DRAFT REPORT

Review of the Delivered Price of Natural Gas to Low-Usage Customers Served by Country Energy

INDEPENDENT PRICING AND REGULATORY TRIBUNAL
OF NEW SOUTH WALES

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1. INTRODUCTION

1.1. Purpose of This Review

The New South Wales Government is progressively introducing competition into the natural gas market. In the lead up to and during the early stages of competition, however, incumbent retailers will still be dominant and have an effective monopoly in some regions or customer segments.

For this reason, the *Gas Supply Act Amendment (Retail Competition) Act 2001* was introduced on 1 July 2001. The legislation aims to protect low-usage customers in a competitive retail environment. As part of the policy package, the Tribunal has an important role to play in regulating retail prices during the transition period to effective competition.

This report relates to the retail prices charged by Country Energy (formerly Great Southern Energy)[1] to low-usage customers for the supply of gas in Bombala, Cooma, Culcairn, Holbrook, Henty, Temora, and Wagga Wagga. Country Energy is one of five incumbent gas suppliers in NSW.

The Tribunal has already established regulatory arrangements to apply to prices charged by AGL Retail Energy.[2] The Tribunal is currently undertaking a review of the prices charged by Origin Energy and Integral Energy,[3] and also intends to commence a review of the prices charged by Allgas shortly.[4]

1.2. Review Process

In May 2001, the Tribunal released an issues paper covering the review of the Voluntary Pricing Principles for (the former) Great Southern Energy (GSE) and Origin Energy. GSE (now Country Energy) was asked to make a submission in response to the issues paper, and public submissions were also sought.

Submissions closed on the 4 June 2001. Four submissions in total were received. Appendix 6 provides a summary of key issues raised in each of these.

The Tribunal has considered the matters raised in these submissions and, drawing on its analysis of existing tariffs and the future costs of supplying gas in these areas, has developed draft regulatory arrangements covering the gas retail prices paid by low-usage consumers to Country Energy. This draft report outlines the basis of those proposals. The Tribunal now invites interested parties to comment on its draft decision.

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1 Country Energy was formed on 1 July 2001, due to the amalgamation of NorthPower, Advance Energy, Australian Inland Energy, and Great Southern Energy.

2 See: IPART, *Review of the Delivered Price of Natural Gas to Tariff Customers Served from the AGL Gas Network in NSW*, Final Report, February 2001. The Tribunal is expecting to conduct a mid-term review of AGLRE's prices in 2002.

3 Origin Energy is the retailer of gas to customers in Albury, Moama, and the NSW Murray Valley towns.

4 Integral Energy and Allgas are the incumbent gas suppliers in Nowra and Tweed Heads respectively.

The timetable for the review process is provided below.

Action	Timetable
Release of Issues Paper	First week of May 2001
Release of Draft Decision	October 2001
Submissions due	10 November 2001
Release of Final Decision	End of November 2001[5]

1.3. How to Make a Submission

The Tribunal encourages interested parties to comment on the draft decision, and to provide information on any additional matters relevant to this review. All submissions must be made in writing and/or sent electronically in PDF or Word format to the Tribunal. If your submission is more than 15 pages long, it must be provided on a computer disk in word processor, PDF or spreadsheet form.

All confidential parts of submissions must be clearly marked. However, please note that confidentiality cannot be guaranteed as the *Freedom of Information Act 1989* and section 22A of the *Independent Pricing and Regulatory Tribunal Act 1992* provide measures for public access to documents in certain circumstances.

Submissions should be sent to:

Gary Drysdale
Review of Country Energy's Voluntary Pricing Principles
Independent Pricing and Regulatory Tribunal
PO Box Q290
QVB Post Office NSW 1230

or faxed to:

(02) 9290 2061

or emailed to:

ipart@ipart.nsw.gov.au

by close of business on **10 November 2001**.

Any inquiries regarding the review should be directed to Gary Drysdale on (02) 9290 8477 or Fiona Towers on (02) 9290 8420.

5 Since the review will not be completed before the expiry of the current Voluntary Pricing Principles, CE and Origin have been requested to extend the existing arrangements until this review is completed.

1.4. Structure of This Report

This report explains the Tribunal's draft decision and the rationale behind the decision. The remainder of the report is structured as follows:

- section 2 provides background detail to this review, including the Tribunal's role in the lead up to the introduction of full retail competition
- section 3 sets out an analysis of Country Energy's existing tariffs
- section 4 details the Tribunal's draft decision and the basis underlying the decision
- section 5 sets out the financial and price impact of the Tribunal's draft decision on customers and Country Energy
- Appendix 1 contains further detail on Country Energy's existing tariffs, and a description of those tariffs
- Appendix 2 describes the cost components of gas retail tariffs in the areas served by Country Energy
- Appendix 3 sets out the Voluntary Pricing Principles, agreed between the Tribunal and Country Energy
- Appendix 4 contains Country Energy's miscellaneous charges, and provides further detail on the Tribunal's decision on miscellaneous charges
- Appendix 5 lists the submissions received by the Tribunal in response to its Issues Paper
- Appendix 6 provides a summary of issues raised in submissions made to the Tribunal in response to the Issues Paper.

2. COMPETITION AND REGULATION IN THE NSW GAS MARKET

2.1. Introducing Retail Competition in the Gas Sector

Full retail competition has been introduced progressively in New South Wales since October 1999. The last remaining tranche of customers became eligible to choose their retail supplier, in principle, from July 2000. While there are now no legal or regulatory barriers in place that prevent any gas customer taking advantage of competition in the gas retail market, there have been delays in putting in place the necessary retail market systems for full retail competition to work in practice.[6] As a consequence, contestability of low volume users is yet to effectively occur.

The industry has now developed the business rules for a competitive market, and is currently well advanced in implementing the necessary retail systems required to give effect to these rules. Full retail competition is expected to commence from 1 January 2002 to coincide with the commencement of competition in the electricity industry.[7]

2.2. The Tribunal's Role

2.2.1. The Tribunal's role in the transition to a competitive market

The Tribunal's role is changing with the introduction of competition in the retail energy market. In the past, suppliers have been the exclusive supplier of natural gas in a particular franchise area, and thereby have held some degree of monopoly power. In this environment, the Tribunal's role has been to ensure that suppliers do not use this market power to charge excessive tariffs, or lower service standards, to the detriment of their customers.

With the introduction of full retail competition, once effective competition is established, market forces should ensure that suppliers provide services of the quality demanded by customers, and that they do not earn excessive profits. In this context the Tribunal will play less of an active role in price regulation. The policy view however, is that effective competition is likely to take some time to develop. The extent of competition, the likely impact on prices and services, and the likely delivery time of the benefits from competition cannot be predicted with any degree of certainty, for some time. There will therefore, for an interim period, be a need for a regulator to ensure that incumbent suppliers do not use their dominant position in particular markets to raise prices or reduce service levels to particularly vulnerable customer groups, or indeed, prevent the development of effective competition. Revised provisions in the Gas Supply Act, as discussed below, charge the Tribunal with this responsibility.

However it is important to note that, while the Tribunal will continue to have a role in regulating the prices charged to low-usage customers in the transition to competition, this does not restrict Country Energy's ability to offer competitive products and prices, on unregulated terms, in the competitive market.

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6 For example, systems that will allow for the transfer of customers between different retailers are yet to be put into place.

7 This date was announced in the Speech for the Second Reading of the *Gas Supply Amendment (Retail Competition) Bill 2001* on 4 April 2001.

2.2.2. The Tribunal's regulatory duties and powers

On 1 July 2001, the Gas Supply Act Amendment (Retail Competition) Act 2001 was introduced. The aim of the revised legislation is to ensure retail customers are sufficiently protected in the new, competitive environment. These arrangements have been developed in parallel with the customer protection framework for the electricity sector.

The amended Act gives low-usage retail customers, whose premises are physically connected to a network, the right to be supplied by an endorsed standard supplier under a standard form customer supply contract and at a regulated tariff.[8] Low-usage retail customers are currently deemed to be customers using less than 1 TJ of gas annually.

The standard supply contract will contain minimum terms and conditions, and will be based on tariffs and charges to be regulated by IPART (as discussed further below). Essentially, the requirement on suppliers to establish standard supply contract aims to protect low-usage retail customers in three ways:

- to protect customers who are already connected to gas, by ensuring that they will not be stranded with gas appliances but no retailer
- to protect customers who do not have a choice of retailer, or who do not consciously exercise a choice of retailer
- to protect customers who face an elapsed retail contract due to standard supply by the retailer.

The Tribunal's principal power for regulating tariffs and charges payable by low-usage retail customers is a gas pricing order. The legislation allows the Tribunal to issue a gas pricing order at any time, so as to set a pricing mechanism to establish:

- tariffs for natural gas
- security deposits and other payments in the nature of security deposits
- fees and charges in relation to late or dishonoured payments
- fees and charges in relation to the establishment or maintenance of accounts
- fees and charges in relation to the disconnection of premises from, or the reconnection of premises to, a distribution system
- such other fees, charges and payments as are prescribed by the regulations.

