETEF arrangements, given the uncertainties in the energy market and the volatility of wholesale prices, IPART, *Review of regulated retail tariffs and charges for electricity 2010-2013*, March 2010, p 50.

Figure 2.4 Proportion of all gas customers in NSW on Negotiated contracts, 2008/09



Data source: Information requests, IPART.

3 Retail costs of gas supply

To help us in deciding whether the Standard Retailers' pricing proposals were reasonable, we assessed the retail costs they will incur in supplying gas to small retail customers over the 2010-2013 regulatory period. These retail costs comprise 3 individual cost components: wholesale gas costs, retail operating costs and retail margin.

Our assessment involved 2 steps:

- First, we focused on each retailer's forecast of its individual cost components (which were either submitted by the retailers as part of their submission or implied by their pricing proposal). We assessed the forecast for each component to determine whether it is consistent with our view of the costs an efficient and prudent retailer is likely to incur in supplying customers on regulated retail tariffs over the regulatory period.
- Second, we focused on each retailer's forecast of its aggregate retail costs. We assessed whether these forecast aggregate costs support its pricing proposal (ie, whether the proposed price paths would generate revenue in line with the forecast costs). We also assessed whether the forecast aggregate costs fall within the range for the aggregate costs of an efficient and prudent retailer we have identified.

Please note that while we assessed the cost components individually, we did not determine revenue allowances for these costs, as we did in making our recent determination of regulated retail electricity tariffs. This is consistent with our draft finding that VTPAs that allow the Standard Retailers to set the level and structure of their regulated retail gas tariffs, subject to a WAPC, are the appropriate form of regulation for the 2010-2013 regulatory period (as discussed in Chapter 2). In addition, we did not consider any additional costs the retailers may incur if new climate change mitigation measures are introduced during the regulatory period, in line with our draft finding that these costs are best addressed through a cost pass through arrangement (also discussed in Chapter 4).

The section below provides an overview of our draft finding on retail costs. The subsequent sections discuss our assessments of the retailers' forecasts for the individual cost components and the aggregate costs in detail.

3.1 Overview of draft findings on retail costs

For AGL, Origin Energy and Country Energy, our draft finding is that the forecast aggregate costs each retailer submitted are reasonable because these costs:

- support the pricing proposal contained in its proposed VTPA, and
- are consistent with the range of prudent and efficient costs that we identified through examining the individual cost components.

For ActewAGL, our draft finding is that the forecast aggregate costs are not reasonable, because the costs the retailer initially submitted do not support its pricing proposal and the revised costs it submitted are not consistent with the range of prudent and efficient costs that we identified.

In reaching the draft findings for AGL, Origin Energy and Country Energy, we took account of:

- MMA's assessment of prudent, efficient wholesale gas costs for AGL and Origin Energy over the 2010-2013 regulatory period and additional information provided by AGL to us, on a confidential basis, in support of its proposed wholesale gas costs.
- MMA's advice that while Country Energy's forecast wholesale gas costs were lower than its assessment of the prudent, efficient level, Country Energy's approach to forecasting these costs is reasonable.
- Our own analysis indicating that these retailers' forecast retail operating costs are reasonable, and within the range for these costs we identified through benchmarking.
- SFG's advice that an EBITDA margin of 7.3% to 8.3% is consistent with margins that would prevail in a competitive market.

In reaching the draft finding for ActewAGL, we took account of:

- MMA's advice that this retailer's forecast wholesale gas costs are higher than its assessment of the prudent, efficient level of these costs.
- Our own analysis indicating that ActewAGL's forecast retail operating costs are towards the top end of the range for these costs we identified through benchmarking.
- SFG's advice that an EBITDA margin of 7.3% to 8.3% is consistent with margins that would prevail in a competitive market and that ActewAGL's implied retail margin of around 11% (EBITDA) is significantly above this range.[30]

30 This is the retail margin required to support ActewAGL's proposed price path of a CPI + 2.5% increase in the retail component over the 3 years based on MMA's assessment of wholesale gas costs and ActewAGL's forecast operating costs (excluding deprecation).

3.2 Wholesale gas costs

Gas retailers procure wholesale gas, and generally its transmission to city gates, via long-term bilateral contracts with gas producers and transmission asset owners.[31,32] They hold a portfolio of commercial-in-confidence gas supply contracts with varying expiry dates. The terms and conditions of each supply contract are likely to vary, depending on the geographic location and capacity of the relevant gas field(s) and associated processing facilities, as well as the allocation of risk between retailer and producer. Charges for gas transmission are also likely to vary depending on the distance over which gas must be transported, the productive efficiency of the pipeline and the utilisation of the pipeline's capacity.

These arrangements for procuring wholesale gas supply mean that the Standard Retailers may face different wholesale gas costs, which are largely determined by confidential bilateral agreements and which are difficult to compare. They also mean that little market data is publicly available, which makes it difficult for us to estimate or benchmark the appropriate wholesale gas costs associated with serving regulated retail gas customers in NSW.

Given these circumstances, we decided to assess the information the Standard Retailers' submitted on their actual and forecast wholesale gas costs from 2009/10 to 2012/13, to form a view on whether these costs are reasonable and efficient. We engaged MMA to assist us by assessing the retailers' information on wholesale gas costs and providing advice on whether their forecast wholesale gas costs were consistent with a prudent and efficient level of costs. We also compared the retailers' forecast wholesale gas costs to available benchmarking data.

3.2.1 MMA's assessment of retailers' forecast wholesale gas costs

MMA examined the information submitted by each Standard Retailer on its forecast wholesale gas costs. It examined the individual components of these costs – including base gas supply costs, additional deliverability costs (to service peak demand), transmission costs and other costs. It also assessed how each component had been estimated. In addition, it compared these forecast costs against its own assessment of the prudent, efficient level for the retailers' wholesale gas costs.

We are not able to provide the details of the retailers' forecast costs, or MMA's assessments of these costs, due to the confidential nature of information on gas wholesale costs. However, Table 3.1 shows MMA's assessment of the prudent and efficient level of wholesale gas costs for each Standard Retailer over the 2010-2013 regulatory period. Note that in some cases MMA provided a range of potential

31 A retailer would consider its likely total gas load and how best to meet that load at the city gates given the available sources of gas supply and the cost of transportation (including the potential for gas swap arrangements) and opportunities to hedge price and supply risk.

32 We note that the transmission charges faced by Origin Energy in NSW are subject to an access arrangement, approved by the AER, and in place until 31 December 2012.

outcomes. In this instance, the value provided in the table below has been selected by IPART from the upper end of this range.

Table 3.1 MMA's assessment of prudent, efficient wholesale gas costs for the period 2010/11 to 2012/13 ($ per GJ, $2009/10)

	AGL	ActewAGL	Country Energy	Origin Energy
$/GJ	7.31	7.10	6.17	6.80

Source: McLennan Magasanik Associates (MMA), *Gas Retail Price Review – Wholesale Gas Costs, Draft Reports to Independent Pricing and Regulatory Tribunal*, February 2010. MMA, *Wholesale gas costs, Memo of update of draft report to IPART*, March 2010.

Our draft findings have been informed by MMA's assessment of prudent, efficient wholesale gas costs for AGL and Origin Energy over the regulatory period and additional information provided by AGL to us, on a confidential basis, in support of its proposed wholesale gas costs. For Country Energy, MMA's advice is that, while Country Energy's forecast wholesale gas costs were lower than its assessment of the prudent, efficient level, Country Energy's approach to forecasting these costs is a reasonable one to adopt.

For ActewAGL, MMA's advice was that this retailer's forecast wholesale gas costs are higher than its assessment of the prudent, efficient level of these costs.

More detailed information on MMA's approach for assessing the retailers' wholesale gas costs is provided in Appendix D. Further information can be found in MMA's public version of its draft report, which is available on our website.

Although MMA also provided us with a separate draft report on each Standard Retailer we cannot publish these reports for confidentiality reasons. However, we have made the draft report on each Standard Retailer available to that retailer, and invited it to respond to MMA's analysis and findings. MMA will take these responses into consideration in preparing its final reports.

3.2.2 Benchmarking data on wholesale gas costs

We compared the Standard Retailer's forecast wholesale gas costs with publicly available benchmarks released by the Queensland Competition Authority (QCA) in November 2008 and the Essential Services Commission of South Australia (ESCOSA) released in June 2008. We found that the retailers' forecasts are broadly consistent with these benchmarks. We note that the differences are largely explained by specific locational factors.

Queensland benchmarks

The QCA engaged MMA to advise it on the costs of gas supply for a second tier retailer supplying small customers in Queensland. In its report, MMA indicated that it had identified significant upward pressure on wholesale gas costs caused by the commissioning of LNG facilities and the Commonwealth Government's proposed CPRS. Its estimates of these costs are shown on Table 3.2 below.

Table 3.2 MMA's estimates of wholesale gas cost in Queensland ($ per GJ, $2009/10)

	2008/09	2012/13
Bas gas supply costs (or annual contract quantity)	4.08	6.13
Additional deliverability costs (or maximum daily quantity)	0.34	0.34
Transmission costs	1.38	1.74
Other costs	0.02	0.02
Total wholesale gas costs	**5.82**	**8.22**

Notes: Transmission cost based on a demand load factor of 60% and MMA forecast costs of the Queensland Gas Pipeline. These figures do not include an estimate of the costs of the CPRS.

Source: McLennan Magasanik Associates, *Costs of gas supply for a second tier retailer supplying small customers in Queensland, Final Report to Queensland Competition Authority*, 3 November 2008.

South Australian benchmarks

In June 2008, ESCOSA released its final determination of gas standing contract prices from 2008 to 2011. In making this determination, ESCOSA set the wholesale gas cost allowances for 2010/11 shown in Table 3.3 below.

Table 3.3 Wholesale gas cost allowances for South Australian Standard Retailer, 2010/11 ($ per GJ, $2009/10)

	Residential	Small business
Bas gas supply costs (or annual contract quantity)	3.97	3.95
Additional deliverability costs (or maximum daily quantity)	0.63	0.29
Transmission costs	1.67	1.20
Other costs	0.02	0.02
Total cost	**6.28**	**5.46**

Notes: Transmission cost is for Adelaide and Peterborough only.

Source: Essential Services Commission of South Australia, *2008 Gas Standing Contract Price Path Inquiry, Final Inquiry Report & Final Price Determination*, June 2008.

A number of location-specific factors explain the differences in wholesale gas costs between jurisdictions, including:

- the particular gas supply source(s) under consideration and the contracts underpinning a retailer's right to access this gas
- sources of additional deliverability utilised by a retailer and their price
- load profile of a retailer's customers

- transmission assets used by a retailer and the distance gas has to be transported.

3.3 Retail operating costs

To assess whether the Standard Retailers' forecast retail operating costs represent efficient costs, we undertook bottom-up and benchmarking analyses of these costs (consistent with our approach in the 2010 review of regulated electricity retail tariffs). The **bottom-up cost analysis** involved estimating each retailer's retail operating costs per customer using data supplied by the retailer, and subjecting these data to reasonableness tests. The **benchmarking analysis** involved comparing the Standard Retailers' forecast costs with the regulatory allowances for retail operating costs set for gas and electricity retailers in NSW and other jurisdictions.

In general, gas retail operating costs comprise 2 broad categories:

- **Retail operating costs (ROC):** These are operating costs incurred in retailing gas to small customers and include, among other things, the costs of billing and revenue collection, call centres, marketing, and an appropriate allocation of corporate overheads.
- **Customer acquisition costs (CAC):** These are primarily marketing costs involved with acquiring new customers.

However, given the differences in the way the Standard Retailers record these costs, we did not disaggregate their forecast costs into these categories.

3.3.1 Bottom-up analysis of retail operating costs

The Standard Retailers provided information on the components of their actual retail operating costs for 2006/07 to 2008/09, and the components of their forecast retail operating costs for 2009/10 to 2012/13. They also provided the actual and forecast customer numbers of these periods. We used this information to estimate their retail operating costs per customer (see Table 3.4), and assess whether level and rate of change in their forecast costs were reasonable.

Table 3.4 IPART's estimates of actual and forecast retail operating costs per customer – all standard retailers ($2009/10, $/customer)

Year	Range of retail costs	Midpoint
2006/07	88 to 105	97
2007/08	83 to 104	94
2008/09	81 to 131	106
2009/10	82 to 118	100
2010/11	*84 to 119*	101
2011/12	*85 to 117*	101
2012/13	*88 to 115*	101
Average cost – historic (2007/08 to 2009/10)	**84 to 114**	**99**
Average cost – forecast (2010/11 to 2012/13)	**86 to 117**	**101**
Difference between historic and forecast (rate of change)	**-6%**	**-2%**

Note: operating cost information included in the table above has been adjusted to remove an allowance for depreciation.

As the table shows, average retail operating costs per customer forecast over the 2010-2013 regulatory period ranged from $86 to $117. The midpoint of the range of retail costs across all the Standard Retailers over the regulatory period is $101 per customer.

We consider it reasonable for AGL to achieve relatively higher cost savings over the period, given that it is the largest Standard Retailer (with 71% market share in NSW in terms of customer numbers).[33] We also note that AGL should reap the first full-year of productivity benefits from its new customer service and billing platform (Project Phoenix) over this period.[34]

Origin Energy's forecast retail operating costs per customer for the 2010-2013 regulatory period are also lower than its costs over the last few years. However, we note that most of the decrease is due to the fact that it has deducted the costs associated with late payments, as it proposes to recover these costs by introducing a late payment fee in 2010/11 (see Chapter 5).[35]

Country Energy's forecast costs per customer for the 2010-2013 regulatory period are marginally higher than its costs over recent years. This increase seems somewhat high, given that Country Energy's customer numbers are expected to remain constant over the regulatory period. However, we note that the level of the forecast cost per customer in 2012/13 is the same as it was in 2006/07 (in real terms).

33 See Section 2.4.2, p 17.

34 Macquarie Research Equities, *AGL Energy – FY09 Surprises to the upside*, 21 August 2009, p 2.

35 Origin Energy, Non-tariff fees and charges and Origin's VTPA, 1 February 2010.

ActewAGL's higher level of retail operating costs per customer for the 2010-2013 regulatory period appears to be due to the significant increase in the service provider fee it pays to AGL in 2008/09. This fee accounts for a significant share of ActewAGL's total retail operating costs and pays for the provision of managed services, such as billing and revenue collection, by AGL.[36] The level of the fee was increased to bring the operating cost component into line with the actual costs incurred in delivering the services, as well as to recover costs associated with the migration of ActewAGL's gas customers to a new billing system in 2008/09 and the subsequent implementation of this billing system. ActewAGL indicated that its higher level of costs per customer is also due to:[37]

- an increase in its corporate overheads due to the sale of its head office in 2008/09 and the new leasing costs thereafter
- newly identified bad and doubtful debts in 2008/09 as a result of the new billing system that required writing-off.

We appreciate that billing systems require upgrading and that these one-off investment costs need to be recouped over time. However, such investments must be efficient and provide future cost savings that should be shared with consumers. Therefore, we would have expected greater decreases in ActewAGL's retail costs per customer over the 2010-2013 regulatory period than its forecasts suggest, as productivity gains filter through from the new billing system. This is especially the case given that its service provider, AGL, has publicly announced that these productivity gains will materialise in 2010/11.[38]

While we note that the retail operating models of AGL and ActewAGL are quite different, direct productivity gains do not seem to have been factored into the service provider fee. However, ActewAGL still considered outsourcing most of its managed services from AGL would achieve economies of scale beyond those it could achieve if it were to undertake these functions itself.[39]

During our analysis we also sought clarification on a number of other issues related to ActewAGL's retail operating costs. As a result, we:

- asked ActewAGL to resubmit its forecasts in $2009/10 dollars, as they were initially submitted to us in nominal dollars
- made a deduction for late payment costs due to double counting
- excluded depreciation costs which are recovered through the retail margin.

