

FACT SHEET

Incorporating the impact of the carbon price into regulated retail gas prices in NSW from 1 July 2012

April 2012

All household and small business retail gas customers in NSW (retail customers) can choose their gas retail supplier. However, customers can also choose to remain on regulated retail gas prices with the standard retailer in their area.

In 2010, we agreed Voluntary Transitional Pricing Arrangements (VTPAs) with each standard gas retailer in NSW for the period 1 July 2010 – 30 June 2013 (refer to Box A.1 for the standard retailers and their supply areas). Standard retailers set their regulated retail gas prices in line with their VTPAs, and we monitor their compliance.

The Commonwealth Government's carbon pricing mechanism will place additional costs on standard retailers in supplying gas to retail customers from 1 July 2012. The VTPAs provide for standard retailers to increase retail gas prices to reflect these additional costs.

The standard retailers have proposed increases in residential retail gas prices of 6 to 9% to compensate for the additional costs of the carbon price. Our role is to assess whether this increase is reasonable, and if so, standard retailers will be able to increase their retail gas prices on 1 July 2012 to recover these additional costs.

These additional costs will mean that the gas price increases from 1 July 2012 are likely to be larger than was previously indicated.¹

This fact sheet discusses:

- ▼ how the carbon pricing mechanism is likely to affect the cost of supplying gas to retail customers
- ▼ how the standard retailers propose to calculate these costs and the likely impact on customer bills under their proposals, and
- ▼ how we will assess these proposals, including the opportunities for consultation and the timing of our decision.

¹ Under the current VTPAs, regulated retail gas prices were to increase by an average of 3.2% to 4.1% from 1 July 2012.

The introduction of a carbon price from 1 July 2012

From 1 July 2012, the Commonwealth Government's carbon pricing mechanism under the *Clean Energy Act 2011* (Cth) (Act) will impose direct costs on around 500 entities in Australia by requiring them to pay for their carbon emissions.²

Many of these entities will be part of the gas supply chain that delivers gas to households and businesses in NSW. This means they may be liable for the costs of carbon emissions associated with extracting gas, transporting it over the transmission and distribution networks, and the consumption of gas by retail customers.

The price of gas paid by retail customers will need to reflect the costs of carbon emissions that are incurred along the supply chain. As such, the additional costs that are directly payable by these entities will flow through to retail gas prices.

What is the impact of the carbon price on retail gas prices?

Estimating the effects of the carbon price on the cost of supplying gas to retail customers is not straightforward.

The direct impact of the carbon price on retail gas prices is a function of the cost of carbon emissions from 1 July 2012 (legislated at \$23/tonne CO₂ in 2012/13) and the amount of emissions at each stage of the supply chain. However, there is some uncertainty in relation to:

- ▼ the amount of carbon emissions resulting from extracting gas from different sources, transporting it over the transmission and distribution networks, and the consumption of gas by retail customers, and
- ▼ which of those carbon emissions will be liable under the Act, and if so, how liability will be assessed under the Act, and the timeframe for meeting those liabilities (the Commonwealth Government is still finalising the legislation that will regulate these issues).

² In the fixed price period (1 July 2012 – 30 June 2015), carbon permits will be issued at a fixed price to entities who are liable under the *Clean Energy Act 2011* (Cth).

Standard retailers' proposals

We have received proposals from AGL, Origin Energy (for their Country Energy and Albury/Murray Valley customers) and ActewAGL to pass through the additional costs of the carbon price to retail customers from 1 July 2012.

The standard retailers have estimated the impact of the carbon price using a range of approaches and data sources, including data from the National Greenhouse Accounts.³ This reflects the uncertainty in determining the amount of carbon emissions resulting from supplying gas to retail customers, the extent of liability under the Act, and how upstream suppliers will pass on these additional costs through to the retailers.

Table 1 summarises the percentage and dollar increase in a typical residential customer's bill under each standard retailer's proposal. For business customers that typically use more gas per annum, the impact in dollar terms is likely to be larger.