Essentially, the Tribunal can, by issuing a gas pricing order:

- establish a methodology under which tariff prices for delivered gas must be calculated
- establish maximum tariffs or maximum average tariffs
- prohibit the imposition of certain charges.

In setting regulated tariffs, the Tribunal will need to adhere to its duties under the Gas Supply Act 1996, which, as noted above, range from ensuring that the public receives the benefit of a competitive gas market to taking proper account of the business interests of persons supplying gas to the tariff market.

[8] Previously, there was no obligation on any retailer to supply gas to any customer.

Under the amended legislation, the Minister now also has the power to give the Tribunal a written referral requiring the Tribunal to make a gas pricing order within the timeframe specified in the referral. In that event, the Tribunal must take all reasonable steps to comply with the requirements of the referral.

In practice, the Tribunal has never issued a gas pricing order. Instead, tariffs have been regulated via voluntary agreements between the Tribunal and suppliers in New South Wales. These agreements – Voluntary Pricing Principles (VPPs) – set out the methodology by which tariffs are to be determined. This is a light-handed and less formal approach to fulfilling the duties required by the Act.

The Tribunal is committed to working with the government to review the process for making a gas pricing order in the light of full retail competition.

2.2.3. Current regulatory arrangements

Prices in Wagga Wagga are currently regulated via voluntary agreement between Country Energy and the Tribunal. There are currently no regulatory controls in place in the other areas served by Country Energy (such as Cooma and the South-West Slope towns), as these areas have only recently been supplied with natural gas.

The existing VPPs cover tariffs for customers that consume 0-10TJ per annum in Wagga Wagga. This originally expired on 30 June 2001 but was subsequently extended in respect to 0-1TJ customers until the end of this review.

Changes to tariffs for residential customers are subject to a number of constraints, including:

- a constraint on price increases of $20 or 5 percent per annum in real terms (whichever is the greater), on a comparable household bill, over the previous year
- the price constraint can increase to accommodate a change in network tariffs to allow full pass-through of prudent costs involved in establishing systems for full retail competition.

Pricing constraints do not apply to industrial and commercial customers in Wagga Wagga.

For price monitoring purposes, Country Energy is required to notify IPART of any changes to tariffs at least one month prior to tariff changes. This notification must include:

- an estimate (and associated methodology) of the expected impact on revenue of price changes and any supporting evidence on costs
- a breakdown of the costs of supply into fixed costs per customer and costs that vary by gas consumption in $per GJ
- a customer impact analysis.

3. AN ANALYSIS OF COUNTRY ENERGY'S TARIFFS

A requirement for effective competition in the retail market is that regulated tariffs must be competitively 'neutral' in the lead up to and during full retail competition. For this to occur, regulated tariffs should reflect the cost of gas supply wherever possible.[9] In short, if tariffs of the standard suppliers are set below the cost of supply, competing retail suppliers may not be able to offer a more attractive service and competition may be hindered. Similarly, if regulated tariffs are set significantly above the economic cost of supply, this may 'promote' competition but will disadvantage customers who are less able to participate in the contestable market.

Hence, in the context of full retail competition, the aim of regulation should be to balance the need:

- to protect customers from unreasonable price changes
- to allow suppliers sufficient flexibility to make adjustments to tariffs so that they become 'cost-reflective' (and therefore 'neutral' from the perspective of competition).

As a starting point, it is essential to understand the cost reflectivity of existing tariffs, now and over time.

3.1. Background

Country Energy currently supplies gas to customers in three primary areas: Wagga Wagga, Cooma and Bombala, and the South-West Slope towns of Culcairn, Temora, Henty and Holbrook.

The supply and reticulation of gas in Wagga Wagga was a business of the City Council until 27 June 1997 when GSE (now Country Energy) acquired the utility. Great Southern Energy Gas Networks (GSN)[10] operates the gas distribution network, while GSE (and now Country Energy) provides retail supply. The Wagga Wagga system currently serves about 15,000 customers, purchasing a total of approximately 1.6 PJ of gas each year. Most of the gas consumers in Wagga Wagga are tariff customers, and can be classified as residential, commercial and industrial customers. They consume about 47 percent of total gas sold in Wagga Wagga.[11] Historically, gas retail tariffs in Wagga Wagga have been amongst the lowest in NSW.

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9 The issue was initially considered by the Tribunal in the context of the electricity sector – see IPART, *Regulated Retail Prices for Electricity to 2004,* Final Report, December 2000. Further details on the reason for this view are contained in IPART, *Review of the Delivered Price of Natural Gas to Tariff Customers Served from the AGL Gas Network in NSW,* Final Report, February 2001. Both reports are available on the IPART website.

10 The supply and reticulation of gas was acquired by Great Southern Energy on 27 June 1997. To meet ring-fencing requirements under the National Third Party Access Code for Natural Gas Pipeline Systems, GSE established a wholly owned subsidiary to operate the gas network, Great Southern Energy Gas Networks Pty Limited (GSN). With the formation of Country Energy, GSN is now a subsidiary of Country Energy. Operating and maintenance of the network are currently provided by Country Energy, which charges GSN for these services.

11 There are also 14 'contract' customers. These customers account for the remaining 53 percent of gas consumed.

Reticulation of natural gas has only recently occurred in Cooma and Bombala. Country Energy currently serves just over 600 customers in these areas, all of which are residential customers. Country Energy has no monopoly or franchise rights to the area; tariffs were established by direct marketing.

In Temora, Culcairn, Holbrook and Henty, GSN recently acquired the network from AGL. However, Country Energy (and formerly GSE) has always been the retailer in the South West Slopes. There are about 1,500 customers in these areas, predominately residential customers. Tariffs in the South-West Slopes are AGL Retail Energy's (AGLRE's) prevailing rates.

Further details on the existing tariffs in each of these areas are provided in Appendix 1.

Country Energy is also about to begin supplying natural gas in Gundagai and Tumut, however retail and network tariffs are yet to be developed. These areas are therefore not covered in this draft report.

3.2. Tariffs in Wagga Wagga

In Wagga Wagga, Country Energy offers two residential tariffs (general and hot water), a commercial tariff and an industrial tariff. The Tribunal has analysed the profitability of these tariffs on the basis of the following cost assumptions:

- a cost of gas and transmission, as proposed by Country Energy, and in line with the supply contract Country Energy has with AGL
- a network price, consistent with the access charges in GSN's Access Arrangement, as approved by IPART
- a cost of unaccounted for gas consistent with the allowance contained in GSN's Access Arrangement, as approved by IPART
- an allowance of $45 per customer, to recover other retail costs, which is consistent with the Tribunal's decision regarding the electricity sector and AGLRE
- a retail margin of 2.5 percent which is consistent with the Tribunal's decision regarding AGLRE and the electricity sector.

Further detail on each cost component is provided in Appendix 2.

The Tribunal expects that the majority of these costs will increase over the period to 2004 at a rate in line with CPI. The exception is network costs, where under GSN's Access Arrangement, the fixed component of the network tariff will increase by more than CPI, and the variable component will decrease over the period to 2003. As a consequence, for the average residential customer, network costs will increase by up to 7 percent per annum (in nominal terms) between 2001 and 2003. Network tariffs beyond 2003 are somewhat uncertain, given that GSN's Access Arrangement expires in December 2003.

The cost of implementing full retail contestability has not been included, as it is being considered separately (as discussed in section 4).

The profitability analysis of Country Energy's current tariff levels in Wagga Wagga, highlights that:

- current tariffs are not reflective of costs, particularly for low consumers of gas
- over 95 percent of residential customers are not fully contributing to the cost of supply
- approximately 70 percent of commercial customers are not fully contributing to the cost of supply
- approximately 9 percent of industrial customers are not fully contributing to the cost of supply
- Country Energy's net profit margin earned on tariffs paid by low-usage retail customers, overall, is negative 4.5 percent.

The analysis demonstrates that there is a need to make adjustments to existing tariffs. For tariffs to be competitively 'neutral', tariffs should aim to generate an appropriate profit margin (of around 2-3 percent), and should broadly reflect the structure of costs.

Tariffs do not currently recover the cost of supply for the vast majority of customers in Wagga Wagga, which suggests that profits from other parts of Country Energy's business (such as electricity retailing or the network business) must be funding the shortfall. In the context of effective full retail competition, this situation is not sustainable (and is not desirable) in the longer term. For this reason, some upward revision to tariffs - above the anticipated CPI increase in costs - is necessary.

The cost-recovery shortfall is particularly evident for low consumers of gas. For this reason, the Tribunal would expect that a relatively greater increase would be required for these customers. However, the Tribunal notes that adjusting tariffs to cost reflective levels too quickly is likely to have an unacceptable impact on customers. A balance is therefore essential.

Further detail of this analysis is provided in Appendix 1 of this report.

3.3. Tariffs in Cooma and Bombala

Two tariffs are available in Cooma and Bombala – a residential tariff and a business tariff. Analysis has only been undertaken on the residential tariff, given that, at the time of writing, there were no business customers.