36 ActewAGL Retail is owned equally by ACTEW Corporation and AGL Energy via subsidiary companies (http://www.actewagl.com.au/about/company/default.aspx accessed on 29 January 2009).

37 ActewAGL, email correspondence, 3 February 2010.

38 Macquarie Research Equities, *AGL Energy – FY09 Surprises to the upside*, 21 August 2009, p 2.

39 ActewAGL submission, 2 October 2009, p 10; ActewAGL, email correspondence, 19 February 2010.

We understand that ActewAGL has a different business model to the other Standard Retailers and incurs depreciation costs through its service provider fee. However, we note that as long as depreciation is recovered only once it does not matter whether it is included in the retail margin or retail operating costs. Therefore, to maintain a consistent approach across the Standard Retailers, we decided to model ActewAGL's proposed price path using an EBITDA margin and exclude depreciation from its retail operating costs.

3.3.2 Benchmark analysis of retail operating costs

We benchmarked the Standard Retailers' forecast retail operating costs against retail operating cost allowances set in past regulatory decisions for gas and electricity retailers in NSW and other jurisdictions.[40] Where applicable, we benchmarked combined ROC and CAC allowances to be consistent with the Standard Retailers' reported costs.

We found that the range for retail operating costs established by these past regulatory decisions was $70 to $134 per customer, with a midpoint of about $102 per customer. The Standard Retailers' forecast retail operating costs per customer for the 2010-2013 regulatory period fall within this range, which suggests they are reasonable. (See Appendix E for more detailed information on the past regulatory allowances for retail costs we considered.)

We note that although ActewAGL's retail operating costs were at the higher end of the reasonable range of costs, they were comparable to the retail operating cost allowance we set as part of our 2010 determination on regulated retail electricity tariffs, which reflected an average retail operating cost of $112 per customer per year. The other 3 Standard Retailers all had operating costs below the allowance we set in the 2010 electricity review.

With regard to the rate of change in retail operating costs, we note that in the majority of recent regulatory decisions these costs have increased by no more than the change in CPI over their respective regulatory periods (see Appendix E for details). These decisions include ESCOSA's latest gas determination and the QCA's 2010/11 draft electricity determination. This rate of change is broadly consistent with change in the Standard Retailers' forecast retail operating costs over the 2010-2013 regulatory period.

Finally, we note that the reasonable range for retail operating costs identified by our benchmark analysis is broadly consistent with the range of $92 to $134 per customer submitted by AGL based on its own benchmarking analysis.[41] AGL noted that the lower end of its benchmark range does not incorporate customer acquisition costs.

40 We consider the retail operating costs of a gas retailer to be similar to those of an electricity retailer, especially since most retailers serve both gas and electricity customers. ESCOSA also argued this point in their 2008 review of gas standing contract prices. See ESCOSA, *2008 Gas standing contract price path inquiry Final inquiry report and final price regulatory*, June 2008, p 74.

41 AGL Submission, 2 October 2009, p 34.

However, we note that this point is somewhat negated by the inclusion of ESCOSA's $93 per customer gas retail cost allowance as a benchmark, which was inclusive of customer acquisition costs.

3.4 Retail margin

The Standard Retailers face a range of risks over the 2010-2013 regulatory period. Some of these are systematic risks associated with supplying gas to small customers on regulated tariffs. These systematic risks stem from things such as variations in demand and economic conditions. Given these risks, it is appropriate for the Standard Retailers to earn a retail margin.

We reviewed the forecast retail margins implied by the Standard Retailers' pricing proposals to determine whether they were reasonable. To assist us in this, we asked SFG to assess and advise us on the reasonable range for the retail margin. We also considered other recent regulatory decisions on this margin and stakeholder submissions.

After considering SFG's advice and the other factors, we made a draft finding that the forecast retail margins of AGL, Origin Energy and Country Energy are reasonable.

However, we have made the draft finding that the forecast margin implied by ActewAGL's pricing proposal is not reasonable as it is above SFG's recommended reasonable range of 7.3% to 8.3% (EBITDA). Using MMA's recommendation on ActewAGL's wholesale costs and ActewAGL's forecast operating costs (excluding depreciation), our modelling indicates that a retail margin of around 11% is required to achieve ActewAGL's proposed price path of CPI+2.5% over the 3 years for the retail component.

This draft finding reflects our view that the estimates provided by SFG's bottom-up approach are potentially biased and not consistent with those that would prevail in a competitive market. Therefore we have not placed any weight on these estimates in our draft decision making. This is discussed further in section 3.4.1.

3.4.1 SFG's advice on the retail margin

SFG's assessment and advice on the reasonable range for the retail margin are presented in its draft report, which is available on our website.[42] In summary, SFG estimated the reasonable range for the retail margin using 3 approaches:

- the expected returns approach
- the benchmarking approach, and

42 SFG, *Estimation of a competitive profit margin for gas retailers in New South Wales*, Draft Report, 8 April 2010.

- the bottom-up approach.

It then recommended 2 reasonable ranges for the retail margin. The first range is from 9.2% of 11.1% of earnings before interest, tax, depreciation and amortisation (EBITDA). This range reflects the results of all 3 of the approaches it used, and places equal weight on each result. The second range is from 7.3% to 8.3% of EBITDA. This lower range is based on the results for the expected returns and benchmarking approaches only, and places equal weight on each result. It excludes the results of the bottom-up approach due to SFG's concerns about the estimates provided by this approach.

SFG's draft report explains these concerns in detail. However, for our purposes the key concern is that there is potentially an upward bias in the bottom up estimates of the retail margin. A comparison of these estimates to those provided by the other 2 approaches, and to recent regulatory decisions and stakeholder submissions on the retail margin seems to confirm that this upward bias exists. Therefore, we based our findings in relation to the retail margin on SFG's second recommended reasonable range of 7.3% to 8.3% of EBITDA which is consistent with the margin that would prevail in a competitive market.

It should be noted that this range is considerably higher than the range for the retail margin SFG recommended as part of our review of regulated retail electricity tariffs. This reflects:

- gas retailers' higher fixed costs, which increases the estimated margin under the expected returns approach
- gas retailers' higher estimated depreciation costs, which increases the estimates based on EBITDA
- lower assumptions regarding gas retailers' cash operating costs.

The following sections summarise SFG's estimates for the retail margin using each of the 3 approaches. All are based on EBITDA unless otherwise specified.

Expected returns approach

The expected returns approach is based on the principle that businesses should be compensated for the systematic risk to which they are exposed. This approach estimates the expected cashflows that a retailer will earn and the systematic risk associated with these cashflows, and determines a retail margin that will compensate investors for this systematic risk. As part of the expected returns approach, the relationship between gas consumption by small retail customers and GDP growth activity needs to be considered. Based on its analysis of the available data, SFG has assumed that this relationship is one for one (ie, that this gas consumption increases at the same rate as GDP).

SFG's estimated range for the retail margin using the expected returns approach was 7.5% to 9.1%.

Benchmarking approach

The benchmarking approach develops a range for the retail margin based on the retail margins earned by comparable retail businesses listed on the stock exchange. For this analysis, SFG used the same approach and data set as it used in advising us on the appropriate retail margin for electricity Standard Retailers as part of our recent determination on regulated retail electricity tariffs. However, its estimated range for the margin for gas is higher than the range it recommended for electricity retailers. This is because the gas Standard Retailers have higher forecast depreciation costs which drive up the retail margin estimates based on EBITDA (even though the estimates based on earnings before interest and tax (EBIT) are the same).

SFG's estimated range for the retail margin using the benchmarking approach was 7.2% to 7.6%.

Bottom-up approach

The bottom-up approach estimates the return that a retail business requires for each of the individual risks that it faces in providing the retail service, and combines these individual components of the margin to determine a total retail margin. For this calculation, it is important that a consistent approach is used to consider the risks in each of the cost categories (wholesale gas costs, retail operating costs and retail margin).

SFG's estimate of the range for the retail margin using this approach was 12.9% to 16.5%.

As noted above, SFG's draft report identified concerns about using this approach for gas retailers. It noted that the estimated values seem to exceed what would be expected in a competitive market, and therefore questioned whether there is an upward bias in the estimates derived from the bottom-up approach. We particularly note its analysis of AGL's recent segment data which suggests that gross retail margins (per customer or per unit of energy) for gas are less than electricity and that this would imply lower transaction prices for gas than electricity. But that this has not occurred in the market transactions to date. SFG's report notes that further analysis on this issue would be aided by information from the retailers involved in these transactions.[43]

For these reasons we have at this stage placed no weight on the bottom-up estimates in deciding on our reasonable range of 7.3% to 8.3% for the draft decision based on SFG's advice. We would however consider the issue further if additional information about the relevant retail transactions is provided to us.

43 SFG, *Estimation of a competitive profit margin for gas retailers in New South Wales*, Draft Report, 8 April 2010, p 2.

3.4.2 Other considerations

In addition to taking into account SFG's results, we also considered recent regulatory decisions on the retail margin for gas and electricity retailers, and stakeholder submissions on the appropriate level for the retail margin.

Recent regulatory decisions

Recent regulatory decisions have adopted a retail margin of between 5% and 5.6%.[44] In our recently completed electricity review we adopted a margin of 5.4% based on SFG's analysis.[45] These estimates of margin are all well below the range of reasonable values recommended by SFG.

Stakeholder submissions

On the whole, the Standard Retailers argued that the decision on an appropriate retail margin needed to reflect the risks faced by gas retailers and that these are greater than the risks faced by electricity retailers.[46] Some of these retailers argued that the margins provided in recent regulatory decisions were insufficient and that a margin of 6.5% to 8% would be appropriate for a Standard Retailer in NSW.[47]

We note that the reasonable range of values recommended by SFG (without the bottom-up approach estimates) overlaps with the range of values submitted as reasonable by the retailers.

3.5 Aggregate retail costs

After assessing the individual components of the Standard Retailers' retail costs, we considered whether their aggregate forecast costs supported their pricing proposals, and was consistent with our view of the range for the prudent and efficient level of these costs based on our consultants' advice and our own analysis. This involved 2 steps.

First, we modelled each retailer's aggregate forecast costs, to establish that they matched the proposed price path in the revised VTPA. Essentially this involved taking each retailer's forecast aggregate costs and building up a tariff price path, which we then compared to the price path proposed in the revised VTPAs.

---

44 ESCOSA, Office of Energy in WA - see SFG report for further commentary on these decisions, *Estimation of a competitive profit margin for gas retailers in New South Wales*, Draft Report, 8 April 2010, p 7.

45 IPART, *Review of regulated retail tariffs and charges for electricity 2010-2013 – Final Report,* March 2010.

46 Origin submission, p 8, ActewAGL proposal p 10, EnergyAustralia submission, p 15.

47 AGL submission, p12 and ActewAGL proposal, p 10.

For AGL, Country Energy and Origin Energy we found that their aggregate forecast costs supported their pricing proposal. For ActewAGL, we found that the forecast costs it initially submitted did not support its pricing proposal.

Second, we compared each retailer's aggregate forecast costs (and its proposed price path) to our view of the range for the prudent and efficient level of these costs, based on MMA's and SFG's advice and our own analysis. This allowed us to cross-check that the proposed price paths are reasonable and that proposed tariffs are consistent with the costs an efficient and prudent retailer is likely to incur over the 2010-2013 regulatory period.

For AGL, Country Energy and Origin Energy, we found that their forecast aggregate costs (and pricing proposals) are consistent with the range for the prudent and efficient level of these costs identified by assessing the individual cost components.

For ActewAGL, we found that its forecast aggregate costs (and pricing proposal) are not consistent with this range. In addition, we found that in order for these costs to reflect MMA's estimate of the prudent and efficient level for ActewAGL's wholesale gas costs, ActewAGL's own forecast level of retail operating costs, and SFG's recommended reasonable range for the retail margin, they would need to increase by CPI-1% per annum over the regulatory period.

4 Addressing risks and uncertainties

Whenever we make pricing decisions based on the regulated business' forecast costs, there is a risk that the business' actual costs will differ from the forecasts we used in making our decisions. This may be because the forecasts were inaccurate, or because unanticipated events or circumstances led to significantly higher or lower costs.

To some extent, this risk is considered an ordinary part of business and is compensated for through the retail margin, which rewards the business for the systematic risks it faces in providing regulated services (see Chapter 3). However, where a risk (or a cost) is considered to be outside the business' control, or contextual factors make it difficult to forecast a cost with a high degree of certainty, it can be addressed through additional regulatory mechanisms. In the 2010-2013 regulatory period, the Standard Retailers are likely to face 3 specific types of risks or costs in supplying customers on regulated tariffs. These relate to:

- the distribution network costs they will incur over the regulatory period (which may not be known with certainty at the time we make our final decisions)
- the costs associated with any new government-initiated climate change mitigation measures introduced over the regulatory period
- the costs that arise from unforeseen events or regulatory changes that occur over the regulatory period.

It is important that our 'package' of regulatory decisions adequately addresses these risks, but does so only once. The VTPAs need to allow the Standard Retailers to set regulated tariffs so they generate sufficient revenue to recover their efficient costs in supplying regulated customers over this period, including those that were not known with certainty or were unforeseen at the time of our decisions. If they do not, it could have a detrimental impact on consumers, the Standard Retailers and the development of effective competition in the state's retail gas market.

The sections below set out our draft finding on the appropriate approach for addressing these risks and uncertainties in the VTPAs, and then discuss each type of risk and our consideration of the retailers' proposals in detail.

4.1 Overview of draft findings on addressing risks and uncertainties

Our draft finding is that the Standard Retailers' proposals to include additional regulatory measures in their VTPAs to address the risks and uncertainties related to distribution network costs, and the costs associated with new government-initiated climate change mitigation measures and unforseen events are reasonable and appropriate.

In reaching this finding, we assessed the Standard Retailers' proposed approach(es) for managing each of the main types of risk and uncertainty they are likely to face over the 2010-2013 regulatory period. We concluded that:

- The proposed automatic pass through of distribution network costs is reasonable, given retailers have no control over these costs[48] and they are currently unknown.
- The proposed pass through of costs associated with new government-initiated climate change mitigation measures is appropriate, as the NSW Government has committed to doing this at COAG. In relation to the precise mechanism for this pass through, we expect emissions intensities to be set by regulation and consider that the retailers are best placed to forecast carbon prices (which will be transparent ex post).[49] However, we also consider that we should review and approve the amounts retailers propose to pass through (based on their forecasts) before they are reflected in retail prices. In addition, we should have the power to review the pass through amounts in the final year of the regulatory period (2012/13), and trigger a price review if we find a material difference between the retailers' forecast and actual compliance costs.
- The proposed retention of the existing special circumstances clause in the revised VTPAs to address costs arising from unforseen events is reasonable.

The wording of the retailers' proposals in relation to addressing risks and uncertainties varied. We have revised this wording in preparing the generic VTPA to improve transparency. However, we consider the wording in the generic VTPA is consistent with the intent of each retailer's proposal.

