

**Gas Pricing in
Albury, Wagga Wagga and
Other Regional Centres in NSW
Supplied by Origin Energy and
Great Southern Energy**

ISSUES PAPER

**INDEPENDENT PRICING AND REGULATORY TRIBUNAL
OF NEW SOUTH WALES**

**INDEPENDENT PRICING AND REGULATORY TRIBUNAL
OF NEW SOUTH WALES**

**Gas Pricing in
Albury, Wagga Wagga and
Other Regional Centres in NSW
Supplied by Origin Energy and
Great Southern Energy**

ISSUES PAPER

TABLE OF CONTENTS

1	INTRODUCTION	1
1.1	Background	1
1.2	Review process	1
1.3	Key issues	1
1.4	How to make a submission	2
2	COMPETITION AND REGULATION IN THE NEW SOUTH WALES GAS MARKET	3
2.1	Introducing competition into the tariff market	3
2.2	The Tribunal's role, duties and powers	3
2.3	Current regulatory arrangements	5
2.4	Developments in natural gas and electricity markets	6
2.4.1	Extension of the Full Retail Contestability timetable	6
2.4.2	Development of Government policy on Full Retail Contestability in gas	6
2.4.3	Review of AGLRE gas pricing	7
2.4.4	Review of regulated retail prices for electricity	7
2.5	Objectives of default tariffs	8
2.6	Components of the costs of the retail supply of gas	8
2.6.1	Cost of gas, haulage, transportation and metering	9
2.6.2	Retail costs and margin	9
3	ISSUES	11
3.1	Coverage of regulation	11
3.1.1	Customers consuming between 1 TJ and 10 TJ pa	11
3.1.2	Regulation of other areas	11
3.2	Form of regulation	11
3.3	Setting price limits	12
3.4	Retail margin	13
3.5	Miscellaneous charges	14
3.6	Treatment of contestability costs	15
APPENDIX 1	EXISTING TARIFF MARKET IN ALBURY AND WAGGA WAGGA	17
A1.1	Albury	17
A1.2	Wagga Wagga	17
APPENDIX 2	GAS SUPPLY ACT 1996	19
APPENDIX 3	CURRENT VOLUNTARY PRICING PRINCIPLES FOR ORIGIN ENERGY AND GREAT SOUTHERN ENERGY (WITH EFFECT FROM 1 JANUARY 2000 TO 30 JUNE 2001)	21
APPENDIX 4	CURRENT PRICES FOR ORIGIN ENERGY AND GREAT SOUTHERN ENERGY	23
APPENDIX 5	VOLUNTARY PRICING PRINCIPLES FOR AGLRE	25

1 INTRODUCTION

1.1 Background

In February 2000, the Tribunal agreed on a set of Voluntary Pricing Principles with Great Southern Energy (GSE) and Origin Energy (Origin). The Voluntary Pricing Principles covered the tariff markets in Albury, Moama and Wagga Wagga for the period to 30 June 2001. The Tribunal now needs to determine how tariffs in these regions will be regulated from 1 July 2001.

There have also been a number of changes in circumstances that warrant consideration in the review of the Voluntary Pricing Principles in Albury and Wagga Wagga (see section 2). The review seeks to analyse the effectiveness of the pricing principles established by the Tribunal's previous review and, in the light of recent changes in Government policy and other relevant decisions by the Tribunal, determine the form of regulation for the period leading up to full retail competition.

1.2 Review process

The release of this issues paper is the first stage in the Tribunal's review of the Voluntary Pricing Principles for Great Southern Energy and Origin Energy. GSE and Origin have been asked to make submissions to the review and, in addition, public submissions are sought.

The timetable for the review process is provided below.

Action	Timetable
Release of issues paper	First week May 2001
Public submissions due	4 June 2001
Release of draft decision	27 July 2001
Public submissions due	31 August 2001
Release of final decision	September/October 2001 ¹

1.3 Key issues

The Tribunal has identified six key issues on which it particularly seeks comment. These issues are:

1. coverage of regulation
2. form of regulation
3. setting price limits
4. retail margin
5. miscellaneous charges
6. treatment of retail contestability costs.

¹ Since the review is not expected to be completed before the expiry of the current Voluntary Pricing Principles, GSE and Origin have been requested to extend the existing arrangements until this review is completed.

To assist stakeholders in making their submissions, this paper discusses each of these issues and provides relevant context and background information.

1.4 How to make a submission

The Tribunal encourages interested parties to comment on the issues raised in this paper, 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:

Marianne Herbert
Voluntary Pricing Principles Review
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 **Monday, 4 June 2001**.

Any inquiries regarding the review should be directed to either Gary Drysdale on (02) 9290 8477 or Marianne Herbert on (02) 9290 8450.

2 COMPETITION AND REGULATION IN THE NEW SOUTH WALES GAS MARKET

The New South Wales Government is progressively introducing competition into the natural gas market. In the lead up to and early stages of competition, however, the incumbent retailers such as GSE and Origin, will still be dominant and have an effective monopoly in some regions or customer segments. For this reason, the Tribunal has an important role to play in regulating the prices that GSE and Origin can charge during this transition period. This section provides the context to this review, including:

- the introduction of competition into the gas market
- the Tribunal's role, duties and powers in this market
- current regulatory arrangements, including the objectives of default tariffs
- the cost of supplying gas
- some developments in the natural gas and electricity markets in New South Wales.