The Tribunal's analysis suggests that the costs of supplying gas in these areas are as follows:

- a cost of gas and haulage as specified by Country Energy, which is in line with the cost of supply in Wagga Wagga
- a network price based on an informal agreement between Country Energy and GSN[12]
- a cost of unaccounted for gas consistent with the allowance contained in GSN's Access Arrangement for the Wagga Wagga distribution network, which is based on an 'industry benchmark', as approved by IPART

[12] The Cooma gas distribution network is operated by GSN, and is currently unregulated.

- an allowance of $45 per customer, to recover other retail costs, which is consistent with the Tribunal's decision regarding the electricity sector and AGLRE
- a retail margin of 2.5 percent which is consistent with the Tribunal's decision regarding AGLRE and electricity sector.

The Tribunal expects that the majority of the costs of gas supply will increase at the same rate as in Wagga Wagga, ie, with the exception of network costs, by CPI. However, the Tribunal recognises that future cost of supply in Cooma is somewhat uncertain, given that network prices and commodity costs are currently paid under short-term contracts.

Again, the cost of implementing full retail contestability has not been included in the analysis, as it is being considered separately (as discussed in section 4).
Further detail on each cost component is provided in Appendix 2.

The profitability analysis of Country Energy's current tariff levels in Cooma and Bombala, highlights that:

- *all* customers in the area are currently profitable
- tariffs broadly match the structure of costs
- Country Energy's net profit margin on tariffs overall is significantly more than a margin of 2-3 percent, but within a range acceptable for a low-usage greenfield development.

A slightly higher margin in Cooma and Bombala is to be expected, given the greenfield nature of the gas business in these areas. Firstly, there is higher risk involved in pursuing such a greenfield venture, and secondly, there are considerably more marketing (and other related) costs associated with such a new venture. The Tribunal is also conscious that, unlike other areas served by Country Energy, reticulated gas in these areas is essentially a fuel of choice. In most cases, customers are yet to purchase gas appliances, and, in this sense, are not 'captured' by Country Energy.

That said, the Tribunal would not expect tariffs to increase by more than the anticipated increases in (efficiently incurred) costs over the period to 2004. Hence, the Tribunal would not expect increases in tariffs over the period by more than CPI.

3.4. Tariffs in Culcairn, Holbrook, Henty and Temora

The cost of supplying gas in the South-West Slope towns of Culcairn, Holbrook, Henty and Temora largely mirror those faced by AGLRE, with the exception of the cost of gas and transmission. Country Energy's cost of gas is slightly more and the cost of transmission is slightly less compared to AGLRE. Broadly though, given that it is AGLRE's tariffs that prevail in these areas, the profitability of Country Energy's tariffs in these areas is consistent with that of AGLRE.

The Tribunal's analysis earlier in the year, demonstrated that AGLRE's net margin for tariff customers consuming less than 1 TJ a year was below 2 percent. Within each tariff category, the profitability for different consumption levels was as follows:

- for the residential general and residential economy tariff, low consumption customers have a negative margin, while higher consumption customers are profitable

- overall, the profit margin is around zero for the residential tariff
- the industrial and commercial tariff customers are profitable.

AGLRE has developed a tariff plan to address these cost reflectivity issues, which is incorporated in their VPPs. The Tribunal is of the view that a similar restructuring of Country Energy's tariffs would be appropriate in these areas.

4. TRIBUNAL'S DRAFT DECISION

4.1. Coverage of Regulatory Arrangements

On 10 September 2001, the Minister issued a standard supplier's endorsement for the natural gas suppliers' authorisation held by Country Energy. This endorsement places a number of obligations on the authorisation that are stipulated in s33A (2) of the Gas Supply Act. This includes a requirement for Country Energy to offer standard supply contracts to low-usage retail customers in local government areas such as: Bombala, Cooma-Monaro, Culcairn, Gundagai, Holbrook, Temora, Tumut, and Wagga Wagga. As noted previously, tariffs in standard supply contracts are to be regulated by the Tribunal.

Currently low-usage retail customers exist only in Bombala, Cooma, Culcairn, Holbrook, Henty, Temora, and Wagga Wagga.[13] The draft regulatory arrangements, therefore, cover all low-usage retail customers (ie, all customers consuming less than 1 TJ per annum) in these areas.

As noted in section 3, Country Energy is about to begin supplying natural gas in Gundagai and Tumut. Given that there are no customers in these areas at this time, and given that network tariffs are yet to be developed, the Tribunal has not considered the tariffs in these areas in this draft report. However, the Tribunal notes that it may consider these tariffs for the purposes of its final report.

4.2. Term of Regulation

To provide for greater certainty and stability in the lead up to full retail competition, for both users and Country Energy, the Tribunal is of the view that regulatory arrangements should be established for a number of years. Realistically, the Tribunal, at this time, cannot foresee the timeframe within which competition in the 'low-usage customer' market will become effective. However, regulatory arrangements applicable to AGLRE and the electricity sector are established until December 2004, albeit with provisions for a mid-term review.

On this basis, the Tribunal believes that it would be reasonable for its decision on Country Energy's tariffs to cover the period to December 2004. A review of the regulatory arrangements will be conducted under special circumstances, either at the request of Country Energy or the discretion of the Tribunal.

4.3. Form of Regulation

4.3.1. Gas Pricing Order versus VPPs

The Tribunal favours a 'lighter handed approach' during the transition to competition, as a means of protecting customer interests while minimising regulatory costs. In line with this preference, in February 2001, the Tribunal elected to negotiate VPPs as the form of regulation for AGLRE.

13 The network in Gundagai and Tumut is yet to be completed.

However, as noted elsewhere in this decision, the Ministry of Energy and Utilities in consultation with the Tribunal is currently undertaking a review of those parts of the Gas Supply Act dealing with gas pricing orders. Pending the outcome of that review, the Tribunal proposes to establish tariffs through a set of VPPs agreed between it and Country Energy, in line with past regulatory arrangements and those in place for AGLRE. This is also consistent with the views put forward in submissions made to the Tribunal.

The Tribunal notes that it intends to monitor the impact of the VPPs and the development of competition, and will issue a gas pricing order, at any time, if it believes this is necessary or is requested by the Minister.

4.3.2. The proposed form of VPPs

Consistent with its decision in relation to AGLRE's tariffs and in other sectors, the Tribunal considers the most appropriate regulatory approach is for Country Energy to retain responsibility for tariff setting, subject to rebalancing constraints. In this way, Country Energy will maintain a degree of flexibility to structure its tariffs in accordance with its costs, while the constraints will manage the impact on customers over time.

Given the Tribunal's overall objective is to move towards cost-reflective tariffs (in the lead up to the introduction of competition), while protecting customers from undesirable price shocks, in preparing its retail tariff proposal, Country Energy is to have regard to:

- the cost parameters set out in section 3.2
- the objective to achieve cost reflectivity (including a net profit margin of no more than 2 to 3 percent) by 2004
- the tariff rebalancing constraints established by the Tribunal.

The Tribunal will consider these objectives in deciding whether future tariffs, proposed by Country Energy, should be approved.

In the interim, in order to provide customers with greater certainty as to future movements in tariffs, the Tribunal has sought a tariff plan from Country Energy, which sets out the adjustments to tariffs over the period from 1 January 2002 to December 2004. This plan is to form part of the VPPs.

Annually, Country Energy shall submit tariffs to the Tribunal, prior to their implementation in standard supply contracts, to ensure that tariffs comply with the VPPs.

4.4. Summary and Content of the VPPs

A copy of the draft VPPs, agreed between the Tribunal and Country Energy, is provided in Appendix 3 of this report. In summary, it focuses on the following key objectives:

- tariffs will be made available to all customers consuming under 1 TJ of gas, including residential, industrial and commercial customers, should they choose to purchase gas from Country Energy on a standard supply contract, consistent with legislative requirements
- Country Energy will be able to pass through to customers prudent costs associated with implementing full retail contestability, subject to Tribunal approval

- adjustments to tariffs over the period will be subject to specific rebalancing constraints
- a tariff plan is included in the VPPs for customers' reference
- Country Energy will be required to submit particular information to assist the Tribunal to monitor prices and market developments.

4.4.1. Rebalancing constraints

Regulated tariffs, in the context of full retail competition, should be broadly cost reflective. As such, Country Energy should be able to restructure prices to cost reflective levels. However, price constraints are required in order to strike an appropriate balance between the need for cost-reflectivity and protecting customers from price shocks.

On the basis of the cost and profitability analysis undertaken by the Tribunal, Country Energy and the Tribunal have agreed that residential tariffs will be derived in line with the following price constraints:

- the bill of an individual residential customer should not exceed the bill for the corresponding period of the preceding financial year (for the same pattern and volume of gas consumption) by more than $20 or 5 percent in real terms, whichever is the greater.
- No price constraint will apply to movements in tariffs paid by industrial and commercial customers.

The price constraint for residential customers is higher than the $15 and 3 percent real allowance that applies to AGLRE. However, given the lack of cost reflectivity of tariffs faced by Country Energy, particularly in Wagga Wagga, the Tribunal believes that a larger side constraint is warranted. The $20 rebalancing constraint is consistent with the existing constraint in Wagga Wagga.