48 For a small proportion of customers in ActewAGL's and Country Energy's supply area, their retailer owns the distribution network.

49 We note that in addition to the cost of carbon permits, the retailers' compliance costs will also include the financial costs of purchasing these permits in advance and an increase in wholesale gas costs (reflecting the cost of carbon emissions associated with gas processing plants and pipelines).

4.2 The risk and uncertainty associated with distribution network costs

Distribution network costs are the charges all retailers incur for using distribution network services to transport gas from 'city gates' to their customers' premises.[50] For residential customers, these costs generally comprise around 40% to 50% of gas bills. Distribution network charges are generally regulated,[51] and retailers have no ability to control or influence them.[52] For these reasons, regulators (including IPART) usually allow retailers to pass through their actual network costs to customers.

As Chapter 2 noted, under the current VTPAs the WAPC applies to a 'bundled tariff' that comprises both the retail and distribution network components. However, in their revised VTPAs, AGL, Country Energy and Origin Energy proposed a WAPC that applies only to the retail component. In addition, they and ActewAGL proposed an explicit and automatic pass through of distribution network costs. AGL also proposed to restructure its regulated retail tariffs to reflect the structure of network charges levied by Jemena (the main distribution network service provider in NSW).[53]

4.2.1 Pass through of distribution network costs

At the time of our last review of regulated retail gas tariffs, we were also responsible for regulating distribution network charges in NSW for networks that were covered under the National Gas Code (ie, the distribution network charges faced by AGL and Country Energy). As we had made a determination on these charges in 2005 for the period until 30 June 2010, the charges were known. Therefore, they were implicitly included in full in the 'bundled' regulated tariffs that the WAPC applied to. However, this had the same effect on tariffs as passing through the costs to customers would have done.[54]

50 Gas distribution networks transport gas from transmission pipelines to end customers. City gates (or gate stations) link transmission pipelines with distribution networks. The gates measure the natural gas entering a distribution system for billing and gas balancing purpose and adjust the pressure of the gas before it enters the distribution network.

51 Given their natural monopoly characteristics, gas distribution networks are generally subject to regulation under network access arrangements. The main aim of regulating a distribution network is to ensure that energy retailers and other third parties can negotiate access on reasonable terms and conditions.

52 For a small proportion of customers in ActewAGL's and Country Energy's supply area, their retailer owns the distribution network.

53 However, we note AGL is not proposing to reflect Jemena's differentiation between country and coastal usage charges.

54 This was not the case for Origin Energy, which incurs distribution charges in Albury that are regulated by the ESC, and charges in the Murray Valley districts that are not regulated at all (ie, they are set by the network operator Envestra). Increases in these costs have not been passed through to customers in the current regulatory period.

On 1 July 2008, AER became the economic regulator for covered natural gas distribution pipelines in all states and territories (except WA). Therefore, it is responsible for determining the distribution network charges that 3 of the 4 Standard Retailers in NSW will incur from 1 July 2010.[55] The AER is currently reviewing the access arrangements that include these charges. Its reviews are running over a similar timeframe to our review of regulated retail gas tariffs, and the AER's review process involves significant public consultation. (Further detail about the AER's reviews of gas access arrangements can be found at www.aer.gov.au)

Given the timing of the AER's reviews, the regulated network costs that AGL and ActewAGL in the Capital area will incur over the 2010-2013 regulatory period may not be known at the time as we make our final decisions for this review. In addition, the retailers have no control over these costs. Therefore, we consider that the pass through of network costs is appropriate. We note that the amounts the retailers pass through would be subject to our annual compliance process.[56] We also note that we sought stakeholder comment on the pass through of these costs in our issues paper, and that none of the submissions we received raised concerns about this approach.

4.2.2 The structure of retail tariffs

While stakeholders didn't object to the pass through of distribution costs, EWON raised concerns about AGL's proposal to reflect the structure of Jemena's distribution network charges, which involves increasing the number of steps in AGL's declining block usage charge from 2 to 6.[57] EWON put the view that this may increase customer queries about the interpretation of billing information and possibly complaints to EWON. It also argued that declining block usage tariffs in gas retailing are inequitable, out of step with current messages on reducing greenhouse gas emissions, and inconsistent with the approach to electricity supply.

We understand that most residential AGL customers will sit in the first 2 consumption blocks after tariff restructuring (consistent with the existing structure) and note that AGL is not proposing to itemise distribution network charges on customer bills. As to the use of a declining block tariff structure, this is consistent with both the existing approach to pricing and the ability of retailers to structure their charges as they wish, as long as tariffs comply overall with the WAPC.[58]

55 Origin Energy's distribution charges in Albury are regulated by the ESC, and charges in the Murray Valley districts are not regulated at all (ie, they are set by the network operator Envestra).

56 We are not proposing to treat Origin's costs arising from unregulated network charges any differently to costs arising from regulated network charges.

57 Energy & Water Ombudsman NSW (EWON), *Response to IPART's Issues Paper: Review of regulated retail tariffs and charges for gas 2010 – 2013*, December 2009, p 4.

58 We also acknowledge that declining block tariffs support increased utilisation of distribution networks (which lowers overall costs) and that encouraging gas usage over other more carbon intensive fuels has environmental benefits.

4.3 Costs associated with new government-initiated climate change mitigation measures

The possibility that governments may introduce new climate change mitigation measures, such as the proposed CPRS or an alternative to this scheme, increases the level of uncertainty about the Standard Retailers' costs over the 2010-2013 regulatory period.

For example, if the CPRS were to be implemented on 1 July 2011 (as currently proposed), it would impose a price on carbon emissions from this date. Gas retailers would be directly liable for the purchase of CPRS permits (Australian Emissions Units or AEUs) commensurate with the carbon emissions associated with the combustion of the gas they sell. They would incur both the market cost of AEUs they purchase, and the financial costs of purchasing them in advance (in line with standard risk management practices). In addition, they would face increases in the wholesale cost of gas that reflect the cost of carbon emissions associated with gas processing plants and pipelines.

The NSW Government has agreed at COAG (under the Australian Energy Market Agreement) that these costs should be recovered from end use customers of gas. Therefore, the only issue for us to consider as part of this review of regulated retail gas tariffs is the appropriate mechanism for the cost recovery.

The Standard Retailers proposed that upstream and downstream costs associated with the CPRS be passed through to retail tariffs:

- AGL, Country Energy and Origin proposed passing through the costs of complying with the CPRS to customers via a specific pass through mechanism, based on their own internal forecast of the AEU price and other compliance costs.[59]
- ActewAGL proposed to pass through these costs based on a market price for AEUs, such as one based on prices published by the Commonwealth Department of Climate Change, or an exchange such as the Australian Securities Exchange.[60]

We considered each of these proposals. We also considered what role IPART should play in approving the pass through amounts, and reconciling any difference between these amounts (which would be based on forecast compliance costs) and the retailers' actual costs (which would be transparent ex post).

59 AGL submission to IPART, NSW Gas Tariffs, 1 July 2010-30 June 2013, October 2009, p 8; Country Energy submission to IPART Review of regulated retail tariffs and charges for gas 2010-2013, December 2009, p 6; Origin Energy submission to the Independent Pricing and Regulatory Tribunal on the Review of regulated retail gas tariffs and charges from 2010 to 2013, October 2009, p 9.

60 ActewAGL submission to the Independent Pricing and Regulatory Tribunal, Review of Regulated Retail Tariffs and Charges for Gas 2010-13, October 2009, p 16.

4.3.1 Pass through of compliance costs associated with the CPRS or other new government-initiated scheme

We consider that the Standard Retailers' proposals to pass through the costs associated with the CPRS or any alternative new government-initiated climate change mitigation measures into retail gas prices are appropriate. There is no certainty about whether such schemes will be implemented during the regulatory period, or about the level of compliance costs they will involve. In addition, the NSW Government has already committed to passing through these costs at COAG.

4.3.2 How should the pass through amount be set?

If the CPRS, or an alternative scheme that places a cost on carbon emissions, is implemented we expect that emissions intensities will be set by regulation. If this were the case, we consider that the Standard Retailers would be in the best position to forecast the price of carbon, and any other compliance costs, and so calculate the pass through amount.

However, we also consider that IPART should review and approve the pass through amount before it is recovered through regulated retail prices. Therefore, we have included in the generic VTPA a compliance process that requires the retailers to provide IPART with sufficient information to demonstrate how they calculated the pass through amount and allow IPART to verify this calculation.

In reaching this view, we considered the submissions of stakeholders, who expressed differing views on the process for setting pass through amounts and the role IPART should have in approving them. On the one hand, energy retailers generally supported the Standard Retailers' proposals for pass through. EnergyAustralia put the view that there is value in taking a consistent approach to the treatment of costs associated with national climate change measures and that the most appropriate way is through an annual adjustment mechanism outside of the CPI constraint, which allows an automatic pass through by the Standard Retailer of a "benchmark cost".[61] TRUenergy supported the proposal for costs associated with CPRS to be passed through to customers via a retailer-initiated annual adjustment mechanism.[62]

On the other hand, consumer groups supported a greater role for IPART in establishing the pass through amount. EWON suggested that, as there is still a lot of uncertainty about the imposition of these costs, the added scrutiny of the special circumstances review would be preferable to automatic pass through (particularly as if the CPRS were implemented as planned, retailers would only face the market price of permits in the final year of the regulatory period, which may be the last time gas

61 EnergyAustralia Retail, Response to IPART's Issues Paper: Review of regulated retail tariffs and charges for gas 2010 – 2013, December 2009, p 10.

62 TRUenergy, Response to Review of regulated retail tariffs and charges for gas 2010 – 2013 – Issues Paper, December 2009, p 3.

prices are subject to regulation).[63] PIAC supported an annual adjustment mechanism, but argued that IPART should set the efficient pass-through benchmark, rather than allowing the retailers to set their own adjustments.[64]

4.3.3 Should forecast and actual costs be reconciled?

We considered whether retailers' forecast and actual compliance costs should ever be reconciled. Where they are reconciled, customers pay the actual costs incurred in meeting the CPRS obligation. However, the pass though of actual costs may remove the incentive for the retailer to forecast these costs efficiently. In addition, the market price for AEUs will only be faced by retailers in the last year of the next regulatory period, which may be last time retail gas prices are subject to regulation.

Assuming emissions intensities are set by regulation, the variable component of compliance costs will be the price of AEUs. As we expect a market to develop for these permits, we believe forecast and actual prices should be similar. However, we do not support automatic adjustments to prices to reflect differences between forecast and actual costs. We believe that IPART should have the ability to review pass through amounts during the final year of the regulatory period when actual market prices for carbon are available. If we found that the retailers' actual compliance costs were materially different to the amounts we had approved them passing though into retail prices, we would have scope to trigger a price review. Accordingly, we have included this scope in the generic VTPA.

Again, we came to this view after considering the submissions of stakeholders, and the views expressed about regulatory oversight of this cost pass through mechanism and the reconciliation of forecast and actual costs. Among the Standard Retailers:

- AGL proposed that we undertake an ex-post review of the cost pass through amount to ensure that regulated retail prices reflect market costs, noting that the market price of CPRS permits would be transparent in retrospect. In its submission, it argued that there is likely to be sufficient transparency in the actual carbon price and the forecast incorporated into regulated retail tariffs to provide adequate regulatory oversight.[65] AGL also suggested that it would consult with us about any required adjustments to account for material differences between forecast and actual prices.[66]

63 Energy & Water Ombudsman NSW (EWON), Response to IPART's Issues Paper: Review of regulated retail tariffs and charges for gas 2010 – 2013, December 2009, p 4.

64 Public Interest Advocacy Centre (PIAC), Response to IPART's Review of regulated retail tariffs and charges for gas 2010 – 2013 – Issues Paper, December 2009, p 3.

65 AGL submission to IPART Issues Paper, Review of regulated retail tariffs and charges for gas 2010 – 2013, December 2009, p 9.

66 Ibid. p 9.

- Origin Energy acknowledged that an ex-post review of forecast and actual CPRS permit costs by IPART may be appropriate. However, it requested that any such review should be based on some form of materiality criteria, so that it is initiated only when necessary.[67]
- ActewAGL submitted that an ex-post review of the calculation of CPRS costs could be conducted, with adjustments in subsequent years for material differences. However, its proposed draft VTPA (provided after its submission) suggests it will adjust retail prices for actual carbon costs regardless of level of materiality.[68]
- Country Energy submitted that a competitive market would ensure that prices are not set at falsely high levels, and therefore it did not consider there would be a need for reconciliation.[69]

Among other energy retailers, EnergyAustralia argued against the need for reconciliation. It noted it is only in the final year of the regulatory period that AEUs will be set at a market price, and that this year (in theory) is the last year of price regulation. Therefore, forecast compliance costs should not be reconciled with the actual costs.[70] TRUenergy argued that, given the asymmetrical risks of price setting, any ex-post review by IPART should only make further adjustment on the basis of an initial underestimate.[71]

4.4 Costs arising from unforeseen events or changes

In any regulatory period, the Standard Retailers may incur costs that were unanticipated at the time of our price review. In the current VTPAs, this risk is addressed through the inclusion of a special circumstances clause. This clause specifies that a Standard Retailer may apply to IPART to vary its regulated tariffs outside the WAPC limit in special circumstances that give rise to changes in costs. These circumstances include, but are not limited to: regulatory changes; taxation changes; unanticipated gas field price review; and fundamental changes to gas market frameworks and arrangements.

Over the current regulatory period, 3 of the Standard Retailers made an application under the special circumstances clause (see Box 4.1).

67 Origin Energy s Submission to the Independent Pricing and Regulatory Tribunal on the Review of regulated gas retail tariffs and charges from 2010 to 2013, December 2009, p 5.

68 ActewAGL Retail submission to the Independent Pricing and Regulatory Tribunal, Review of Regulated retail tariffs and charges for gas 2010- 2013, December 2009, p 9.

69 Country Energy submission to IPART Review of regulated retail tariffs and charges for gas 2010-2013, December 2009, p 6.

70 EnergyAustralia Retail, Response to IPART's Issues Paper: Review of regulated retail tariffs and charges for gas 2010 – 2013, December 2009, p 10.

71 TRUenergy, Response to Review of regulated retail tariffs and charges for gas 2010 – 2013 – Issues Paper, December 2009, p 3.

Box 4.1 Use of the special circumstances clause during the 2007 regulatory period

In early 2008 AGL, ActewAGL and Country Energy made applications for special circumstances price increases in excess of the CPI. Each of these applications cited special circumstances relating to gas wholesale and transmission arrangements for the winter of 2008.

After reviewing these applications, IPART approved regulated retail gas price increases from 1 April 2008 of:

- 5.24% for AGL and
- 5.8% and 6.1% for ActewAGL customers in the Capital Region and Queanbeyan respectively,

and from 1 June 2008 of:

- 12.2% for Country Energy.

The special circumstance decision did not apply to ActewAGL's Shoalhaven customers or Origin Energy's customers on regulated tariffs. These increases replaced the CPI increase that would have otherwise occurred on 1 July 2008 for these three retailers.[a]

a See http://www.ipart.nsw.gov.au/investigations.asp?industry=1&sector=1&show=com.

For the 2010-2013 regulatory period, each of the Standard Retailers has proposed retaining the special circumstances clause of the existing VTPA. We considered this proposal. We also considered whether the Standard Retailers should be the only parties that can a trigger special circumstances review, how IPART should conduct such a review, and whether there should be a materiality threshold on the cost impact of the event before a review can be triggered.

