

Regulated retail prices for gas in NSW

Fact Sheet - AGL proposal for regulated retail gas prices to increase in relation to special circumstances

February 2008

A Fact Sheet on AGL's application for a price increase under the special circumstances provision of the Voluntary Transitional Pricing Arrangements

Background

In June 2007 IPART finalised voluntary transitional pricing arrangements with the standard gas suppliers in NSW for the regulated retail prices.¹ IPART developed a specific agreement with each of the standard suppliers, including AGL. The agreements provide for annual price increases of CPI or less. In special circumstances a supplier may apply to IPART to vary prices outside of this limit.

On 17 January 2008 AGL submitted a proposal for average price increases of 7.3 per cent (for customers using less than 1TJ) on 1 April 2008, which is different to the standard arrangements of a CPI price increase on 1 July that is provided for in the voluntary transitional pricing arrangement. AGL contends that two special circumstances have occurred:

- ▼ Firstly, AGL was unsuccessful in securing sufficient transmission on the Eastern Gas Pipeline for gas required for peak winter usage - as a result, AGL is seeking to replace the lost capacity by entering into a supply agreement with producers in the Cooper Basin (South Australia) and transporting the gas on the Moomba to Sydney pipeline.
- ▼ Secondly, additional transmission charges on the Moomba to Sydney Transmission Pipeline (used to bring the peak gas from the Cooper Basin to Sydney) as a result of contractual changes. AGL has in place a transmission agreement with Australian Pipeline Trust (APA). These charges are unregulated.

¹ IPART, Promoting retail competition and investment in the NSW gas industry, Regulated gas retail tariffs and charges for small customers 2007 to 2010, Gas - Final Report and Voluntary Transitional Pricing Arrangements, June 2007.

Process

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

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

Special circumstances include, but are not limited to, events that result in changes to costs such as regulatory changes, taxation changes, an unanticipated field price review or fundamental changes to gas market frameworks and arrangements².

AGL has requested an expedited review of this price increase. IPART recognises that the price increases are significant, but the request is urgent to allow for the supply of winter gas to the Sydney market. IPART has agreed to undertake and complete by the end of February a review of whether the incremental costs that AGL identified are reasonable and should be passed onto tariff market customers. Only those costs that IPART can verify before the end of February will be passed onto customers at this stage. If necessary, other costs will be considered in a second, more comprehensive review that would take place later in 2008.

Due to the commercially sensitive nature of the cost information and the condensed timeframe, IPART will not undertake formal public consultation of this incremental review, but will engage expert advice to assist its decision making.

The Tribunal will issue a notice of its decision in early March 2008.

James P. Cox
Chief Executive Officer and Full Time Member

² IPART, *Promoting competition in the NSW retail gas market, Regulated retail tariffs 2007-2010*, June 2004, p 3.