4.4.2. Country Energy's Tariff Plan

To provide reasonable certainty to customers, the Tribunal and Country Energy have agreed on a tariff plan that sets out price movements for standard supply tariffs for residential, industrial and commercial customers over the period to 2004. The agreed tariff plan, and its impact on customers, is summarised in chapter 5. Given uncertainty regarding network costs post-2003, it should be noted that price movements beyond 2003 are indicative only.

After careful analysis, the Tribunal believes that this tariff plan is consistent with its primary objectives for tariffs. That is, the plan meets the agreed side constraints and so does not impose price shocks on customers, and moves tariffs to cost reflective levels by 2004. Given this, the Tribunal believes that the standard supply tariffs arising from the plan will operate in a 'neutral' manner in the competitive market.

4.4.3. Information requirements

To allow the Tribunal to consider future tariff proposals, the Tribunal will need access to recent customer consumption details, as well as revenue and cost information. To assess market developments once full retail competition is introduced, including the ongoing need for regulation, the Tribunal will also require access to market information. These types of monitoring and compliance information requirements will therefore form part of the VPPs.

Country Energy and the Tribunal have agreed the following:

Country Energy must notify the Tribunal in writing at least one month prior to amending its standard supply tariffs for residential, industrial or commercial customers. To allow the Tribunal to assess Country Energy's proposed tariffs, Country Energy must include the following in its notification:

- an estimate (and associated methodology) for the expected impact on revenue of the proposed price changes. If the estimated revenue impact is positive, evidence must be supplied showing that either:
  - costs have increased for supplying that particular tariff customer or class of customer, or
  - existing prices did not cover the costs associated with that particular tariff customer or class of customer.
- a breakdown of the costs of supply into fixed costs per customer and costs which vary with the absolute magnitude of gas consumption per customer (in $ per GJ)
- a customer impact analysis detailing in tabular form:
  - the number of customers in particular consumption ranges
  - the current cost of gas per quarter associated with consumption at the midpoint of the relevant range
  - the proposed cost per quarter associated with consumption at the midpoint of the relevant range
  - the absolute and proportional change in the cost per quarter associated with consumption at the midpoint of the relevant range.
- other supporting information required by the Tribunal.

To allow the Tribunal to monitor the developments in a competitive market and any price changes, which will be an important input to future regulatory reviews, Country Energy is to provide information relating to the development of a competitive gas retail market, as requested by the Tribunal.

4.4.4. Treatment of contestability costs

Retail suppliers (and distributors) in the gas market are currently preparing for full retail competition by developing and modifying their procedures and systems so that they have the capacity to introduce competition for low-usage business and household customers. Suppliers are also co-operating with the government and regulators in the design and development of central customer registration, transfer and energy settlement systems that will be required in the competitive market.

As such, suppliers are incurring costs as a consequence of the move to full retail competition in gas. They include costs related to:

- the provision of retail market services
- the establishment and operation of the Gas Market Company[14]
- the flow through of retail contestability costs incurred by the network service providers
- the establishment and operation of retailers' internal systems to integrate with the market business system.

The Tribunal notes that most of these costs are to be determined by the industry, and will be recovered from market participants including Country Energy. Because these costs are largely outside the control of the retail suppliers,[15] the Tribunal has decided that Country Energy will be able to pass through the prudent costs of retail contestability. However, given that the exact magnitude of these costs is not clear at this time, the VPPs state that:

- increases in tariffs due to the recovery of prudent retail contestability costs will fall outside the price constraints, however
- the method of recovery (ie, who should pay, how, and when) will be subject to Tribunal approval.

As a way forward, the Tribunal has appointed independent consultants to assist it to define the magnitude of full retail competition costs that should be passed through to customers. The consultants have been asked to, eg, identify the actual costs incurred and estimate future costs for full retail competition for energy retail and distribution businesses in NSW, and to determine whether these costs are prudent. The consultants are due to submit a draft report to the Tribunal by early December. The Tribunal will have regard to the results of this study (including public consultation) in deciding on the amount of full retail competition costs that should be passed through to Country Energy's customers.[16]

4.4.5. Miscellaneous fees and charges

To ensure consistency with the arrangements applying to AGLRE, the Tribunal has decided that the VPPs for Country Energy should cover miscellaneous charges. Country Energy has agreed to such an arrangement.

The VPPs will require Country Energy to gain the Tribunal's approval for any changes in miscellaneous charges over the period to 2004.

Further details of the Tribunal's decision are provided in Appendix 4.

14 In December 2000, the Gas Market Company (GMCo) was established with eight foundation industry members. GMCo is to facilitate the work of industry to deliver the required gas retail market services to support full competition.

15 However, the Tribunal notes that CE will have some discretion over its own systems that interface with the market system and therefore the costs of full retail competition.

16 A terms of reference for this consultancy is currently on the IPART website, http://www.ipart.nsw.gov.au/.

5. FINANCIAL OUTCOMES AND PRICE IMPLICATIONS

5.1. Outcomes in Wagga Wagga

The table below details Country Energy's proposed tariff plan for customers in Wagga Wagga until 2004. The plan sets out the tariffs, in 2001 dollars, that are to be put in place each year. The Tribunal intends to agree to this plan and incorporated it in the VPPs, although price movements beyond 2003 are indicative only.

The actual tariffs that will apply in each year will be determined annually by Country Energy, and approved by the Tribunal, in accordance with actual annual movements in the CPI.

Table 5.1: Agreed tariff plan for customers using <1 TJ in Wagga Wagga in 2001 dollars (excluding pass through of full retail contestability costs)

Year	Residential – General	Residential – Hot Water	Commercial	Industrial
1 January 2002				
Quarterly Access Charge ($)	26.85	26.85	29.57	236.87
Minimum Charge ($)	6.73	6.73	4.01	0
Variable Charge ($/GJ)	9.27	9.04	8.96	8.73
1 January 2003				
Quarterly Access Charge ($)	29.89	29.89	35.29	299.95
Minimum Charge ($)	7.43	7.43	2.03	0
Variable Charge ($/GJ)	9.24	9.01	8.45	8.16
1 January 2004 (indicative)				
Quarterly Access Charge ($)	33.59	33.59	35.72	303.64
Minimum Charge ($)	7.21	7.21	5.09	0
Variable Charge ($/GJ)	8.94	8.72	8.51	8.23

Consistent with the objectives of the VPPs, the proposal has been designed to ensure that tariffs are as cost reflective as possible by 2004, but also with the objective that an individual customer's bill should not increase by more than the greater of $20 or 5 percent real in any individual year.

For residential customers (both hot water and general), the price impact of the tariff plan on customers with lower consumption levels is relatively greater than those consuming larger quantities of gas. This is consistent with improving the cost reflectivity of tariffs that apply to these customers.

Overall, the tariff plan results in a net profit margin of between 2 and 3 percent by 2004. However, the Tribunal notes that under the tariff plan, tariffs will not be cost reflective for all customers (given their consumption level) by 2004. However, the number of customers facing cost-reflective tariffs will improve significantly.

The tariff plan will also lead to an improvement in the overall margin of Country Energy's commercial tariffs. However, again, not all commercial customers will face cost reflective tariffs by 2004.

Overall, for the tariffs collectively, the tariff plan will increase Country Energy's net profit margin to a level in 2004 consistent with that established for AGLRE and for the electricity sector.

The Tribunal believes that the tariff plan adequately balances the need for Country Energy and other new entrant retail suppliers to be placed at a similar competitive advantage, and the need for customers to be protected from price shocks.

5.2. Outcomes in Cooma and Bombala

The table below details Country Energy's proposed tariff plan for customers in Cooma and Bombala until 2004. The Tribunal intends to agree to this plan and has incorporated it in the VPPs.

Essentially the tariff plan provides for the tariffs for Cooma and Bombala to increase annually by CPI, in accordance with the anticipated movement in costs over the period. There will be *no real* increases in the tariff levels for customers in these areas.

Table 5.2: Agreed tariff plan for customers using <1 TJ in Cooma and Bombala (1) (excluding pass through of full retail contestability costs)

Year	Residential – General	Business
1 January 2002 Quarterly Access Charge $/GJ	 CPI_2^{-GST} CPI_2^{-GST}	 CPI_2^{-GST} CPI_2^{-GST}
1 January 2003 Quarterly Access Charge $/GJ	 CPI_3^{-GST} CPI_3^{-GST}	 CPI_3^{-GST} CPI_3^{-GST}
1 January 2004 Quarterly Access Charge $/GJ	 CPI_4^{-GST} CPI_4^{-GST}	 CPI_4^{-GST} CPI_4^{-GST}

Note:

1. The CPI index for adjusting prices is CPI exclusive of GST, and is defined in paragraph 11 of the VPPS (contained in Appendix 3).

5.3. Outcomes in Temora, Culcairn, Holbrook, and Henty

The table below sets out the proposed tariff path to 2003/04 currently contained in AGLRE's VPPs. Country Energy has agreed to comply with this plan for tariffs payable by customers in the South West Slopes. The Tribunal has incorporated this tariff plan into Country Energy's VPPs. Price movements beyond 2002 are indicative only, as they will be subject to the Tribunal's mid term review of AGLRE's tariffs.