4.4.1 Retention of the existing 'special circumstances' clause

We consider that the existing special circumstances clause in the current VTPAs should be retained, as it provides a mechanism for dealing with risks and uncertainties not addressed elsewhere. There is the possibility that material, unforseen or unanticipated changes in costs may occur due to events that are unable to be predicted, planned for, or reasonably insured against.

4.4.2 Should the Standard Retailers be the only parties able to trigger a special circumstances review?

Given the light-handed form of regulation and the views of stakeholders, we consider that that Standard Retailers should be the only parties able to trigger a special circumstances review.

In reaching this view, we considered submissions to this review. Among the Standard Retailers:

- AGL and ActewAGL argued that the retailer should be the only party able to trigger a special circumstances review.[72]
- Country Energy suggested it could be either the retailer or IPART, as both are parties to the VTPA.[73]
- Origin Energy put the view that while other industry participants having the ability to trigger a price review has some merit, it could not see how this could be made feasible in practice, because of the nature of the VTPAs.[74]

Among other retailers EnergyAustralia contended that only the Standard Retailers should be able to trigger a special circumstances review; TRUenergy argued that 2nd tier retailers should also have this option.[75]

4.4.3 How should IPART conduct a special circumstances review?

We do not consider there is a need to modify the current arrangements for conducting a special circumstances review, given the general satisfaction stakeholders expressed with these arrangements. For example, in submissions to the review:

- AGL put the view that the current process is appropriate and does not require modification.[76]
- ActewAGL suggested that the review process could be more standardised through the use of high level guidelines.[77]
- Origin Energy argued against increasing the level of detail around the existing process, especially if network charges and carbon costs are passed through to customers.[78]

72 AGL submission to IPART Issues Paper, Review of regulated retail tariffs and charges for gas 2010 – 2013, December 2009, p 9; ActewAGL Retail submission to the Independent Pricing and Regulatory Tribunal, Review of Regulated retail tariffs and charges for gas 2010- 2013, December 2009, p 9.

73 Country Energy submission to IPART Review of regulated retail tariffs and charges for gas 2010-2013, December 2009, p 6.

74 Origin Energy submission to the Independent Pricing and Regulatory Tribunal on the Review of regulated gas retail tariffs and charges from 2010 to 2013, December 2009, p 6.

75 EnergyAustralia Retail, Response to IPART's Issues Paper: Review of regulated retail tariffs and charges for gas 2010 – 2013, December 2009, p 11; TRUenergy, Response to Review of regulated retail tariffs and charges for gas 2010 – 2013 – Issues Paper, December 2009, p 3.

76 AGL submission to IPART Issues Paper, Review of regulated retail tariffs and charges for gas 2010 – 2013, December 2009, p 10.

77 ActewAGL Retail submission to the Independent Pricing and Regulatory Tribunal, Review of Regulated retail tariffs and charges for gas 2010- 2013, December 2009, p 10.

78 Origin Energy submission to the Independent Pricing and Regulatory Tribunal on the Review of regulated gas retail tariffs and charges from 2010 to 2013, December 2009, p 6.

- Country Energy suggested that special circumstances should be assessed against the objectives of the Gas Supply Act and the criteria of this review.[79]
- EnergyAustralia noted that the special circumstances review process should be consistent for all of the Standard Retailers and, where feasible, consistent with the process undertaken in reviewing the prices for the regulatory period.[80]

We note that the special circumstances review process included in the generic VTPA is consistent across all of the Standard Retailers. In addition, we note that any special circumstances review in the 2010-2013 regulatory period would be informed by the current retail price review process. That is, any application for a special circumstances price increase would be assessed against the wholesale gas costs, retail operating costs and retail margin that have implicitly been allowed under the price path contained in the revised VTPAs.

4.4.4 Should there be a materiality threshold?

We do not consider there is a need for a materiality threshold for triggering a special circumstances review. No stakeholder supports this. In addition, all 4 Standard Retailers and EnergyAustralia noted that there is an implicit materiality threshold in the form of the retailer's administrative time and costs in applying for a special circumstances review.[81]

79 Country Energy submission to IPART Review of regulated retail tariffs and charges for gas 2010-2013, December 2009, p 7.

80 EnergyAustralia Retail, Response to IPART's Issues Paper: Review of regulated retail tariffs and charges for gas 2010 – 2013, December 2009, p 11.

81 See, for example, AGL submission to IPART Issues Paper, Review of regulated retail tariffs and charges for gas 2010 – 2013, December 2009, p 10. ActewAGL Retail submission to the Independent Pricing and Regulatory Tribunal, Review of Regulated retail tariffs and charges for gas 2010- 2013, December 2009, p 10. Origin Energy submission to the Independent Pricing and Regulatory Tribunal on the Review of regulated gas retail tariffs and charges from 2010 to 2013, December 2009, p 6. EnergyAustralia Retail, Response to IPART's Issues Paper: Review of regulated retail tariffs and charges for gas 2010 – 2013, December 2009, p 11.

5 Non tariff fees and charges

Energy retailers levy non-tariff fees and charges (or miscellaneous charges) that are not a routine part of retail supply services. Rather, they arise from particular events associated with the supply of energy to individual customers – for example, as a result of a request from a customer, or when a customer takes (or fails to take) certain actions.

Miscellaneous charges are not consistent across the Standard Retailers, and comprise both retail and network charges. Retail miscellaneous charges are levied by the Standard Retailers. They are set via each retailer's VTPA, which specify the maximum level for each charge. Retail miscellaneous charges include:

- late payment fees
- security deposits
- dishonoured payment fees, and
- account establishment fees.

Network miscellaneous charges are levied by network distribution service providers, but are passed through to the customer by the retailer. They may include special meter reads, network disconnection and reconnection and permanent disconnection. In general, network miscellaneous charges are set in the network service provider's Access Arrangements which are regulated by the AER.

The sections below set out our draft findings on the Standard Retailers' proposals in relation to late payment fees, administration fees and other retail miscellaneous charges. Consistent with our approach for this review, we considered whether the proposed charges are reasonable and reflect the costs that an efficient and prudent retailer would incur in providing the services to which they relate.

5.1 Overview of draft findings on non-tariff fees and charges

Our draft findings are to:

- Agree to each Standard Retailer's proposal to increase the level of its late payment fee, but request that Origin Energy and AGL revise their proposals so that the increase is gradually implemented over the regulatory period.

- Consistently define when the late payment fee can be levied as "on issue of the reminder notice" in all 4 VTPAs.
- Expand the definition of the circumstances in which the late payment fee may not be levied to include "when the customer is a hardship customer".
- Accept AGL's and Origin Energy's proposal to charge an administration fee when passing through network non-tariff fees and charges, but to cap this fee at $2.50 (excl GST) per service and to allow other standard retailers to charge this fee.
- Agree to each Standard Retailer's proposal to increase other retail miscellaneous fees by the annual change in the CPI (or less).

5.2 Late payment fees

Late payment fees are charged when customers pay their gas bill after the due date. We have considered in detail the level of late payment fee, and the circumstances in which the retailers are entitled and not entitled to levy this fee.

5.2.1 Level of late payment fee

Table 5.1 sets out the current level of each Standard Retailer's late payment fee and its proposed level for 2010/11, and compares these to the late payment fees levied by the electricity Standard Retailers. It shows that currently, the maximum fees the 4 gas Standard Retailers are entitled to charge vary from $7 to $11.50, but the fees they actually charge range from zero to $8.80. Each Standard Retailer proposed to increase its late payment fee, arguing that this fee (and other non-tariff charges) should be cost reflective.

Table 5.1 Current and proposed late payment fees ($nominal, excl GST)

Fee	ActewAGL	AGL Retail	Country Energy	Origin Energy	Electricity
2009/10	Notionally $11.50, but in practice $8.80[a]	$8.30	Notionally $7.00, but not levied	Notionally $9.66, but not levied	$7.00
Proposed 2010/11	$11.71	$14.00	Notionally $7.50 but not levied	$12.00	$7.50[b]
Increase (%)	2%	69%	7.1%	24%	7%
Draft finding	$11.74	Transition to $14.00	$7.50	Transition to $12.00	

[a] We understand ActewAGL has been charging $8.80 rather than the currently allowed fee due to systems issues, however it expects the systems issue to be resolved.

[b] IPART, *Review of regulated retail tariffs and charges for electricity 2010-2013 - Final Report,* March 2010, p 190.

Source: Standard Retailers' proposals and correspondence with Standard Retailers.

The proposed new level for the late payment fee varies from $7.50 to $14:

- ActewAGL proposed to increase the late payment fee by the change in CPI in each year of the regulatory period, to maintain it at the current level in real terms. In 2010, this would mean the fee is $11.74 (excl GST).
- Country Energy proposed to increase the fee so it continues to be at the same level as the late payment fee the electricity Standard Retailers can charge under our recent determination on regulated retail electricity tariffs. This means its fee would be $7.50 over the life of the new VTPA if it chooses to charge this fee.
- Origin Energy proposed to increase its fee from the current level of $9.66 to $12 in 2010 (which is a 24% increase), and by the change in the CPI in each of the remaining years of the regulatory period. It submitted that the additional costs retailers incur as a result of non-routine services should be fully reflected in miscellaneous charges, rather than recovered through tariffs (ie, as retail operating costs).[82] It also submitted that in other jurisdictions, it currently charges both gas and electricity customers a $12 late payment fee and that, on average, this is less than the costs it incurs per late payment. These costs include labour, reminder notices, third party debt collection, call transfer costs, rental, management overhead allocation, unpaid disconnection fees and cost of capital.[83] In addition, Origin Energy noted that in preparing its cost estimates for this review, it deducted revenue from late payment fees from its retail operating costs to ensure there was no double counting.
- AGL proposed to increase its late payment fee from $8.30 to $14 in 2010/11 (which is a 69% increase), and by the change in the CPI in each remaining year of the regulatory period. It argued that the additional costs retailers incur as a result of late payments should be recovered through cost-reflective late payment fees levied on the customers who have caused those costs to be incurred, not from all customers via tariffs – and pointed out that these fees are completely avoidable. It also noted that it charges a $14 late payment fee to customers on electricity market contracts in NSW and calculates that it incurs more than this in costs on average for each late payment. Costs include reminder and disconnection notices, in bound calls, credit and collection and finance and carrying costs. Like Origin Energy, AGL indicated that it had deducted revenue from non-tariff fees and charges from its retail operating costs so that there was no material double counting.[84]

Several other stakeholders commented on the late payment fee proposals. EnergyAustralia submitted that the current fee levels are insufficient to cover the costs associated with late payments and that the fee should be cost reflective.[85]

PIAC submitted that late payment fees should be abolished for customers on standard contracts, and the costs associated with late payment should be counted as

82 Origin Energy submission to IPART on Issues Paper, December 2009, p 8.
83 Origin Energy submission to IPART Issues Paper, December 2009, p 9.
84 AGL email to IPART, 19 February 2010.
85 EnergyAustralia submission to IPART Issues Paper, December 2009, p 16.

retail operating costs and so recovered through tariffs. It argued this was appropriate as standard contracts are a safety net for consumers who cannot benefit from the protections offered by a competitive market.[86]

EWON[87] submitted that the late payment fee should be set at the same level for electricity and gas customers because, from a customer's perspective, there does not appear to be a valid reason for the difference. It also submitted that the circumstances in which this kind of fee can be levied should be the same as those specified in our recent determination on retail electricity tariffs. In addition, it commented that AGL's proposal to increase the fee from $8.30 to $14 appears excessive.

Our considerations on AGL's and Origin Energy's proposal

As each of these retailers proposed large increases in the late payment fee, we considered whether each had provided sufficient evidence that the proposed fee reflected its efficient costs and whether these costs had already been accounted for in estimating its retail operating costs. We compared the cost information it submitted with that provided by electricity retailers for our retail electricity determination. We also compared the proposed level of the fee with the fees levied on customers on market contracts for gas and electricity in NSW and other jurisdictions.

For both AGL and Origin Energy, we found that the retailer's estimate of the cost it incurs per late payment[88] was consistent with the level of late payment fee it proposed, and was broadly in line with the costs provided by electricity retailers for the electricity review (which were equivalent to between $11 and $14.50 per late payment).[89] We also noted that each retailer had indicated that it had ensured that the costs associated with late payment were not included in its estimated retail operating costs, so there was no double counting.

In comparing the proposed fees to those levied on customers on market contracts, we found energy retailers use a variety of approaches in relation to late payments. For example, AGL levies a fee of $14 on customers on electricity market contacts,[90] while Origin Energy levies a fee of $12 on gas and electricity customers in other jurisdictions.[91] In both cases, these fees are the same level as the retailer proposed to levy on gas customers on standard contracts in NSW. However, TRUenergy advertises market contracts with a 3% discount when customers pay bills by the due date, with no late payment fees (or exit fees or security bonds).[92]

---

86 Public Interest Advocacy Centre submission to IPART Issues Paper, December 2009, p 4.

87 EWON submission to IPART Issues Paper, December 2009, p 6.

88 AGL and Origin provided costs data to IPART in confidence.

89 The Standard electricity retailers' estimates of the cost of each late payment ranged from $13-$14.50. We considered 1 estimate was based on an inappropriately high interest rate and after adjusting for this the costs estimates ranged between $11 and $14.50.

90 AGL submission to IPART issues paper, 18 December, 2009, p 13.

91 Origin Energy submission to IPART Issues Paper, December 2009, p 9.

92 TRUenergy website 12 February 2010 http://www.truenergy.com.au/Residential/TRUenergyPackages.xhtml

In comparing the proposed fee levels with those levied in other jurisdictions, we noted that in Victoria, retailers cannot levy late payment fees on small retail gas or electricity customers.[93] In South Australia, the customer may be required to pay reasonable costs of recovering the amount owed and business customers may be charged interest. The second draft of the National Energy Customer Framework allows retailers to levy a late payment fee but does not indicate the level of this fee.[94] It also requires retailers to waive the late payment fee for small customers who are hardship customers.

On balance, we concluded that the level of late payment fee proposed by Origin Energy and AGL appears to be reasonable, when their cost information is benchmarked against the information submitted by the electricity retailers. However, because both retailers propose a significant increase in this fee, we are concerned about the possible customer impact. Therefore, we are requesting that both Origin Energy and AGL submit revised proposals, so that they implement the increase of their late payment fees more gradually over the 3-year regulatory period and that they reach the proposed levels in 2012/13.

Our considerations in relation to Country Energy's and ActewAGL's proposal

Both Country Energy and ActewAGL proposed no real increase in the maximum allowable fee, and we found this to be reasonable. However, we note that Country Energy currently does not levy a late payment fee, and ActewAGL currently charges below the maximum fee. Therefore, if either retailer moved to charge the maximum allowable fee, customers would experience a large increase.

5.2.2 When the late payment fee can be levied

Under the current VTPAs, the definition of when the Standard Retailers can levy a late payment fee varies, reflecting each retailer's historic practices. AGL can levy a late payment fee when the reminder notice is issued. ActewAGL and Origin Energy can levy a late payment fee on issue of a disconnection notice. Country Energy can levy a late payment fee 5 business days after the bill is due (unless the bill is paid, or alternative payment arrangements entered into and the customer has been notified in advance of this).

---

93 In Victoria, the *Gas Industry Act 2001* prohibits the energy retailers from charging small retail customers late fees, although the Energy Retail Code makes provision for a 'fair and reasonable' late fee to be charged.