Table 1 Retailers proposed impact of the carbon price on retail gas prices and bills for typical residential customers

	%	\$
AGL (Greater Sydney region and Central NSW) ^a	6.3%	\$45
Country Energy (SW and inland NSW) ^b	7.1%	\$55
Origin Energy (Albury/Murray Valley) ^c	9.0%	\$75
ActewAGL (NSW regions surrounding the ACT) ^d	5.5-7.6%	\$29-84

^a This assumes a typical customer uses 23GJ of gas per annum. Impact on bills includes GST.

^b This assumes a typical customer in Wagga Wagga uses 32GJ of gas per annum. Impact on bills includes GST.

^c This assumes a typical customer uses 46GJ of gas per annum. Impact on bills includes GST.

^d This assumes a typical customer uses 26GJ, 46GJ and 16GJ of gas per annum in the Capital, Queanbeyan and Shoalhaven regions respectively. Impact on bills includes GST.

Source: Standard retailers' proposals.

The proposed increases in regulated retail gas prices in Table 1 exclude any increases in network prices that may occur on 1 July 2012.

³ The *National Greenhouse Accounts (NGA) Factors* are prepared by the Department of Climate Change and Energy Efficiency (DCCEE) and is designed for use by companies and individuals to estimate greenhouse gas emissions. See http://www.climatechange.gov.au/publications/greenhouse-acctg/national_greenhouse-factors.aspx.

How we will assess these proposals

We will review each standard retailers proposed impact of the carbon pricing mechanism to ensure it is reasonable.

In undertaking our assessment, we will consult with:

- ▼ the standard retailers to seek further information on key elements of their proposals
- ▼ the Commonwealth Government as to how the information in the National Greenhouse Accounts has been determined and how liability will be assessed under the Act
- ▼ the Australian Energy Regulator as to how network prices will capture the costs of carbon emissions of transporting gas over the distribution network, and
- ▼ other stakeholders, including as part of our information session (referred to below).

Timing and consultation

The Standard Retailers' proposals are available on our [website](#).

We will hold an information session on 30 April 2012, following our public hearing on our electricity draft report, *Changes in regulated retail prices from 1 July 2012*.

The information session will provide an opportunity for:

- ▼ the standard retailers to explain their proposals, and
- ▼ IPART and stakeholders to seek clarification on key aspects of their proposals.

Gas network price increases

Gas network prices typically make up around half of a customer's retail bill and under the VTPAs are passed through into retail prices. Gas network prices will be approved by the Australian Energy Regulator (AER) in June 2012.

For some customers these network price increases are likely to be larger than were previously envisaged. For example, gas network price increases for AGL customers and some ActewAGL customers are likely to increase by around 8% in real terms from 1 July 2012.⁴

⁴ Jemena Gas Network Access arrangement - NSW gas distribution networks 1 July 2010 - 30 June 2015: Amended by order of the Australian Competition Tribunal, 30 June 2011
[http://www.aer.gov.au/content/item.phtml?itemId=749563&nodeId=f2b51f00c91fa614764fa71a5f3ccf8&fn=Access%20arrangement%20\(post%20mine%20subsidence\)%20%20JGN%20NSW%20gas%20distribution%20-%20Final%20Decision%20September%202011.pdf](http://www.aer.gov.au/content/item.phtml?itemId=749563&nodeId=f2b51f00c91fa614764fa71a5f3ccf8&fn=Access%20arrangement%20(post%20mine%20subsidence)%20%20JGN%20NSW%20gas%20distribution%20-%20Final%20Decision%20September%202011.pdf)

A Standard retailers for gas supply in NSW

Box A.1 Standard retailers and their standard supply areas in NSW

Customers that consume less than 1 terajoule (TJ) per year (around \$17,000 per annum) are eligible for gas supply at regulated retail gas prices under a standard form customer supply contract with standard gas retailers in their supply areas.

There are 5 different standard supply areas in NSW:

- ▼ 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.⁵
 - ▼ Country Energy's (now owned by Origin) 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 - Victorian border, and includes Albury and the Murray Valley Towns.
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⁵ 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. We have monitored the prices 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 prices as those in South East Queensland.