Table 5.3: Agreed tariff plan for customers using <1 TJ in Temora, Culcairn, Holbrook, and Henty (excluding pass through of full retail contestability costs) (1)

Tariff	2001/02	2002/03 (Indicative only)	2003/04 (indicative only)
Residential general:			
Supply charge	-	\$3.75/qtr	\$3.75/qtr
Energy rate	CPI_1^{-GST}	-	-
Residential economy:			
Supply fee	-	\$2.50/qtr	CPI_3^{-GST} + 3%
Energy rate	CPI_1^{-GST}	CPI_2^{-GST}	1st block:CPI_3^{-GST} + 3% 2nd block:CPI_3^{-GST} – X% (2)
Residential economy plus:			
Supply fee	CPI_1^{-GST}	CPI_2^{-GST} + 3%	CPI_3^{-GST} + 3%
Energy rate			
1st block	CPI_1^{-GST}	CPI_2^{-GST} + 3%	CPI_3^{-GST} + 3%
2nd block	CPI_1^{-GST}	CPI_2^{-GST} – 1%	CPI_3^{-GST} – 1%
Business 0-1TJ:			
Supply fee	CPI_1^{-GST} + 3%	CPI_2^{-GST} +3%	CPI_3^{-GST} CPI + 3%
Energy rate	CPI_1^{-GST}	CPI_2^{-GST} – 1%	CPI_3^{-GST} CPI – 1%

Note:

2. The CPI index for adjusting prices is CPI exclusive of GST, and is defined in paragraph 12 of the VPPS (contained in Appendix 3).
3. The value of “X” will be determined at a mid term review.

The rate of change set out in the tariff plan is designed to achieve cost reflectivity by June 2004. In line with the Tribunal’s tariff profitability analysis, the rate of change is higher for lower levels of consumption (where customers do not meet the costs of supply). For higher consumption levels, the increase will be largely in line with the CPI in later years.

The plan is structured so that no residential customer’s bill increases by more than the greater of \$15 or 3 percent above CPI per annum (before recovery of retail contestability costs).

APPENDIX 1 – COUNTRY ENERGY'S EXISTING RETAIL TARIFFS

Wagga Wagga

Description of current tariffs

Four tariffs are currently available in Wagga Wagga:

- Residential General Tariff
- Residential Off Peak Tariff
- Commercial Tariff
- Industrial Tariff

The current number of customers on these tariffs and their consumption levels are provided in the table below.

Table A1.1: Country Energy's Existing Tariffs and Customer Profile in Wagga Wagga

Tariff	No. Of Customers	% of Consumption	% Retail Revenue
Residential General	2,891	13.5	14.5
Residential Hot Water	11,591	75.9	75.7
Commercial	426	9.8	8.7
Industrial	11	0.9	0.8
Total	14,919	100.0	100.0

Tariffs levels that have prevailed in Wagga Wagga since 1999 to date, are set out in the table below:

Table A1.2: Country Energy's Gas Retail Tariffs in Wagga Wagga since 1999

Year	Residential – General	Residential – Hot Water	Commercial	Industrial
Current				
Quarterly Access Charge	24.01	24.01	24.01	175.37
Minimum Charge	5.58	5.58	5.58	0
$/GJ	9.22	9.22	9.22	9.22
2000				
Quarterly Access Charge	18.62	18.62	18.62	109.36
Minimum Charge	5.97	5.97	5.97	0
$/GJ	9.60	9.10	9.60	9.20
1999				
Quarterly Access Charge	12.75	12.75	12.75	53.50
Minimum Charge	6.75	6.75	6.75	0
First 15 GJ - $/GJ	10.70	9.40	10.70	8.60
Remaining - $/GJ	10.00	8.30	10.00	8.60

Profitability of current tariffs

The Tribunal's analysis suggests that Country Energy's overall net profit margin in the 'less than 1TJ' market is negative. Both residential customers and commercial customers are currently earning negative net margins.

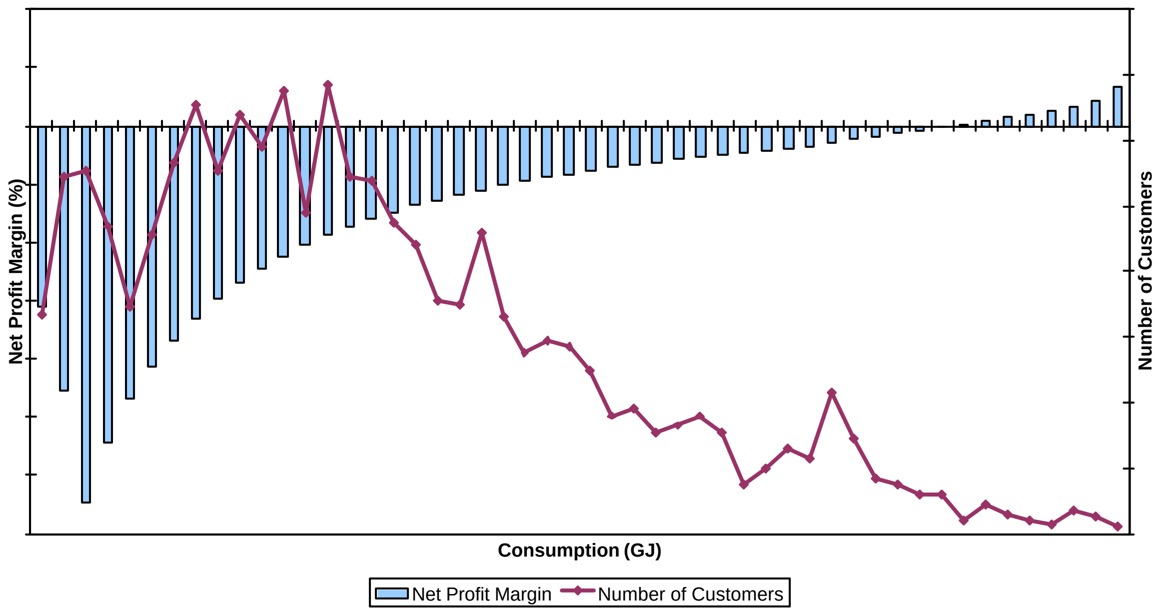
Within each tariff category, the Tribunal has examined profitability for different consumption levels. This analysis shows that:

- for residential hot water customers, currently approximately 95 percent are not meeting the costs of supply
- for residential general customers, currently approximately 99 percent are not meeting the costs of supply
- for commercial customers, currently approximately 70 percent are not meeting the costs of supply
- most industrial customers are profitable with currently only approximately 9 percent not meeting the costs of supply.

The lower the consumption levels of customers, the greater the amount by which the costs of supply are not recovered. The graphs below illustrate this for residential hot water customers.

Figure A1.1

RESIDENTIAL HOT WATER TARIFF



Cooma and Bombala

Description of current tariffs

Tariffs in Cooma and Bombala are the same. Two tariffs are available – a residential tariff and a business tariff.

At present there are no business customers in Cooma or Bombala. There are 525 residential customers in Cooma, and 100 customers in Bombala.

Consumption profiles for these areas are not available, given that none of these areas have been operating for a full 12 months.

The existing tariff levels for consumption less than 1 TJ in Cooma are as follows:

Table A1.3: Country Energy's Gas Retail Tariffs in Cooma and Bombala

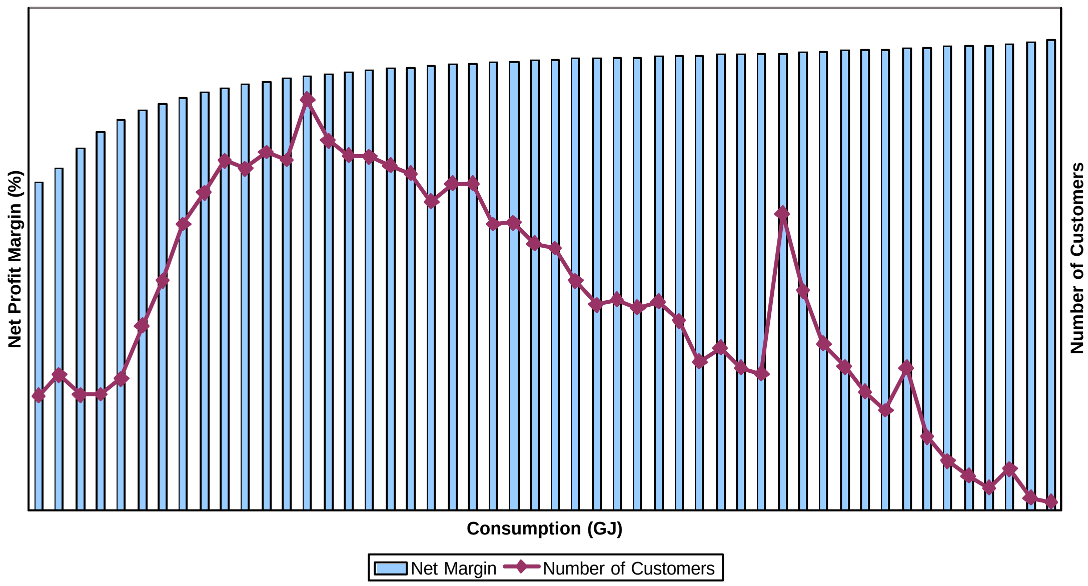
Year	Residential	Business
Current		
Quarterly Access Charge	31.94	16.32
Minimum Charge	0	0
$/GJ	13.50	12.53

Profitability of existing tariffs in Cooma and Bombala

In the 'less than 1 TJ' market, Country Energy is earning a net profit margin of over 10 percent. As indicated in the chart below, all customers in Cooma and Bombala, regardless of their consumption level, are profitable.