94 Ministerial Council on Energy standing Committee of Officials, Second Exposure draft National Energy Customer Framework, November 2009.

We consider that the VTPAs should include a consistent definition of when the retailers can levy the late payment fee, to improve clarity and transparency. We consider that this definition should be that the late payment fee can be levied "on issue of the reminder notice", consistent with AGL's current practice. We note that this may increase the incidence of late payment fees issued by ActewAGL and Origin Energy.

5.2.3 Circumstances in which a late payment fee may not be levied

Under the current VTPAs, Standard Retailers may *not* levy a late payment fee:

- where payment or part payment is made by an EAPA voucher
- where the customer has contacted the supplier before the due date in relation to a billing complaint and this complaint is unresolved
- during the period of an instalment arrangement entered into between the customer and the supplier to pay the gas retail bill.

All 4 Standard Retailers proposed or have agreed to include these exclusions in their new VTPAs.

We considered whether these circumstances should be expanded. For example, in our recent determination on regulated retail electricity tariffs, we expanded the circumstances to include when the customer is receiving the Energy Rebate. However, this would be impractical for the gas retailers, as the Energy Rebate is applied to electricity bills, so they would not necessarily know if the customer receives the energy rebate.

Instead, we found that the circumstances should be expanded to include when a customer is a hardship customer. We note that a new regulation on customer hardship came into effect on 1 March 2010. This regulation requires NSW gas retailers to develop and publish customer hardship charters for residential customers.[95] The regulation was developed to be consistent with the draft National Customer Energy Framework (NECF), which requires retailers to develop a customer hardship policy and submit it to the AER for approval. We also note that the draft NECF requires that late payment fees not be levied where the customer is a hardship customer (although this is not a requirement of the new NSW regulation).

To be consistent with the NECF draft framework, and in view of the customer impacts of increases in the late payment fees, we have made a draft finding to add "where the customer is a hardship customer" to the list of circumstances in the draft VTPAs where the late payment fee may not be levied. We consider that this will mitigate the extent to which the increase in the late payment fee will impact on more vulnerable customers.

95 The *Gas Supply (Natural Gas Retail Competition) Amendment (Customer Hardship) Regulation*, 2010.

5.3 Administration charge on network non-tariff fees

As noted above, network non-tariff fees are charges that the gas distribution networks levy for certain services. Typically, network non-tariff fees include special meter readings, meter testing and disconnection /reconnection of gas supply. The fees differ across networks. The main network fees and charges for each standard retailer can be found in Appendix F.

The gas retailers are the interface between the gas networks and the customer. Retailers state that they incur costs taking calls, requesting the network service, advising customers of costs, processing orders, including fees on customer accounts and collecting the revenue. To recover these costs, some of the Standard Retailers proposed to include an administration fee on network non-tariff charges in their new VTPAs.

Origin Energy originally proposed adding an administration fee of 5% or a maximum fee of $20 (excl GST). However, it revised this proposal, and now proposes to add a flat $2.50 (excl GST) administration fee on to each network charge to recover costs of administering these charges. It identified the following costs associated with network non-tariff services: interest (as it pays the network fees in advance of passing them through to the customer); credit risk; and the additional cost of managing the transaction between the customer and distributor.[96] Origin Energy does not currently charge customers on standard contracts an administration fee on network non-tariff charges, but does so on some electricity and gas market contracts.[97]

AGL sometimes charges a premium on network fees (eg, on special meter reads) but in other cases passes on only the network charge. It proposed to maintain this approach, but did not specify the level of each administration fee.

ActewAGL did not propose to add a premium to network charges. However, it submitted that network charges do impose an additional cost on retail business and that it is reasonable to add a premium to network charges.[98]

Country Energy noted that there is a cost associated with passing network fees onto customers but considered these are not significant enough to be included as a separate charge.[99]

PIAC recommended that we reject the proposal to apply a premium stating that it strongly believes such a charge is not reasonable and the administration costs should be considered an operating expense.[100]

---

96 Origin energy submission on Issues Paper, December 2009, p 9.
97 Email Origin Energy 19 February 2010.
98 ActewAGL submission on Issues Paper, December 2009, p 15.
99 Country Energy submission on Issues Paper, December 2009, p 10.
100 PIAC submission on Issues Paper, December 2009, p 4.

Table 5.2 sets out the Standard Retailers current and proposed practices in relation to administration fees on network miscellaneous charges.

Table 5.2 Current and proposed administration fee on network miscellaneous charges (excl GST)

Fee	ActewAGL	AGL Retail	Country Energy	Origin Energy
Current in 2009/10	Surcharge in some instances, under recovery in others	Surcharge in some instances	No surcharge	No surcharge
Proposed for 2010/11	No surcharge	Continue to charge in some instances. Propose the combined network plus surcharge fee increase by CPI	No surcharge	$2.50
Difference	Reduction	Same surcharge	-	$2.50

Source: Correspondence with Standard Retailers.

We agree that passing through network miscellaneous charges is likely to impose a small administrative cost on retailers, and that it is reasonable for them to recover this from the customers concerned. We also consider that there should be transparency about the charges and any administration fee added by the Standard Retailers. On balance, we consider that a fee up to $2.50 (excl GST) (adjusted annually by the change in CPI) appears to be reasonable to allow the Standard Retailers to recover the administration costs involved. This is based on Origin Energy's proposal. For AGL, we acknowledge that this is lower than some of the administration fees it currently applies. If AGL wishes to apply an administration fee of more than $2.50 we require it to provide sufficient information that demonstrates its costs. There is no obligation for retailers to levy the fee.

5.4 Other miscellaneous charges

Most Standard Retailers charge other non-tariff fees – such as a fee to establish an account and for dishonoured payments – and may require new customers to provide a security deposit. The security deposit is returned after the customer has paid bills on time for an agreed period.

In addition, some Standard Retailers charge miscellaneous fees in relation to disconnection or potential disconnection. For example, these may include collector call fees (where the premises are visited to disconnect supply but the customer agrees to make a payment), high bill field visit fees and disconnection fees. However, in some cases, this type of miscellaneous fee is levied by the network service provider (see Appendix F for a complete list of retail non-tariff fees and the main network non-tariff fees for each Standard Retailer).

For the final report, we will be asking Standard Retailers to provide a definition of each fee and charge and when they are levied. To improve clarity and transparency we think the Standard Retailers should provide this information on their websites.

In relation to increasing these other miscellaneous fees, Country Energy proposed no changes to its level of security deposit and dishonoured cheque fee, continuing to align these with our recent determination on regulated retail electricity tariffs. The other Standard Retailers proposed to increase the fees by the change in the CPI or less, and to leave security deposits at the same level. AGL also proposed to discontinue charging pensioners an account establishment fee. We consider that it is reasonable for the retailers to maintain the real level of existing fees and charges, and therefore have made a draft finding to agree to these proposals.

We note that AGL and Origin Energy initially also proposed to introduce a 1% merchant service fee for accounts paid by credit card. We have advised the Standard Retailers that applying a merchant service fee is inconsistent with the *Gas Supply (Natural Gas Retail Competition) Regulations 2001*. In light of this, AGL and Origin Energy have withdrawn their proposals to impose a merchant service fee.

6 Impact of the draft decision on small customers

One of the main purposes for regulating gas supply under the *Gas Supply Act 1996* is to protect the interests of customers.[101] Therefore as part of our draft decisions on the proposed VTPAs, we examined their likely impact on customers.

The section below provides an overview of the high-level impacts of our draft decisions on the proposed VTPAs.[102] The subsequent sections look more closely at gas usage and consumption patterns in NSW, the impacts of the draft decisions on customers with different levels of consumption, and the impact of the Commonwealth Government's proposed CPRS on gas prices.

Much of our analysis has been informed by our period surveys of household water, electricity and gas consumption. Our most recent surveys were conducted in the Sydney, Illawarra and Blue Mountains area (2006) and in the Hunter, Gosford and Wyong area (2008).[103]

6.1 Overview of impacts

As noted in Chapter 1, a typical gas customer's bill is made up of both retail and network components, with both contributing around 50% to the total bill. We do not regulate the network component of retail gas tariffs. This component is either regulated by the AER or is unregulated.

As we note in Chapter 1, the increase in network charges is not known at present for all the Standard Retailers. For Country Energy and ActewAGL Queanbeyan region, the AER has made its final decisions on network charges. For Origin Energy, its network charges are known with reasonably certainty for most of the regulatory period. But for AGL and ActewAGL's capital region, its network charges will not be known for certain until the AER releases its final decision on Jemena's network charges in May 2010.

---

101 *Gas Supply Act 1996*, s 3(1)(b).

102 We have not agreed to ActewAGL's proposed VTPA. Our analysis of ActewAGL is based on IPART's cost analysis.

103 IPART, *Residential energy and water use in Sydney, the Blue Mountains and Illawarra,* November 2007, http://www.ipart.nsw.gov.au/investigation_content.asp?industry=6&sector=17&inquiry=105, IPART, *Residential energy and water use in the Hunter, Gosford and Wyong,* December 2008, http://www.ipart.nsw.gov.au/investigation_content.asp?industry=6&sector=17&inquiry=146.

To present the impact of our draft decisions on typical customer bills we have used the AER's final decisions on Country Energy and ActewAGL's Queanbeyan network, forecast network charges provided by Origin Energy and ActewAGL and the AER's draft decision on Jemena to estimate an increase in the network component. We have added this to the increase provided by our draft decisions on the retail component to come up with a total increase in tariffs and typical customer bills which are presented below. We will update our analysis for AGL and ActewAGL in our final report to reflect the AER's final decision on Jemena's network charges in May 2010. [104]

It should also be noted that the analysis below is presented in nominal terms; that is it includes our estimate of increases in CPI: 2.1% in 2010/11 and 2.7% in the remaining two years.[105]

Our draft decision sets the price path for retail component of tariffs. For most Standard Retailers, our draft decisions mean that they will be allowed to increase the retail component of their regulated retail tariffs, on average, by the change in the CPI in each year of the regulatory period. However, because network charges are increasing for Country Energy and ActewAGL under the AER's final decision these customers' total gas bills will increase by more than CPI. Origin Energy's customers face more substantial increases as a result of previous network increases which have not been passed onto customers meaning that tariffs must increase to a cost reflective level.

Between 2010/11 and 2012/13, the our draft decisions will result in cumulative total increases in the Standard Retailers' average regulated retail gas tariffs as follows:

- AGL – 10%
- Country Energy – 17%
- Origin Energy – 16%
- ActewAGL – 17%.[106]

We note that around 93% of all customers are in the AGL Standard Supply area.

104 It should be noted that ActewAGL has 3 network areas. It is the network provider in its Queanbeyan area but in its Capital area (Goulburn, Yass and Young) Jemena is the network provider. ActewAGL's tariffs in the Capital area will depend on the AER's final decision on Jemena's network charges. ActewAGL also has a small network in the Shoalhaven.

105 CPI for 2010/11 is calculated as CPI all groups, capital cities, December Quarter 2008 divided by December Quarter 2009. The 2011/12 and 2012/13 estimates are based on inflation indexed swaps as at 8 February 2010.

106 Based on IPART's analysis of ActewAGL's efficient costs.

Table 6.1 shows the annual increases in each Standard Retailer's average regulated tariffs under our draft decisions, and compares these to historical annual increases in average regulated tariffs.

Table 6.1 Increases in average regulated retail tariffs (R+N) (% nominal)

	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	Cumulative[a]
AGL	2.4	2.4	2.8	4.0	5.2	4.4	2.6	3.5	3.5	35.4
Country Energy	2.6	4.2	2.7	4.2	12.2	0	8.3	4.1	4.1	48.9
Origin Energy	3.1	3.1	3.5	3.8	2.6	4.6	8.0	4.1	3.2	46.0
ActewAGL	2.1	2.3	2.8	4.0	5.3	4.4	9.0	4.1	3.0	43.1
CPI[b]	2.4	2.4	2.8	3.5	2.3	4.4	2.1	2.7	2.7	28.4

a Cumulative calculation is from 2004/05-2012/13.

b March year on year CPI index for 2004/05 to 2009/10, December on December quarter CPI for 2010/11, 2011/12 and 2012/13 CPI numbers are IPART's estimates based on inflation indexed swaps.

Note: The nominal increases for 2010/11 to 2012/13 depend on actual rate of inflation and increases in network charges.

Table 6.1 shows that on 1 July 2010, prices are likely to increase by between 2.6% (AGL) and 9% (ActewAGL). As mentioned previously, the larger increases for Country Energy and ActewAGL are driven by their higher network costs. For the remainder of the period, the average annual increases in regulated gas prices for all the retailers are similar. For 2011/12 and 2012/13 the increases are slightly higher than the forecast CPI.

It is important to note that Table 6.1 shows the average increase in prices. This means that some customers will face higher increases than shown in the table. In particular, AGL's low consumption residential customers will experience higher than average bill increases as a result of AGL's proposal to restructure its tariffs to make them more cost reflective.

We note that gas bills typically account for a small percentage of household expenditure. For example, a typical NSW residential gas customer of AGL currently spends around $12 per week on gas. By the end of the regulatory period, this is likely to increase by $1.40 to around $13.40.[107] If the CPRS is implemented households are likely to pay an additional $0.75 per week on their gas bill.

107 Based on 23 GJ of consumption on the AGL residential tariff, including GST.

The actual impact on individual households will depend on their current consumption level, which is primarily driven by the number of gas appliances contained in a household. Our analysis also suggests that consumption is highly correlated with income levels. We also note that the average level of gas consumption per customer in NSW is declining.[108] However this is mainly the result of lower levels of consumption for new customers, rather than a decline in consumption for existing customers.[109]

6.2 Gas usage in NSW

6.2.1 Who is connected to gas?

Across NSW, there are around 1 million households connected to gas in NSW, which is around one third of all households. The results of our household surveys show that 49% of respondents in the greater Sydney region and 29% of respondents in the Hunter, Wyong and Gosford regions were connected to gas.[110]

The Hunter, Wyong and Gosford survey found that on average, households connected to gas have higher incomes, a higher number of occupants per household and are more likely to live in a freestanding house compared to households that are not connected to gas. This is consistent with the results of the Sydney Households survey which found that 42% of low income households are connected to gas, compared to 68% of high income households.[111]

108 ACIL Tasman, *Review of Demand Forecasts for Jemena Gas Networks NSW*, 2 February 2010, p 5, http://www.aer.gov.au/content/item.phtml?itemId=734055&nodeId=adb7af5e32d94075682f190a7c82583f&fn=ACIL%20Tasman%20-%20Demand%20forecasts%20report.pdf.

109 ACIL Tasman, *Review of Demand Forecasts for Jemena Gas Networks NSW*, 2 February 2010, p 11, http://www.aer.gov.au/content/item.phtml?itemId=734055&nodeId=adb7af5e32d94075682f190a7c82583f&fn=ACIL%20Tasman%20-%20Demand%20forecasts%20report.pdf.

110 IPART, *Residential energy and water use in the Hunter, Gosford and Wyong*, December 2008, p 35, http://www.ipart.nsw.gov.au/investigation_content.asp?industry=6&sector=17&inquiry=146.

111 Low income households are households that earn less than $37,370 ($2009/10). High income are households that earn more than $117,050 ($09/10). IPART, *Residential energy and water use in Sydney, the Blue Mountains and Illawarra*, November 2007, p 50, http://www.ipart.nsw.gov.au/investigation_content.asp?industry=6&sector=17&inquiry=105, IPART, *Residential energy and water use in the Hunter, Gosford and Wyong*, December 2008, p 36, http://www.ipart.nsw.gov.au/investigation_content.asp?industry=6&sector=17&inquiry=146.

There has been a steady growth in the number of new gas connections in AGL's standard retail area (which contains 93% of all connections) between 2001 and 2009. During this time the number of gas customers grew by 3.1% per year.[112] Gas penetration in NSW is likely to continue for a number of reasons:

- Conventional electric water heating systems will be banned in all new and existing homes in gas reticulated areas from 2010 and established homes in non-gas reticulated areas from 2013. It is estimated that around 43% of existing electric hot water heaters when replaced will be replaced by a gas hot water system (compared to 49.5% of replacements for solar electric or heat pumps).[113]
- As gas interconnection improves through NSW, some regions will be able to access gas for the first time. Most recently, Country Energy's gas reticulation area was expanded to the Central Ranges. The uptake of gas in these areas is likely to increase throughout the regulatory period.

6.2.2 What do households use gas for?

Gas is usually used for three distinct purposes in a residential household – cooking, water heating and space heating. The Sydney household survey found that 85% of customers use gas for at least two of these purposes, and the 34% of households connected to gas use it for all three purposes.[114] In particular, of customers connected to mains gas:

- 87% use gas for cooking
- 71% use gas for hot water
- 61% use gas for space heating.[115]

The different combinations of gas usage mean that the level of gas consumption varies amongst households. Figure 6.1 shows that a customer that uses gas for cooking only consumes around 8 GJ, while a customer using gas for all three purposes will have an annual gas bill of around 29 GJ.[116]

112 ACIL Tasman, *Review of Demand Forecasts for Jemena Gas Networks NSW*, 2 February 2010, p 4 http://www.aer.gov.au/content/item.phtml?itemId=734055&nodeId=adb7af5e32d94075682f190a7c82583f&fn=ACIL%20Tasman%20-%20Demand%20forecasts%20report.pdf.

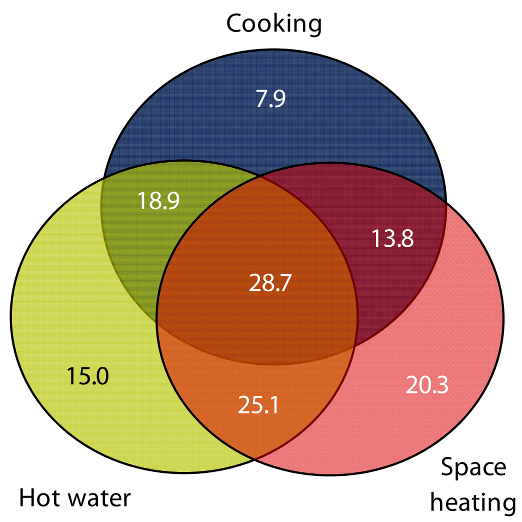
113 ACIL Tasman, *Review of Demand Forecasts for Jemena Gas Networks NSW*, 2 February 2010, p 30, http://www.aer.gov.au/content/item.phtml?itemId=734055&nodeId=adb7af5e32d94075682f190a7c82583f&fn=ACIL%20Tasman%20-%20Demand%20forecasts%20report.pdf.

114 IPART, *Residential energy and water use in the Hunter, Gosford and Wyong*, December 2008, p 35, http://www.ipart.nsw.gov.au/investigation_content.asp?industry=6&sector=17&inquiry=146.

115 IPART, *Residential energy and water use in the Hunter, Gosford and Wyong*, December 2008, p 38, http://www.ipart.nsw.gov.au/investigation_content.asp?industry=6&sector=17&inquiry=146.

116 IPART, *Residential energy and water use in the Hunter, Gosford and Wyong*, December 2008, p 42, http://www.ipart.nsw.gov.au/investigation_content.asp?industry=6&sector=17&inquiry=146.

Figure 6.1 Average gas consumption of gas customers using gas for cooking, water heating and space heating 2006 (GJ)



Data source: IPART, *Residential energy and water use in the Hunter, Gosford and Wyong*, December 2008, p 42, http://www.ipart.nsw.gov.au/investigation_content.asp?industry=6&sector=17&inquiry=146.

6.3 Impact of the draft decision on customer bills

As noted in section 6.1 our draft decision sets the price path for the retail component of tariffs. For most Standard Retailers, our draft decisions mean that they will be allowed to increase the retail component of their regulated retail tariffs, on average, by the change in the CPI in each year of the regulatory period. The network component as determined by the AER (or in limited cases unregulated) is passed on in full under our draft decision. For some of the retailers the increase in network charges is substantial and this means that the increase in the total customer bill is considerably more than CPI.

It should also be noted that the analysis below is presented in nominal terms; that is, it includes our estimate of the impact of inflation: 2.1% in 2010/11 and 2.7% in the remaining two years.

Although it is not possible to forecast precisely how our draft decision will affect regulated tariffs, we have attempted to indicate the likely impact on typical customer bills. Tables 6.2 to 6.5 summarise the impacts on residential bills for three different consumption levels:

- low consumption, eg, cooking only
- medium consumption, eg, cooking and hot water
- high consumption, eg, cooking, hot water and space heating.

We have also considered the bill for a typical business customer using 184 GJ of gas per year and large business customer consuming 1000 GJ of gas per year.

The analysis uses each of the Standard Retailers' most common tariffs to show the impact of our draft decision impacts on customer bills.[117] However, the vast majority of customers in NSW are located in the AGL standard retail area.

For each user type, Tables 6.2 to 6.5 show the total annual bill for 2009/10 and for the next 3 years. These amounts are expressed in nominal terms, based on current forecast inflation.[118] However, we stress that these results are indicative only – customers' actual bills may differ depending on a range of factors, including the AER's final network decision, the level and structure of the regulated tariff they are supplied on, the actual rate of inflation and whether the CPRS is implemented.

Also, Tables 6.2 to 6.5 assume constant consumption throughout the regulatory period. However, average consumption per customer is likely to decline slightly in the context of government policies that support improved energy efficiency, reduced hot water consumption, and increased use of renewable sources such as solar electric. In addition, the increasing take up of reverse cycle air conditioning is likely to replace some existing space heaters.[119]

117 Some customers may be on other tariffs, depending on where they are located.

118 Forecast inflation is 2.1%, 2.7% and 2.7% for 2010/11, 2011/12, 2012/13, respectively.

119 ACIL Tasman, *Review of Demand Forecasts for Jemena Gas Networks NSW*, 2 February 2010, p 31, http://www.aer.gov.au/content/item.phtml?itemId=734055&nodeId=adb7af5e32d94075682f190a7c82583f&fn=ACIL%20Tasman%20-%20Demand%20forecasts%20report.pdf.

Table 6.2 AGL – Indicative increases in annual bills for typical customers under our draft decisions ($/customer, nominal, incl GST)

Description	2009/10 bill ($)	2010/11 bill ($)	2011/12 bill ($)	2012/13 bill ($)	Increase 2009/10–2010/11	Increase 2010/11-2011/12	Increase 2011/12–2012/13
Residential							
Low usage (10 GJ per year)	379	399	421	444	$20	$22	$24
% change					5.3%	5.6%	5.6%
Medium Usage (23 GJ per year)	618	636	664	694	$18	$29	$30
% change					2.9%	4.5%	4.5%
High Usage (30 GJ per year)	739	758	788	819	$19	$30	$31
% change					2.6%	3.9%	3.9%
Business							
184 GJ per year	3,460	3,446	3,453	3,457	-$14	$7	$4
% change					-0.4%	0.2%	0.1%
1000 GJ per year	17,062	17,426	17,307	17,240	$363	-$119	-$66
% change					2.1%	-0.7%	-0.4%

Note: Bills include GST. Assumed inflation is 2.1%, 2.7% and 2.7% for 2010/11, 2011/12, 2012/13. The bills are typical for AGL residential customers on the Residential AGL natural gas price plan – Coastal. Non-residential customers are on the Business AGL standard – Coastal. Figures may not add due to rounding.

Table 6.3 Country Energy – Indicative increases in annual bills for typical customers under our draft decision ($/customer, nominal, incl GST)

Description	2009/10 bill	2010/11 bill	2011/12 bill	2012/13 bill	Increase 2009/10–2010/11	Increase 2010/11-2011/12	Increase 2011/12–2012/13
Residential							
Low usage (10 GJ per year)	385	410	428	446	$25	$18	$19
% change					6.4%	4.4%	4.4%
Medium Usage (23 GJ per year)	573	620	646	673	$47	$26	$27
% change					8.3%	4.2%	4.2%
High Usage (30 GJ per year)	674	734	764	796	$60	$30	$32
% change					8.8%	4.1%	4.1%
Business							
184 GJ per year	2,223	2,412	2,498	2,588	$189	$86	$90
% change					8.5%	3.6%	3.6%
1000 GJ per year	11,199	12,133	12,536	12,954	$934	$403	$418
% change					8.3%	3.3%	3.3%

Note: Bills include GST. Assumed inflation is 2.1%, 2.7% and 2.7% for 2010/11, 2011/12, 2012/13. The bills are typical for Country Energy residential customers on the 5300 Wagga Wagga & Uranquinty Gas Residential General tariff. Non-residential customers are on the 5302 Wagga Wagga & Uranquinty Gas Commercial tariff. Figures may not add due to rounding.

Table 6.4 Origin Energy – Indicative increases in annual bills for typical customers under our draft decision ($/customer, nominal, incl GST)

Description	2009/10 bill	2010/11 bill	2011/12 bill	2012/13 bill	Increase 2009/10–2010/11	Increase 2010/11-2011/12	Increase 2011/12–2012/13
Residential							
Low usage (10 GJ per year)	242	264	275	284	$22	$11	$9
% change					9.0%	4.2%	3.2%
Medium Usage (23 GJ per year)	380	414	432	446	$34	$18	$14
% change					9.0%	4.2%	3.2%
High Usage (30 GJ per year)	470	512	534	551	$42	$22	$17
% change					9.0%	4.2%	3.2%
Business							
184 GJ per year	3,048	3,126	3,226	3,330	$78	$100	$104
% change					2.6%	3.2%	3.2%
1000 GJ per year	15,625	16,026	16,541	17,073	$401	$515	$532
% change					2.6%	3.2%	3.2%

Note: Bills include GST. Assumed inflation is 2.1%, 2.7% and 2.7% for 2010/11, 2011/12, 2012/13. The bills are typical for Origin Energy residential customers on the 03 Domestic General tariff for Albury. Non-residential customers are on the 13/21 Commercial / Industrial tariff for Albury. Figures may not add due to rounding.

Table 6.5 ActewAGL – Indicative increases in annual bills for typical customers under our draft decision ($/customer, nominal, incl GST)

Description	2009/10 bill	2010/11 bill	2011/12 bill	2012/13 bill	Increase 2009/10–2010/11	Increase 2010/11-2011/12	Increase 2011/12–2012/13
Residential							
Low usage (10 GJ per year)	352	364	381	392	$12	$17	$11
% change					3.5%	4.8%	2.8%
Medium Usage (23 GJ per year)	583	603	635	655	$20	$32	$19
% change					3.5%	5.3%	3.0%
High Usage (30 GJ per year)	708	732	772	796	$24	$40	$24
% change					3.5%	5.5%	3.1%
Business							
184 GJ per year	3,326	3,446	3,657	3,778	$120	$211	$120
% change					3.6%	6.1%	3.3%
1000 GJ per year	16,442	17,044	18,097	18,704	$602	$1,053	$607
% change					3.7%	6.2%	3.4%

Note: Bills include GST. Assumed inflation is 2.1%, 2.7% and 2.7% for 2010/11, 2011/12, 2012/13. The bills are typical for ActewAGL residential customers on the Queanbeyan Always Home@ActewAGL plan and Saver plan. Non-residential customers are on the Queanbeyan Industrial and commercial tariff. Figures may not add due to rounding.

6.3.1 AGL's tariff restructure

Table 6.2 shows that some of AGL's residential customers will face price increases that are higher than AGL's average price increase. This is because AGL has proposed to increase the fixed charge that applies to residential customers and not increase the fixed charge for business customers from 1 July 2010. The redistribution between the fixed charges will lead to a nominal increase in the fixed charge for residential customers of around 18%.

Table 6.2 also shows that AGL's residential customers with low levels of consumption will face higher percentage increases than customers with higher levels of consumption. This partly reflects the higher fixed charge, which will make up a higher proportion of the bill for a customer that uses small amounts of gas. In addition, AGL has proposed to restructure its consumption tariffs to mirror the network charges. Currently there are only two declining block tariffs. In line with the network charges, AGL will create six tariff "blocks" with the highest unit tariffs applying to the customers with lowest annual usage and visa versa. This structure reflects the fact that there are significant fixed and semi-variable costs involved in providing services to each customer.

6.4 Impact on households if the CPRS is implemented

If the CPRS is introduced as proposed from 1 July 2011, it is likely to result in small additional increases to customer bills. If the current proposal is introduced:

- There will be no impact on prices in 2010/11.
- In 2011/12, the CPRS would impose a fixed price of $10 per tonne for the first year. This means that the impact for 2011/12 would be predictable and relatively limited.
- In 2012/13 the impact is less certain as the price of a permit to emit a tonne of carbon will be set by the market. Based on some analysis undertaken by AGL we have estimated the likely impact if the market price of a permit is $26 per tonne. Our indicative estimate is that a typical residential customer's bill will increase by around $40 per year or 6% for a typical customer (consuming around 23 GJ) by 2012/13.

Some "eligible" households will receive assistance for these increases under the Commonwealth Government's proposed CPRS compensation arrangement. For example, the white paper states that:

- around 90% of low-income households will receive assistance equal to 120% or more of the increase in their cost of living flowing from the CPRS
- around 97% of middle-income households will receive some direct cash assistance, and around 50% of middle income households will receive assistance that will meet their cost of living increase.

By 2012/13 Commonwealth Treasury has forecast Australia-wide gas increases attributable to the CPRS of up to $52 for the average customer.[120] This is broadly consistent with our analysis.

---

[120] Senator Penny Wong, *Household Assistance under carbon pollution reduction scheme,* 25 November 2009, http://www.climatechange.gov.au/~/media/Files/minister/wong/2009/media-releases/November/mr20091125.ashx

Appendices

A Standard Retailers proposed VTPAs

Each of the Standard Retailers has proposed new VTPAs to apply from 1 July 2010 to 30 June 2013. The VTPAs set out how tariffs and non-tariff fees and charges will be set and how they will vary over the period, and how risks and uncertainties will be addressed. The introduction to this report provides a summary of each of the VTPA proposal (see Table 1.4). The sections below provide a fuller overview of the VTPAs.

A.1 Overview of proposed VTPAs

Each of the Standard Retailers has proposed to retain the WAPC form of price control. However, AGL, Country Energy and Origin Energy have proposed that this price cap apply only to the retail component of regulated tariffs ('R'),[121] and that their actual network costs ('N') be automatically passed through to customers. ActewAGL's VTPA seeks to retain the WAPC for the bundled tariff. However, it also proposes to pass through its network costs in full as part of its adjustment cost mechanism.