Figure A1.2

RESIDENTIAL TARIFF



Culcairn, Holbrook, Henty and Temora

Description of current tariffs

The current tariffs in these areas are at AGLRE's prevailing retail tariffs, ie:

- residential economy
- residential general
- industrial & commercial.

The number of retail gas customers in these areas are as follows:

- there are the following number of residential customers:
  - in Henty, there are 247 customers on the general tariff and 40 customers on the economy tariff
  - in Temora there are 687 customers
  - in Holbrook & Culcairn there are 551 customers on the general tariff and 19 on the economy tariff.
- in Culcairn, Holbrook, Henty and Temora combined, there are 74 business customers.

Profitability of current tariffs

The Tribunal's analysis of last year demonstrated that AGLRE's net margin for tariff customers consuming less than 1 TJ a year was below 2 percent. Within each tariff category, the profitability for different consumption levels was as follows:

- for the residential general and residential economy tariff, low consumption customers have a negative margin, while higher consumption customers are profitable. This trend is exaggerated for the pensioner tariffs.
- overall, the profit margin is around zero for the residential tariff.
- the industrial and commercial tariff customers are profitable.

Under the VPPs established in February 2001, AGLRE is not allowed to increase residential prices by more than $15 or 3 percent per annum (whichever is greater) in real terms. The following graphs illustrate the profitability of residential customers by consumption band.

Figure A1.3

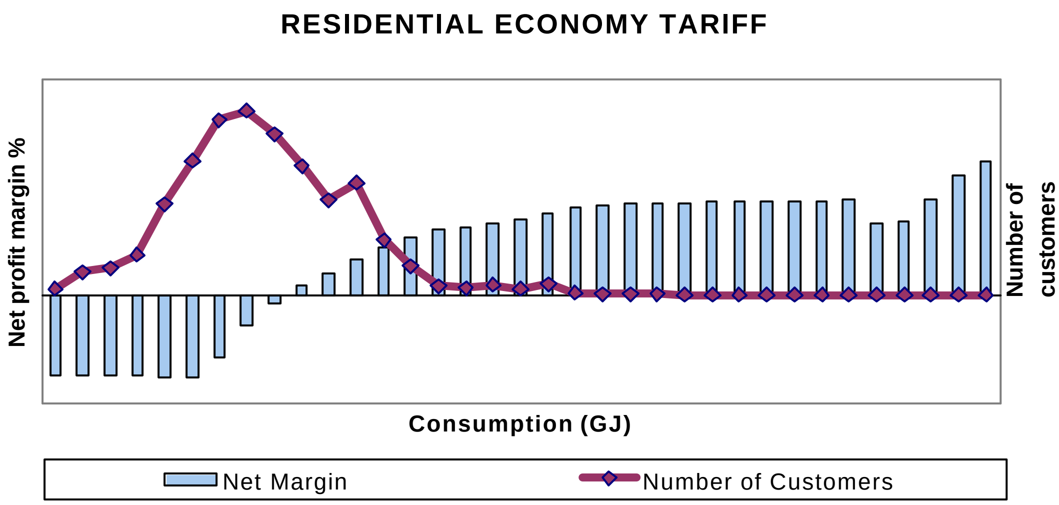
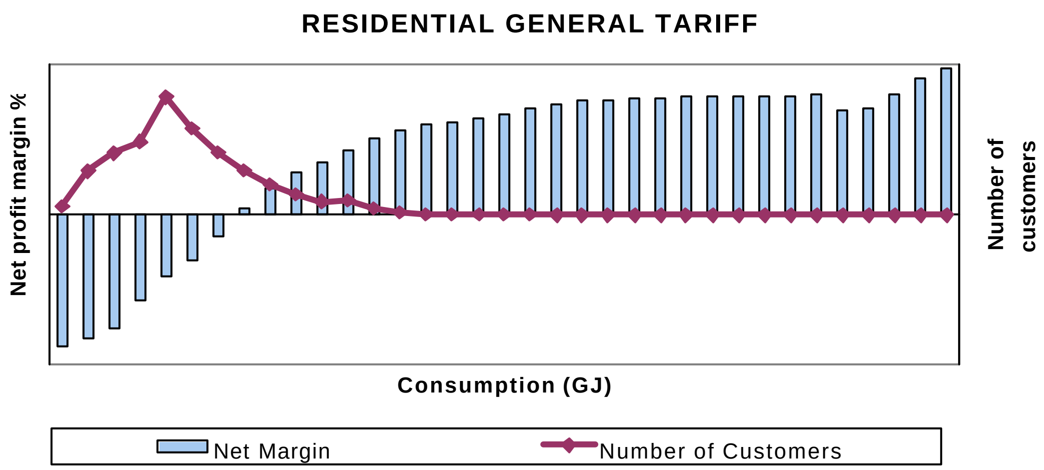


Figure A1.4


RESIDENTIAL GENERAL TARIFF
Net profit margin %
Number of customers
Consumption (GJ)
Net Margin
Number of Customers

APPENDIX 2 – ASSESSMENT OF THE COST OF SUPPLYING GAS

An objective of the standard supply tariffs is that they be cost reflective. As noted in the main report, in deciding on the appropriate level of costs to incorporate in standard supply tariffs, the Tribunal needs to balance the risk that too low an allowance could artificially stifle competition, while an excessive allowance could enable Country Energy to earn excess profits if competition is not vigorous.

The Tribunal has considered the following costs, which are incurred to provide a retail gas service:

- the field price of gas and the cost of transmission, ie, the cost of transporting gas from the producer to the 'city gate' (less than 30 percent)
- the cost of local transportation and metering (around 60 percent)
- the cost of retailing, such as billing and marketing, and the net retail profit margin (less than 10 percent).

Costs in Wagga Wagga

Field price of gas and transmission costs

Country Energy currently purchases gas from AGL under a take or pay contract it inherited from the Wagga Wagga City Council. The contract provides for CPI indexation of the price payable, which includes a mark-up for administration and arbitration.

Network charges

The network used by Country Energy is owned by GSN. The network charges payable by Country Energy are set out in GSN's Access Arrangement, approved by the Tribunal.

Unaccounted for gas

The cost of unaccounted for gas (UAG) was considered by the Tribunal in its review of GSN's Access Arrangement for the Wagga Wagga Distribution Network. As part of this review, the Tribunal approved a rate of UAG for the network, based on an industry benchmark. These allowances are as follows:

Table A2.1: Unaccounted for Gas Allowances

Year	Allowance for Delivery Points of Volume Customers
2001	6.0%
2002	5.2%
2003	4.0%

Retail costs and net profit margin

As part of its review of electricity retail tariffs and AGLRE's tariffs,[17] the Tribunal has undertaken a considerable amount of work on retail costs and margins. The outcome of this analysis suggested that an allowance of between $35 and $55 per customer would be sufficient for a retailer to recover its retail costs (such as billing, marketing, etc), and that an allowance of 2 to 3 percent of sales would be appropriate as a net profit margin for a gas retailer. The Tribunal has adopted these assumptions in this review.

Cost of supply in Cooma and Bombala

Cost of gas and transmission costs

Country Energy has proposed that the current commodity price of gas in Cooma and Bombala is slightly less than the cost that applies to Wagga Wagga. The Tribunal understands that this price is established through an informal contract, and is to increase by CPI on 1 January each year. The contract is due to expire on 31 December 2002.

Network charges

Given that the distribution network in the area is not regulated, the network price is based on an informal agreement between Country Energy and GSN.

Network charges are as follows:

Table A2.2: Network Charges

Type	Charge	Current ($)	1 Jan 2002 ($)	1 Jan 2003 ($)
Residential	$/GJ	6.93	7.13	7.34
	Quarterly Access Charge	17.35	17.85	18.38
Business	$/GJ	5.08	5.23	5.38
	Quarterly Access Charge	16.32	16.79	17.29

Unaccounted for gas

The cost of UAG is currently unknown for the Cooma distribution network. For its analysis, the Tribunal has assumed a cost of UAG consistent with the allowance contained in GSN's Access Arrangement, which is based on an industry benchmark. The Tribunal recognises that for a new system this allowance might be considered a little high, however the analysis is relatively insensitive to changes in the cost assumption.

Retail costs and net profit margin

Consistent with the analysis for tariffs in Wagga Wagga, an allowance of between $35 and $55 per customer was assumed sufficient to recover retail costs and a mark-up of between 2 and 3 percent was assumed for a net profit margin.

Costs in Culcairn, Holbrook, Henty and Temora

[17] Further details are contained in IPART, *Review of the Delivered Price of Natural Gas to Tariff Customers Served from the AGL Gas Network in NSW*, Final Report, February 2001; and also IPART, *Regulated Retail Prices for Electricity to 2004*, Final Report, December 2000.