A.1.1 AGL

AGL is the Standard Retailer for the Sydney, Hunter, Illawarra and Central Coast regions of NSW. Currently, AGL charges regulated tariffs to residential and small business customers throughout this area who have not opted to sign a market contract. Both tariffs comprise a fixed charge and a usage rate (applied to the amount of gas consumed). The usage rate declines when a certain level of consumption per day is reached, ie, there are 2 usage rates – 1 for consumption of less than a specified daily limit and 1 for consumption of more than this amount each day.

Under AGL's proposed VTPA, the retailer would still charge a single regulated tariff for residential and business customers. However, it would restructure these tariffs so that there are 6 usage rates (for different levels of consumption), to reflect the structure of the distribution network charges it expects to incur. But it does not propose to pass on the split between country and coastal network.

[121] The retail component consists of wholesale gas commodity and transmission costs, retail operating costs and retail margin.

In addition, in each year of the regulatory period, AGL would increase the retail component of this tariff subject to a WAPC equal to the change in the CPI over the previous calendar year. It would also be able to automatically pass through the regulated distribution network charges it incurs, and any costs associated with the CPRS. The proposed VTPA also retains the current special circumstances clause to address other unforseen cost changes.

A.1.2 Country Energy

Country Energy's area of operations currently covers the Country Energy Natural Gas Networks area[122] and has recently been expanded to include the Tamworth Natural Gas Network area. Country Energy has 5 sets of location-specific regulated tariffs.[123] Each location has individual tariffs for residential and non-residential customers, and some include "economy" or hot water tariffs. The residential tariffs comprise a fixed charge and a single usage charge. The non-residential tariffs comprise a fixed charge and up to 3 usage charges, that decline as specified daily consumption thresholds are reached.

Under Country Energy's proposed VTPA, in each year of the regulatory period, it would increase the retail component of these tariffs subject to a WAPC equal to the change in the CPI in the previous calendar year. It would also be able to automatically pass through the regulated distribution network charges it incurs, and any costs associated with the CPRS. In addition, the proposed VTPA retains a special circumstances clause to address unforseen cost changes.

A.1.3 Origin Energy

Origin Energy's area of operations covers Albury/Moama and the NSW Murray Valley districts. Origin Energy has 2 sets of location-specific regulated tariffs and each location has separate tariffs for residential and non-residential customers.[124] Both residential and non-residential tariffs applying in the Albury distribution area comprise a fixed charge, and up to 3 usage charges that decline as daily consumption increases. Residential customers may also take supply on off-peak and hot water tariffs. All tariffs in the Murray Valley distribution area comprise a fixed charge and a single usage charge.

122 The Country Energy Natural Gas Networks area is made up of the Wagga Wagga gas network and the networks in the Monaro, Riverina and Tumut Valley towns.

123 There are no regulated retail tariffs in Tamworth as Country Energy has only recently become the Standard Retailer in that area. All Country Energy's customers in Tamworth are currently on negotiated contracts but as part of the VTPA it will be required to implement regulated tariffs for the Tamworth area.

124 Non-residential tariffs are further differentiated by meter size.

Under Origin Energy's proposed VTPA, it would increase the retail component of tariffs subject to a WAPC equal to the change in the:

- CPI +10% for customers in the Albury district from 1 July 2010
- CPI +1% for customers in the Albury district from 1 July 2011 to 30 June 2013
- CPI +1% for customers in the Murray Towns district from 1 July 2010 to 30 June 2013.

Origin Energy claims that this increase in the Albury district tariffs is necessary as current tariffs are below the cost of supply. This has resulted from Origin Energy not passing on unexpected increases in its network costs to customers over the current VTPA period.

Origin Energy's proposal would also allow it to automatically pass through the distribution network charges it incurs, and any costs associated with the CPRS. The proposed VTPA also retains the current special circumstances clause to address other unforseen cost changes.

A.1.4 ActewAGL

ActewAGL's area of operations in NSW is adjacent to the ACT. Currently, it has 3 sets of location-specific regulated tariffs.[125] Each tariff includes a fixed charge and variable usage charges. Residential customers either pay a lower fixed charge and a single usage rate, or a higher fixed charge and a usage rate that declines when specified daily consumption levels are reached. The usage rate for all non-residential tariffs declines when particular daily consumption levels are reached.

Unlike the other Standard Retailers, ActewAGL has proposed a WAPC to apply to the bundled tariff (N+R), rather than the retail component of tariffs (R) only. Under ActewAGL's pricing proposal, it would increase its regulated retail tariffs by CPI+1.5% in 2010/11, and a WAPC of CPI only in 2011/12 and 2012/13 (assuming network costs (N) increased by CPI). This pricing proposal translated into a WAPC for R of 2.5% in 2010/11, with no real increase in R for the remaining two years.

ActewAGL has proposed an annual adjustment mechanism that would enable it to automatically pass through the actual regulated distribution network charges it incurs, any costs associated with national climate change measures and any externally determined fees and charges. ActewAGL also proposes to retain the current special circumstances clause to address other unforseen cost changes.

125 For Queanbeyan and Bungendore, the Capital region (Boorowa, Goulburn, Yass and Young) and Shoalhaven respectively.

B Our assessment criteria for the review

IPART's regulation of retail gas tariffs should:

1. Protect small retail customers by:
   a) resulting in regulated prices that recover the efficient costs of supplying gas to small retail customers, and
   b) facilitating the development of effective retail competition.
2. Be consistent with the aim of promoting the efficient, safe and reliable supply and use of gas.
3. Be consistent with the aim of reducing customers' reliance on regulated retail tariffs.
4. Be consistent with principles of regulatory best practice by:
   a) ensuring that where possible, decisions are made by parties in the best position to make those decisions (avoid micro-management)
   b) being practical, pragmatic and feasible
   c) being simple and understandable
   d) being targeted at the regulatory objectives
   e) being proportionate with the problem
   f) being internally consistent
   g) promoting regulatory certainty
   h) being as transparent as possible.

C Generic VTPA

VOLUNTARY TRANSITIONAL PRICING ARRANGEMENTS FOR [RETAILER] 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 [name of retailer] (**[RETAILER]**) each agree to the following Voluntary Transitional Pricing Arrangements (**VTPA**).

1. Background and overview

1.1 IPART and [RETAILER] 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 [RETAILER] 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 [RETAILER] 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.

[Alternative Clause for Origin

IPART notes that Origin 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:

(a) *CPI + 10% for the Albury district from 1 July 2010 to 30 June 2011;*

(b) *CPI + 1% cent for the Albury district from 1 July 2011 to 30 June 2012; and*

(c) *CPI + 1% for the Murray Valley district for the period 1 July 2012 to 30 June 2013.*

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 [RETAILER].

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 [RETAILER] 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 [RETAILER]'s Default Prices without penalty once they have met their contractual obligation.

4.2 Subject to clauses 4.3 and 4.4, [RETAILER] 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;
[Alternative clause for Origin
the Weighted Average Price Increase for the Retail Component of the Default Prices:
(i) for the Albury district:
(A) from 1 July 2010 to 30 June 2011: is at or below the change in CPI for the previous Financial Year + 10%;
(B) from 1 July 2011 to 30 June 2012: is at or below the change in CPI for the previous Financial Year + 1%; and

(C) from 1 July 2012 to 30 June 2013: is at or below the change in CPI for the previous Financial Year + 1%;

(ii) for the Murray Valley district: for each period from 1 July 2010 to 30 June 2011, 1 July 2011 to 30 June 2012, and 1 July 2012 to 30 June 2013, is at or below the change in CPI for the previous Financial Year + 1%.

(b) the Network Component is equal to:

(i) the Network Charges actually incurred by [RETAILER]; or

(ii) the figure verified by [RETAILER] to fairly and accurately reflect the actual Network Charges having regard to the Network Charges incurred by [RETAILER] 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 [RETAILER] 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, [RETAILER] 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 [RETAILER] in writing whether it is satisfied with the proposed increase in Default Prices within 10 business days of receipt of the information from [RETAILER] 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 [RETAILER] details of the reasons it is not satisfied;

(b) [RETAILER] 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 [RETAILER]'s proposed increase in Default Prices; and

(c) IPART agrees to notify [RETAILER] whether it is satisfied with that amended proposal within 5 business days of receipt of the amended proposal.

4.7 [RETAILER] will publish its Default Prices on its website within 5 days of IPART notifying [RETAILER] that it is satisfied with the proposed price changes.

4.8 Should [RETAILER] 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) [RETAILER] 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 [RETAILER] and IPART;
(b) [RETAILER] 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 [RETAILER] to reasonably satisfy itself of the validity of the increase proposed;
(d) [RETAILER] will provide reasonable cooperation with IPART during such reviews;
(e) IPART will notify [RETAILER] 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) [RETAILER] will publish its revised prices on its website within 5 days of IPART notifying [RETAILER] 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 [RETAILER] intends to introduce or change the Carbon Component, [RETAILER]:

(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 [RETAILER] for any period for the Carbon Component is, in IPART's opinion, materially different to the costs actually incurred by [RETAILER] as a result of the introduction of a Carbon Pollution Reduction Scheme, IPART may require [RETAILER] 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 [RETAILER].

5. Arrangements for Miscellaneous Charges

5.1 In relation to Miscellaneous Charges, IPART and [RETAILER] 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. [RETAILER] agrees that new Miscellaneous Charges will be established on a cost-reflective basis.

5.2 In relation to late payment fees, [RETAILER] 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 [RETAILER] 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 [RETAILER] 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, [RETAILER] is required to:

(a) advise IPART of any increase in Miscellaneous Charges; and
(b) provide supporting information showing that Miscellaneous Changes have varied in accordance with clause 5.1.

5.4 IPART will notify [RETAILER] in writing whether it is satisfied with the proposed increase in Miscellaneous Charges within 10 business days of receipt of the information from [RETAILER] 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 [RETAILER] notice that IPART is not satisfied with the proposed increase together with details of the reasons it is not satisfied;
(b) [RETAILER] 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 [RETAILER]'s proposed increase in Miscellaneous Charges; and
(c) IPART agrees to notify [RETAILER] whether it is satisfied with that amended proposal within 5 business days of receipt of the amended proposal.

5.6 [RETAILER] will publish its Miscellaneous Charges on its website within 5 days of IPART notifying [RETAILER] that it agrees with the proposed changes in Miscellaneous Charges.

5.7 Where [RETAILER] proposes an increase or introduction of a Miscellaneous Charge that requires IPART's agreement:

(a) [RETAILER] 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 [RETAILER] and IPART;

(b) [RETAILER] 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 [RETAILER] to reasonably satisfy itself of the validity of the Miscellaneous Charge proposed;

(d) [RETAILER] will provide reasonable cooperation with IPART during such reviews;

(e) IPART will notify [RETAILER] 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) [RETAILER] will publish its revised Miscellaneous Charges on its website within 5 days of IPART notifying [RETAILER] 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 carbon pollution reduction scheme of the Commonwealth of Australia including the scheme embodied in the *Carbon Pollution Reduction Scheme Bill 2009* [No 2] (Cth) or an equivalent scheme enacted by the Commonwealth of Australia;

(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 [RETAILER] 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 [RETAILER] who is identified as a customer experiencing financial difficulty in accordance with [RETAILER]'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 [RETAILER] under a Standard Form Customer Supply Contract as published by [RETAILER] on its website in accordance with paragraph 5.6 (including but not limited to an account establishment fee, late payment, fee for dishonoured payment and fee for special meter read);

(j) **Network Charges** refers to:

(i) charges imposed by a network operator on [RETAILER] 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 [RETAILER] 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 [RETAILER] 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-1;

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

____

Signed for and on behalf of IPART by an authorised person

____

Signed for and on behalf of [RETAILER] by an authorised person

D MMA's approach for assessing the prudent and efficient level for each Standard Retailer's wholesale gas costs

As part of its assessment of wholesale gas costs, MMA examined the information submitted by each Standard Retailer on the individual components of its forecast costs – including base gas supply costs, additional deliverability costs (to service peak demand), transmission costs and other costs. The sections below outline how MMA assessed each of these components.

D.1 Base gas supply costs

The largest proportion of wholesale gas costs is base gas supply costs which reflects the cost of gas commodity supplied under contract with upstream producers. These contracts specify the annual volume of gas (annual contract quantity or ACQ) and take or pay quantities (TOP) available under these supply agreements. These costs should not differ significantly between customer classes and should take into account all material supply sources.

MMA considers it prudent and efficient for a retailer to have a portfolio of supply, and to estimate as the price to the small customer market the average of the costs of supply across NSW as a whole. MMA assessed the forecast base gas supply costs of each Standard Retailer by comparing them against the costs submitted by the other retailers, recent regulatory decisions and other publicly available benchmarks.

D.2 Additional deliverability costs

Additional deliverability, above that provided for in base gas supply contracts, is required to service peak demand (which usually occurs in winter). This is often referred to as the additional maximum daily quantity or MDQ. Additional deliverability can be provided in a number of ways[126] and will typically involve a combination of approaches with the cheapest source being used first.

---

126 Through the portfolio of base gas supply contracts, additional contracted gas supply (eg a contract for additional "winter" MDQ), linepack, 'park and loan' services within pipelines (where available), underground storage, LNG storage, spot markets (where available) and customer interuptibility.

MMA considered 3 components in assessing the forecast costs of additional deliverability:

- Customer (or demand) load factor (calculated as the average daily quantity (ADQ) demanded/MDQ).
- Supply load factor (which takes into account the contracted MDQ, ACQ and TOP obligation).
- Source and price of additional deliverability.

MMA examined the additional deliverability required by the small customer market on a very cold day, the sources of such additional deliverability and the likely price of additional deliverability. As part of this analysis, MMA considered each retailer's assumption about customer load factor, which is central to the calculation of both additional deliverability costs and transmission costs.

To assess the customer load factor, where appropriate MMA reviewed the methodology used and tested its sensitivity to varying key parameters and underlying assumptions. In addition, MMA compared customer load factors to evidence from other sources. It has generally accepted supply load factors at face value.

In assessing the source and price of additional deliverability, MMA compared proposed costs to those submitted by the other Standard Retailers, recent regulatory decisions and other publicly available benchmarks.

D.3 Transmission costs

The transmission of gas through large pipelines (haulage) attracts tariffs based largely on capacity reservation payments ($/GJ MDQ), which generally vary inversely with load factor. That is, a higher customer load factor (less peaky demand) leads to a lower transmission cost per GJ transported, with relatively little cost relying on actual throughput.[127]

MMA compared each retailer's forecast transmission costs to those it estimated using published transmission tariffs and MMA estimates of customer load factors and proportion of peak load supplied through each pipeline. MMA considers that the use of published tariffs to calculate these costs is reasonable.

[127] Additional costs relating to throughput may include for system use gas (for use in compressors or lost during transmission) and odourisation.

D.4 Other costs

As well as the costs of gas commodity, additional deliverability and transmission, retailers also face additional risk or market-related costs associated with procuring wholesale gas supply. For example, AGL has estimated the additional costs of participating in the mandatory Short Term Trading Market (STTM – see Box D.1 below), which is expected to begin operation by 1 July 2010.

MMA has initially assessed the forecast other costs of each Standard Retailer by comparing them to the costs submitted by the other retailers and against information gathered from discussions with other industry participants. Further assessment in this area is continuing.

Box D.1 The Short Term trading market (STTM)

The Short Term Trading Market (STTM), expected to commence before 1 July 2010, is a compulsory market that will require all participants to settle gas imbalances (the difference between gas injected into and withdrawn from the system). The STTM will be established at defined gas hubs - initially the low pressure networks in Sydney and surrounding areas (including Newcastle and Wollongong) and Adelaide.