The costs to supply these areas largely mirror those faced by AGLRE, with the exception that the cost of gas is slightly greater and the cost of transmission is slightly cheaper for Country Energy compared to AGLRE.

As set out in the Tribunal's decision on AGLRE, it analysed AGLRE's tariffs on the basis of the following costs:

- the field price of gas, consistent with AGLRE's contractual obligations, including provisions for escalation
- haulage (transportation) costs for the use of Moomba-Sydney pipeline system. (Based on information provided by AGLRE, these costs increased by more than the CPI from July 2000) [18]
- network costs (that is, local distribution pipeline and metering), consistent with the network tariffs in AGL Gas Network's revised access arrangement
- retail costs consistent with the outcomes of the Tribunal's investigation in the electricity sector of $40-$60 per customer (including $5 for the costs of establishing full retail competition)
- a net retail profit margin of 2-3 percent.

[18] Haulage cost for the use of the Moomba-Sydney Pipeline System is charged according to a Gas Transportation Deed between the Australian Pipeline Trust and AGL Wholesale Gas Limited (AGLWG). AGLWG charged AGLRE (serving tariff customers) and AGL Energy Sales and Marketing Ltd (serving contract customers) in accordance with capacity reservation, forecast volume and pricing provisions in the Deed.

APPENDIX 3 – VOLUNTARY PRICING PRINCIPLES

Country Energy voluntarily agrees to the following pricing principles:

1. Standard supply tariffs, as outlined in the VPPs, will be available to all low-usage retail customers whose consumption is below 1 TJ a year until 30 June 2004.

2. A review of the VPPs arrangement will be conducted under special circumstances, either at the request of Country Energy or the discretion of the Tribunal, to consider matters such as:

   - additional costs as a result of any difference between the CPI exclusive of GST and the actual escalation of Country Energy's costs
   - changes in Country Energy's cost components such as the field price of natural gas or distribution access charges
   - any decision on consumption profiling that deems a profile other than the market profile that has been used for cost allocation
   - changes in market circumstances that in the Tribunal's opinion warrant a review of VPPs.

   Standard supply tariffs in the South-West Slopes will be subject to change as a consequence of the Tribunal's review of AGLRE's standard supply tariffs.

3. Standard supply tariffs should be broadly cost reflective. A transition period is required to achieve cost reflectivity during which customers should not be exposed to undesirable price shocks. Country Energy will implement tariff changes over the period 2002 to 2004 subject to the tariff plan (as defined below in paragraph 4) and the following price constraints:

   The bill of an individual residential customer in a financial year is not to exceed the bill for the corresponding period of the preceding financial year (for the same pattern and volume of gas consumption) by more than $20 (in nominal terms) or 5 percent in real terms, whichever is the greater.

4. Country Energy's tariff plan over the period 2002 to 2004 is shown in the tables below. The CPI index for adjusting prices in Wagga Wagga and Cooma and Bombala is defined in paragraph 11, and the CPI index for adjusting prices in Culcairn, Holbrook, Henty and Temora is defined in paragraph 12.

   The tariffs specified for 2004 are to be viewed as indicative only. The actual tariffs that will apply in each year will be determined annually by Country Energy, and approved by the Tribunal, in accordance with actual annual movements in the CPI.

Table A3.1: Agreed tariff plan for tariff customers using <1 TJ in Wagga Wagga in 2001 dollars (excluding pass through of full retail contestability costs)

Year	Residential – General	Residential – Hot Water	Commercial	Industrial
1 January 2002				
Quarterly Access Charge	26.85	26.85	29.57	236.87
Minimum Charge	6.73	6.73	4.01	0
$/GJ	9.27	9.04	8.96	8.73
1 January 2003				
Quarterly Access Charge	29.89	29.89	35.29	299.95
Minimum Charge	7.43	7.43	2.03	0
$/GJ	9.24	9.01	8.45	8.16
1 January 2004				
Quarterly Access Charge	33.59	33.59	35.72	303.64
Minimum Charge	7.21	7.21	5.09	0
$/GJ	8.94	8.72	8.51	8.23

Table A3.1: Agreed tariff plan for tariff customers using <1 TJ in Cooma and Bombala (excluding pass through of full retail contestability costs)

Year	Residential – General	Business
1 January 2002		
Quarterly Access Charge	CPI_2^{-GST}	CPI_2^{-GST}
$/GJ	CPI_2^{-GST}	CPI_2^{-GST}
1 January 2003		
Quarterly Access Charge	CPI_3^{-GST}	CPI_3^{-GST}
$/GJ	CPI_3^{-GST}	CPI_3^{-GST}
1 January 2004		
Quarterly Access Charge	CPI_4^{-GST}	CPI_4^{-GST}
$/GJ	CPI_4^{-GST}	CPI_4^{-GST}

Table A3.3: Agreed tariff plan for customers using <1 TJ in Culcairn, Holbrook, Henty and Temora (excluding pass through of full retail contestability costs) [(1)]

Tariff	2001/02	2002/03 (Indicative only)	2003/04 (indicative only)
Residential general:			
Supply charge	-	$3.75/qtr	$3.75/qtr
Energy rate	CPI_1^{-GST}	-	-
Residential economy:			
Supply fee	-	$2.50/qtr	CPI_3^{-GST} + 3%
Energy rate	CPI_1^{-GST}	CPI_2^{-GST}	1st block:CPI_3^{-GST} + 3% 2nd block:CPI_3^{-GST} – X% [(2)]
Residential economy plus:	CPI_1^{-GST}	CPI_2^{-GST} + 3%	CPI_3^{-GST} + 3%
Supply fee			
Energy rate	CPI_1^{-GST}	CPI_2^{-GST} + 3%	CPI_3^{-GST} + 3%
1st block	CPI_1^{-GST}	CPI_2^{-GST} – 1%	CPI_3^{-GST} – 1%
2nd block			
Business 0-1TJ:			
Supply fee	CPI_1^{-GST} + 3%	CPI_2^{-GST} +3%	CPI_3^{-GST} CPI + 3%
Energy rate	CPI_1^{-GST}	CPI_2^{-GST} – 1%	CPI_3^{-GST} CPI – 1%

Note:

1. The CPI index for adjusting prices is CPI exclusive of GST.
2. The value of “X” will be determined at the Tribunal’s mid term review of AGLRE’s tariffs.

5. Where customers have accepted a competitive offer under a contestable gas retail market, they will be able to revert to Country Energy's standard supply tariffs without penalty once they have met their contractual obligations.

6. Country Energy will be able to pass through to customers prudent costs associated with implementing full retail contestability in addition to the price constraints specified in paragraph 3 and the tariff plan in paragraph 4.

   The level of costs associated with full retail competition and the allocation of these costs shall be approved by the Tribunal, prior to their inclusion in tariffs.

7. Country Energy will not vary miscellaneous fees and charges without prior approval of the Tribunal.

8. Country Energy must notify the Tribunal in writing at least one month prior to amending its standard supply tariffs for residential, industrial or commercial customers. This notification must include the following:

a) an estimate (and associated methodology) for the expected impact on revenue of the proposed price changes. If the estimated revenue impact is positive, *evidence must be* supplied showing that either:
   - costs have *increased* for supplying that particular tariff customer or class of customer, or
   - existing prices *do not* cover costs associated with that particular tariff customer or class of customer.

   Costs may include an allowance for an appropriate margin.

b) a breakdown of the costs of supply into fixed costs per customer and costs which vary with the absolute magnitude of gas consumption per customer (in $ per GJ)

c) a customer impact analysis detailing in tabular form:
   - number of customers in particular consumption ranges
   - current cost of gas per annum associated with consumption at the midpoint of the relevant range
   - proposed cost per annum associated with consumption at the midpoint of the relevant range
   - absolute and proportional change in the cost per annum associated with consumption at the midpoint of the relevant range.

d) other supporting information required by the Tribunal.

9. Under this voluntary agreement the Tribunal will monitor price changes to determine whether they accord with the VPPs set out in paragraph (1) to (8) above. Nothing in these VPPs removes the Tribunal's ability to impose a gas pricing order pursuant to section 27 of the Gas Supply Act or indeed any other powers of the Tribunal.

10. Country Energy will provide information relating to the development of a competitive gas retail market, if requested by the Tribunal.