The market itself will run once a day, on the day ahead, for each hub. It will use bids, offers and forecasts submitted by participants to determine schedules for deliveries from the pipelines which ship gas from producers to transmission users and the hubs. The market will set a daily market price for gas at each hub and settle each hub based on the schedules and deviations from schedules. Participant's daily transactions (scheduled trades of imbalances and unscheduled deviations or variations) will be settled at market prices.

This differs from the current operational balancing gas arrangements in NSW, under which a cost is only incurred by a participant if the entire market as a whole is deemed by the network operator to be short (ie, a total negative imbalance only). That is, at present a participant with an individual negative imbalance may avoid a charge if another retailer has a positive imbalance. There are no costs for deviations between scheduled and actual quantities.

While the Victorian wholesale gas market also provides a mechanism for resolving imbalances, the 2 markets use different approaches and create different incentives for participants. One of the key differences is that the STTM creates a much stronger incentive for participants to be accurate in forecasting injections into and withdrawals from the system.

E Benchmarking retail costs

This appendix provides a summary of allowances for retail costs in recent regulatory decisions in Australia (Table E.1). Retail costs include provisions for both retail operating costs (ROC) and customer acquisition costs (CAC) allowances, where applicable.

Table E.1 Retail costs in other regulatory decisions 2003/04 to 2009/10 ($2009/10, per customer)

Decision	Regulatory period	Fuel	Retail Cost	Escalation	Comments
IPART (2004)	July 2004 to June 2007	Electricity	$80.43	R-value by CPI	IPART based its allowance on estimates of retail operating costs provided by retailers. IPART noted that these estimates were lower than retail operating costs allowed for in other jurisdictions, but considered that the use of higher benchmark costs is inconsistent with determining efficient costs.
ESCOSA (2005)	January 2005 to December 2007	Electricity	$96.98	CPI + 2%	ESCOSA undertook a review of AGL SA's retail costs and concluded that the results of the cost audit were sufficiently similar to its previous benchmarking exercises that there was no justification for replacing the benchmarked results. ESCOSA increased the $82 allowance to reflect inflation.
ESCOSA (2005)	July 2005 to June 2008	Gas	$99.74	CPI + 2%	The ROC includes $18.86 annual allowance for FRC costs. ESCOSA factored a 2% real annual increase in ROC to accommodate for increasing operating costs per customer as the standing contract customer base switched to market contracts - ie, a customer acquisition cost.
IPART (2007)	July 2007 to June 2010	Electricity	$113.67	R-value by CPI	Retail costs reflected an efficient mass market new entrant - which was judged to have similar scale to standard retailers and thus estimates were based on retailers cost data. IPART was not persuaded that retail operating costs should increase in real terms over the determination period due to likely productivity gains.

Decision	Regulatory period	Fuel	Retail Cost	Escalation	Comments
QCA (2007)	July 2006 to June 2007	Electricity	$70.37	-	Benchmarked on IPART's $75 per customer allowance in the 2007 Determination - for a well established, standalone and efficient retail business. A $10 per customer deduction was made because FRC costs did not apply in Qld at the time.
QCA (2007)	July 2007 to June 2008	Electricity	$82.60	CPI / WPI	Retail operating costs were calculated by escalating the benchmark cost established in 2006/07 for wage and price inflation. FRC-related costs were also accounted for and so the benchmark used was $75 per customer. The uplift factor was 3.95%.
ESCOSA (2007)	January 2008 to December 2010	Electricity	$100.76	CPI - 4.1%	ESCOSA factored a 4.1% real annual decrease in ROC over the determination period due to efficiency gains from project Phoenix - based on a 50:50 sharing ratio of the expected benefits between consumers and AGL.
CRA (2007)	Jan 2004 to Dec 2007	Electricity	$134.24	-	CRA has based ROC on IPART's 2007 determination. A higher acquisition cost results from higher churn rates in Victoria - customers switch every 3-4 years.
CRA (2007) - Gas	Jan 2004 to Dec 2007	Gas	$106.09	-	CRA has based ROC on IPART's 2007 determination. Lower acquisition cost for gas because some retailer can off a dual fuel product.
QCA (2008)	July 2008 to June 2009	Electricity	$110.60	CPI / WPI	Retail operating costs were calculated by escalating the 2007/08 allowance for wage and price inflation. Uplift factor of 3.85%.
ESCOSA (2008)	July 2008 to June 2011	Gas	$93.11	CPI	Excludes customer acquisition costs, which are accounted for in the retail margin that provides a 'return on' and 'return of' the value of customers.
QCA (2008)	from July 2007	Gas	$132.73	CPI	QCA state that this figure is higher than most other regulatory decisions. It takes into account differing FRC costs, inflationary pressure and Queensland specific costs concerning the retailing of gas, such as administering the Pensioner concession Rebate.
QCA (2009)	July 2009 to June 2010	Electricity	$109.72	CPI / WPI	QCA estimates 2009/10 retail operating costs represents a 2.8% increase on the estimated costs for 2008/09. The escalation factor is based on a 40/60 weighting of CPI and wage inflation as measured by the wage price index (WPI).

Decision	Regulatory period	Fuel	Retail Cost	Escalation	Comments
ICRC (2009)	July 2003 to June 2010	Electricity	$100.09	CPI	Costs incurred in providing retail services are based on an estimate of $85 per customer in 2003/04. The cost per customer was then translated into a cost per megawatt hour so that it could be included in the Commission's cost build-up. In all subsequent years, the figure has been adjusted for movements in the CPI.
QCA (2009)	July 2010 to June 2011	Electricity	129.62	CPI / WPI	The QCA escalated its original ROC benchmark of $75 in 2006/07 by its 60/40 weight of CPI/WPI factors to arrive at its 2010/11 allowance of $85.42. CAC increased to $44.20 because of a significantly higher switch rate rather than any real increase permitted in unit customer acquisition costs.
IPART (2010)	July 2010 to June 2013	Electricity	$109.8	CPI + 3.3% of fixed component of ROC	IPART adjusted the fixed component of retail operating costs in real terms by 3.3% per year to account for declining customer numbers. Customer acquisition costs include retention costs. A $2.30 per customer deduction was made to avoid double counting some of the costs associated with late payment fees.

[a] We have converted all allowances in this benchmarking exercise into 2009/10 dollars using the actual quarter on quarter to June CPI for each year.

Source:

IPART, *NSW Electricity Regulated Retail Tariffs 2004/05 to 2006/07: Final report and determination*, June 2004, p 10.

ESCOSA, *Inquiry into retail electricity price path: Final report*, March 2005, p 53.

ESCOSA, *2008 Gas standing contract price path inquiry Final inquiry report and final price determination*, June 2008, p 69.

IPART, *Promoting retail competition and investment in the NSW electricity industry: Regulated electricity retail tariffs and charges for small customers 2007 to 2010*, June 2007, p 94.

QCA, *Benchmark Retail Cost Index for Electricity: 2006-07 and 2007-08*, May 2007, p 22.

QCA, *Benchmark Retail Cost Index for Electricity: 2006-07 and 2007-08*, May 2007, p 23.

CRA *International, Calculation of Benchmark Retail Cost Index for 2007-08 and 2008-09*, May 2008, p 41.

ESCOSA, *2007 Review of retail electricity path: Final inquiry report and price determination*, November 2007, p A-59.

CRA, *Impact of prices and profit margins on energy retail competition in Victoria: Final report*, November 2007, p 38-9.

CRA, *Impact of prices and profit margins on energy retail competition in Victoria: Final report*, November 2007, p 40.

QCA, *Final Decision 2009-10 Benchmark Retail Cost Index*, June 2009, p 44.

ESCOSA, *2008 Gas standing contract price path inquiry Final inquiry report and final price determination*, June 2008, p 88.

QCA, *Review of Small Customer Gas Pricing and Competition in Queensland: Final Report*, November 2008, p 67.

QCA, *Final Decision 2009-10 Benchmark Retail Cost Index*, June 2009, p 44-45.

ICRC, *Final Decision Retail Prices for Non-contestable Electricity Customers 2009–2010*, June 2009, p 40.

QCA, *Draft Decision 2010-11 Benchmark Retail Cost Index*, December 2009, pp 29-30.

IPART, *Review of regulated retail tariffs and charges for electricity 2010 - 2013*, March 2010, p 111.

F Retail and network non-tariff fees and charges

Table F.1 AGL Retail and network non tariff fees and charges ($ nominal, excl GST)

	2009/10	2010/11 maximum charge	2011/12 and 2012/13 maximum charges	Description
Retail charges				
Account establishment fee	23.40	23.89	increase by CPI	Applies to new customers being established onto the system for the first time. If an AGL customer moves to another address AGL waives the fee at the new residence.
Account establishment fee - pensioner	11.50	no charge	no charge	As above, but applied to pensioners.
After hours reconnection	119.00	121.50	Increase by CPI	Applies on the reconnection of supply following disconnection for unpaid accounts when the reconnection is required outside business hours. The fee is charged on top of the standard disconnection/reconnection fee.
Collector call fee	35.40	36.14	increase by CPI	Applies when a contractor attends a premise to disconnect supply but the customer agrees to make a payment to the contractor.
Dishonoured payment	24.90	25.42	increase by CPI	Applies when a customer payment by cheque, debit card or credit card fails.
Late payment fee	8.30	transitioning to $14 plus CPI by 2012/13		Currently raised on issue of a disconnection notice if a customer fails to pay after the reminder notice and does not contact AGL. Fees are waived in circumstances listed in Chapter 5 and at AGL's discretion.
Security deposit	Residential: up to 1.5 times the average quarterly	same as in 2009/10	same as in 2009/10	Paid by a tenant or business customer who has not been responsible for a supply address before, or a domestic or

	2009/10	2010/11 maximum charge	2011/12 and 2012/13 maximum charges	Description
	account. Business: 2.5 times the average monthly account			business customer who does not have a satisfactory credit history. Advances are refunded if customers pay their account on time for 1 year (2 years for business customers)
Network charges[a]		Network charge plus up to $2.50	Network charge plus up to $2.50 (increased by CPI)	

[a] Network charges for AGL's customers are special meter reads, network disconnection/reconnection, network temporary disconnection/reconnection, permanent disconnection, high bill field visits and meter testing charges.

Note: Assumed inflation is 2.1%, 2.7% and 2.7% for 2010/11, 2011/12, 2012/13.

Source: IPART, descriptions provided by AGL.

Table F.2 Country Energy Retail and network non tariff fees and charges ($ nominal, excl GST)

	2009/10	2010/11 charge	2011/12 and 2012/13	Description
Retail charges				
Late payment fee	7.00	7.50	7.50	Country Energy does not currently levy a late payment fee. However the VTPA states Country Energy can levy non-tariff charges at the same level and under the same circumstances as allowed under IPART's determination on regulated retail electricity charges. In effect this allows Country Energy to levy one late payment fee per bill. It may be levied following the expiry of at least 5 business days after the due date shown on the electricity bill and after the customer has been notified in advance that the late payment fee will be charged unless the bill is paid or alternative arrangements entered into within 5 days after the due date shown on the bill.
Security deposit	for customers billed quarterly,1.5 times Country Energy's average quarterly gas bill; for customers	as in 2009/10	as in 2009/10	From residential customers – may be required prior to commencement of supply only if the customer: ▾ has an outstanding debt owed to Country Energy

	2009/10	2010/11 charge	2011/12 and 2012/13	Description
	billed 2-monthly, 1.75 times Country energy's average 2 monthly gas bill; for customers billed monthly, 2.5 times country energy's standard monthly gas bill			in relation to a gas retail bill and the customer refuses to make an arrangement to pay that debt ▾ has been responsible for the illegal use of gas within the previous two years ▾ in the reasonable opinion of Country Energy does not have a satisfactory credit history and has refused an offer of a payment plan. May be required within 12 months of commencement of supply if the customer had entered into a payment plan at the commencement of supply then cancelled that plan and one or more of the circumstances listed above exist. For business customers – prior to commencement of supply if the customer: ▾ in the reasonable opinion of Country Energy does not have a satisfactory credit history ▾ is carrying on a new business or ▾ has been responsible for the illegal use of gas within the previous two years. Security deposits are returned: for residential customers after on one year's time payment of all gas bills;. for business customers after 2 year's on time payment of all gas bills.
Dishonoured payment	twice bank fee plus GST	as in 2009/10	as in 2009/10	Applies to dishonoured cheques
Network charges[a]		Network charge plus up to $2.50	Network charge plus up to $2.50(increased by CPI)	

[a] Network charges for Country Energy's customers are: residential meter testing, reconnection fee (existing gas services), disconnection charge, business disconnection/reconnection, after hour's reconnection, special meter read, connection charge and meter/asset removal.

Note: Country Energy applies non-tariff charges on the same basis and in accordance with the same conditions as the Tribunal determines for regulated retail electricity customers. For a complete description of Country energy's non-tariff fees and when they can be charged see IPART's Review *of regulated retail tariffs and charges for electricity 2010-2013*, March 2010. Assumed inflation is 2.1%, 2.7% and 2.7% for 2010/11, 2011/12, 2012/13.

Source: IPART.

Table F.3 Origin Energy Retail and network non tariff fees and charges ($ nominal, excl GST)

	2009/10	2010/11 charge	2011/12 and 2012/13	Description
Retail charges				
Account establishment fee	30.85	30.85	increase by CPI	IPART will be requesting this from the retailer for the final report
Late payment fee	9.66	transitioning to $12 plus CPI in 2012/13		
Security deposit	150 (res)/420 (bus)	150 (res)/420 (bus)	increase by CPI	
Dishonoured payment	24.70	24.70	increase by CPI	
Network charges[a]		Network charge plus up to $2.50	Network charge plus up to $2.50 (increased by CPI)	

[a] Network charges for Origin's customers are: meter and gas installation test, disconnection, reconnection, meter removal, meter reinstallation, special meter reading (metropolitan and no-metropolitan) and meter/asset removal.

Note: Assumed inflation is 2.1%, 2.7% and 2.7% for 2010/11, 2011/12, 2012/13.

Source: IPART.

Table F.4 ActewAGL retail and network non tariff fees and charges ($ nominal, excl GST)

	2009/10 maximum charge	2010/11 maximum charge	2011/12 and 2012/13 maximum charges	Description
Retail charges				
Account establishment fee	23.40	23.89	Increase by CPI	IPART will be requesting this from the retailer for the final report
Account establishment fee - pensioner	11.50	11.74	Increase by CPI	
After hours reconnection	119.00	121.50	Increase by CPI	
Collector call fee	35.40	36.14	Increase by CPI	
Disconnection/reconnection	83.10	84.85	Increase by CPI	
Dishonoured payment	24.90	25.42	Increase by CPI	
High bill field visit	58.10	59.32	Increase by CPI	
Late payment fee	11.50	11.74	Increase by CPI	
Meter testing charges	49.80 – 953.50 depending on meter capacity	50.85 – 973.52 depending on meter capacity	Increase by CPI	
Security deposit	Residential: up to 1.5 times the average quarterly account. Business: 2.5 times the average monthly account	Same as in 2009/10	Same as in 2009/10	
Network charges[a]		Network charge plus up to 2.50	Network charge plus up to 2.50 (increased by CPI)	

[a] Network charges for ActewAGL are: Network disconnection, network reconnection and special meter reads.

Note: Assumed inflation is 2.1%, 2.7% and 2.7% for 2010/11, 2011/12, 2012/13.

Source: IPART.