11. For the purpose of tariff adjustments made in accordance with the tariff plan in Table 1 and 2, **CPI-GST** means the number derived from the application of the following formula:

For the year 2002:

$$CPI_2^{-GST} = \left(\frac{CPI_{Dec2000}^{-GST} + CPI_{Mar2001}^{-GST} + CPI_{Jun2001}^{-GST} + CPI_{Sep2001}^{-GST}}{CPI_{Dec1999} + CPI_{Mar2000} + CPI_{Jun2000} + CPI_{Sep2000}^{-GST}} - 1 \right) \times 100\,\%$$

For the year 2003:

$$CPI_3^{-GST} = \left(\frac{CPI_{Dec2001}^{-GST} + CPI_{Mar2002}^{-GST} + CPI_{Jun2002}^{-GST} + CPI_{Sep2002}^{-GST}}{CPI_{Dec2000}^{-GST} + CPI_{Mar2001}^{-GST} + CPI_{Jun2001}^{-GST} + CPI_{Sep2001}^{-GST}} - 1 \right) \times 100\,\%$$

and for the year 2004:

$$CPI_3^{-GST} = \left(\frac{CPI_{Dec2002}^{-GST} + CPI_{Mar2003}^{-GST} + CPI_{Jun2003}^{-GST} + CPI_{Sep2003}^{-GST}}{CPI_{Dec2001}^{-GST} + CPI_{Mar2002}^{-GST} + CPI_{Jun2002}^{-GST} + CPI_{Sep2002}^{-GST}} - 1 \right) \times 100\,\%$$

12. For the purpose of adjustments made in accordance with the tariff plan in Table 3, **CPI-GST** means the number derived from the application of the following formula:

For the year 2002/03:

$$CPI_2^{-GST} = \left(\frac{CPI_{Jun2001}^{-GST} + CPI_{Sep2001}^{-GST} + CPI_{Dec2001}^{-GST} + CPI_{Mar2002}^{-GST}}{CPI_{Jun2000} + CPI_{Sep2000}^{-GST} + CPI_{Dec2000}^{-GST} + CPI_{Mar2001}^{-GST}} - 1 \right) \times 100\%$$

and for the year 2003/04:

$$CPI_3^{-GST} = \left(\frac{CPI_{Jun2002}^{-GST} + CPI_{Sep2002}^{-GST} + CPI_{Dec2002}^{-GST} + CPI_{Mar2003}^{-GST}}{CPI_{Jun2001}^{-GST} + CPI_{Sep2001}^{-GST} + CPI_{Dec2001}^{-GST} + CPI_{Mar2002}^{-GST}} - 1 \right) \times 100\,\%$$

13. For the purposes of paragraphs 11 ands 12, **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 the Tribunal that is its best estimate of the index.

CPI-GST means the CPI exclusive of the net cumulative impact since 1 July 2000 of:

a) the GST; and

b) changes to any other Commonwealth, State or Territory taxes or charges, consequent upon the introduction of the GST

and is calculated as:

(A) an index published by a person appointed by the Tribunal which is that person's best estimate of CPI-GST; or

(B) an index published by the Tribunal that is its best estimate of CPI-GST.

CPI is as defined and where the corresponding subtext (for example $_{Jun2000}$) means the CPI for the quarter end of the year indicated (in the example the June quarter for the year 2000);

CPI-GST is as defined and where the corresponding subtext (for example $_{Jun2001}$) means the CPI for the quarter end of the year indicated (in the example, the June quarter for the year 2001).

APPENDIX 4 - MISCELLANEOUS CHARGES

Miscellaneous charges are imposed to signal to customers the costs of providing these 'miscellaneous' services, such as initial connections and reconnections. Country Energy's current miscellaneous charges are shown in the table below. Unlike similar charges within the electricity industry,[19] which are currently regulated by the Tribunal, Country Energy's miscellaneous charges have never been regulated.

This appendix provides further details on the basis of the Tribunal's decision in relation to miscellaneous charges.

Country Energy's current retail miscellaneous charges

Country Energy's gas retail miscellaneous charges are currently less than those charged by AGLRE, and commensurate with those charged by NSW electricity retailers. Country Energy's existing charges are set out below.

Table A4.1: Miscellaneous charges levied by NSW gas retailers

Description of fee	AGLRE	Country Energy	Origin Energy
Account establishment fee	$22.00	Gas only: $16.50 Combined gas and electricity: $44.00	-
Account establishment fee (pensioner)	$11.00	-	-
Collector call	$33.00	$33.00	Business - $16.50–$22.00
Disconnection/Reconnection	$77.00	$66.00	No disconnection fee Reconnection due to credit issue: $16.50 after disconnection $33.30 after meter removal $88.00 after street disconnection
High bill field visit	$53.90	-	-
Late fee	$11.00	$5.50	-
Dishonoured payment	$23.10	Twice bank fee.	$11.00
Security deposit	Residential: $100 Business: 2.5 times the average monthly account Refund after bills paid on time for 2 years	-	-

19 Miscellaneous charges levied by AGLRE are regulated by the Tribunal under VPPs arrangements, which came into effect from 1 July 2001.

APPENDIX 5 – LIST OF SUBMISSIONS

Organisation	Contact	Date Submitted
Origin Energy	Tony Wood	6 June 2001
Public Interest Advocacy Centre (PIAC)	Trish Benson	4 June 2001
AGL	Phil James	6 June 2001
GSE (now Country Energy)	Peter Hoogland	4 June 2001

APPENDIX 6 - SUMMARY OF SUBMISSIONS

Coverage of Regulation

PIAC, Origin Energy and AGL Energy Sales and Marketing (ES & M) all agree that standard supply tariffs should apply to customers consuming 1TJ or less. PIAC notes that customers in Country Energy's area may not be keenly contested and therefore those consuming over 1 TJ may still not be able to secure 'competitive' prices. Origin Energy believes that industrial and commercial customers standard supply tariffs should not be subject to price constraints as this would be retrogressive.

PIAC supports the government's policy that all low-usage customers should have a regulated tariff and agrees that the Tribunal needs to consider the appropriate level of any standard supply tariffs for those areas that do not presently have regulated tariffs. Origin Energy opposes extension of regulation to geographic areas that are currently not regulated.

Form of Regulation

Both AGL ES & M and Origin Energy support the Tribunal's VPPs approach. AGL feels that if the Tribunal is required to impose a gas pricing order, it should do so by adjusting the existing VPP's which have been developed following comprehensive price reviews.

Origin Energy does not believe that it is necessary for the Tribunal to determine standard supply prices for all regional centres. Instead, Origin believes that incumbent retailers should be required to offer at least one standard supply tariff in areas supplied by it. In areas where costs differ materially, they will then have the incentive to develop separate standard supply tariffs, with the approval of the Tribunal, for specific areas. Origin also do not agree with the policy of 'right to return' to standard supply tariffs.

AGL believe that standard supply prices should be set so as to create an incentive for customers to enter the competitive market, ie, with sufficient 'headroom'. Pricing arrangements should also be flexible enough to accommodate unforseen costs and allow pass through of new charges or step changes in charges. AGL also find it reasonable to establish the incumbent retailer as standard supply retailer in the early stages of contestability, but as contestability progresses retailer failure could impose significant costs of supply on the incumbent. Therefore under retailer of last resort situations retailers should not be obliged to supply at standard supply tariffs. Any additional costs should be passed onto the customers or onto standard supply tariffs.

Rebalancing Constraints

PIAC notes that the Tribunal will consider higher price constraints for Country Energy and states that price increases of more than 5 percent are unacceptable, particularly in the context of an average gas bill of around $70.

AGL feels that price constraints should enable retailers to achieve full cost recovery of standard supply tariffs within a reasonable time period and without imposing price shocks on customers.

Origin Energy notes that price constraints prevent some cross-subsidies being unwound prior to January 2002, which will entail some customers being on prices below cost. The threat of cherrypicking will prevent their costs being cross-subsidised by others. Origin therefore feel that price constraints should be raised for these subsidised customers.

Retail Margin

Country Energy highlights in its submission that there are material differences between the retail margin allowed for GSE and those in two more recent decisions (AGLRE and the retail electricity review). Country Energy also argues that the Tribunal has also defended industry average retail margins in the electricity industry, where appropriate, and on this basis Country Energy argues that its retail margin should not differ from that allowed for AGLRE.

PIAC states that a higher retail margin should not be considered for Country Energy if it entails price shocks for residential customers.

Origin Energy believe that the risks associated with exposure to the market carriage model in Albury and Murray Valley need to be recognised when considering the appropriate level of retail margin. They also feel that because retailers with a larger customer base will be able to spread their fixed costs more widely, Origin's net and gross margin should not be equated with AGLRE's as this will result in under-recovery for Origin.

Origin supports the Tribunal's recognition of retail risk as part of the analysis of retail margin but wants the impact of the retailer of last resort obligation among other issues to be also considered.

Miscellaneous Charges

PIAC suggests that miscellaneous charges should be frozen at current levels, for the duration of the Tribunal's decision. While, AGL believes that the cost of additional specific services such as disconnections and reconnections should be borne by the customers involved.

Country Energy (ie, as GSE) did not raise the issue of miscellaneous charges in its submission to the Tribunal.

Treatment of Contestability Costs

Country Energy submits that the Tribunal should allow full pass through of contestability costs for both retail and network operators, as membership of GRMCo is a license condition.

PIAC holds the view that only those households that benefit from competition should pay the costs of introducing competition, but notes that for AGLRE customers costs are to be recovered from those who do not switch, ie, those who stay on standard supply tariffs. For the sake of consistency, PIAC therefore proposes the same treatment for Country Energy.

AGL consider that contestability costs should be treated as pass through including additional authorisation fees to cover government expenditure on full retail contestability.

Origin Energy states that the costs of full retail contestability should be recovered prior to implementation, but that price constraints may prevent this.