2.1 Introducing competition into the tariff market

Tariff customers who purchase large quantities of gas became eligible to choose their supplier in October 1999. Low volume users became eligible (in principle) to choose their supplier from July 2000. However, although there are no legal or regulatory barriers in place that prevent any gas customer in New South Wales taking advantage of competition in the gas retail market, there have been delays in putting in place the necessary retail market systems². As a consequence, contestability in the tariff market has not effectively occurred.

The industry is now well advanced in developing the business rules for a competitive market and it is expected that a contractor will be engaged shortly to implement the retail systems based on these rules. The New South Wales Minister for Energy recently announced that full retail competition will be introduced from 1 January 2002 to coincide with the commencement of competition in the electricity industry.³

2.2 The Tribunal's role, duties and powers

In December 2000, the New South Wales Ministry of Energy and Utilities (MoEU) issued the Government's policy framework to support full retail competition in gas.⁴ As part of this framework, the Tribunal's responsibilities have been defined as follows:

- administering retail price regulations
- authorising (licensing) gas retailers and network operators from November 2000
- monitoring compliance with retail price regulation, authorisation conditions and customer protection regulations.

² For example, systems that will allow for the transfer of customers between different retailers.

³ This date was announced in the Speech for the Second Reading of the *Gas Supply Amendment (Retail Competition) Bill 2001* on 4 April 2001.

⁴ NSW Ministry of Energy and Utilities, *Policy Framework for Full Retail Competition in Gas*, 21 December 2000.

The New South Wales Government is proposing amendments to the *Gas Supply Act 1996* (the Act) to facilitate the introduction of full retail contestability and the transition to effective competition. The *Gas Supply Amendment (Retail Competition) Bill 2001* (the Bill) is currently before Parliament. The Bill amends the Act in order to provide the legislative foundations to complete the gas retail reforms. Further, it defines the Government's and Tribunal's roles and abilities with regard to regulation of the entities involved in the gas retail market.

If the Bill is passed, the Tribunal's role and powers may change slightly. Consequently, the Tribunal's approach to price regulation needs to take account of any new legislative responsibilities. The Tribunal will, however, continue to be responsible for regulation of prices for tariff customers and will continue to regulate under the Act.

The Tribunal's principal power for regulating gas tariff market prices is a gas pricing order. This can be issued at any time. A gas pricing order is provided for under section 27 of the Act. Essentially, a gas pricing order can:

- 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.

The Tribunal may also regulate retail gas prices by Voluntary Pricing Principles⁵. This is a light-handed and less formal approach to fulfilling the duties required by the Act.

If the Bill is passed, however, the Minister will have the power to give the Tribunal a written referral requiring the Tribunal to make a gas pricing order within a time specified in the referral. In that event, the Tribunal must take all reasonable steps to comply with the requirements of the referral.

For further detail on the powers of the Tribunal as established by the Act, but without the amendments proposed in the Bill, see Appendix 2.

The Tribunal's role will change following the introduction of competition into the retail market. During this transition period, the Tribunal needs to ensure that GSE and Origin do not use their dominant market position to earn excessive profits from tariff customers, to lower their service standards, or to prevent the development of effective competition.

Once effective competition is established, market forces should be sufficient to ensure that suppliers provide services of the quality demanded by customers, and that they do not earn excessive profits. The Tribunal's ongoing role will have less emphasis on preventing GSE and Origin from earning excessive profits.

However, the Tribunal considers that effective competition is likely to take some time to develop due to GSE's and Origin's market dominance and non-metropolitan location. The full extent of competition, the likely impact on prices and services, and the likely time at which the benefits of competition are received by customers cannot be predicted with any degree of certainty.

⁵ A voluntary arrangement between a supplier and the Tribunal setting out how tariffs are determined.

This is consistent with the New South Wales Government's view:

It will take time for retail competition in gas to take full effect. In the meantime, retailers could exercise undue market power in a way that could lead to monopoly pricing behaviour. There is also potential for reductions in service levels or discontinuance of supply to customers in vulnerable market segments. Therefore an appropriate level of retail price regulation is required to protect residential and small business customers until there are sufficient competitive pressures in the gas retail market.⁶

To enable the Tribunal to protect customers' interests in the transition from monopoly provision to effective competition in the gas market, the Government's policy framework provides for the Tribunal to establish 'default tariffs'. Default tariffs are to be incorporated in default customer supply contracts⁷ for the following types of customers:

- customers using less than 1 TJ of gas annually and whose premises are physically connected to a network at 1 July 2001⁸ and
- customers who do not have a choice of retailer, or who do not consciously exercise a choice of retailer.

In addition to these customer protection mechanisms, MoEU has proposed to implement a retailer of last resort scheme. MoEU's current proposal is that the retailer of last resort, as a default service provider, would be required to offer supply at no more than the default tariff set by the Tribunal.⁹ The Tribunal notes that this Government policy is currently under development.

2.3 Current regulatory arrangements

In February 2000, the Tribunal and Origin and GSE agreed to a set of Voluntary Pricing Principles for the Albury and Wagga Wagga markets¹⁰ (see Appendix 3). This light-handed form of regulation was decided upon because the Tribunal's analysis suggested that current average tariff prices were reasonable and that competition could be expected to constrain these prices in the future.

⁶ NSW Ministry of Energy and Utilities, *Policy Framework for Full Retail Competition in Gas*, 21 December 2000, p 16.

⁷ The *Gas Supply Amendment (Retail Competition) Bill* requires the existing incumbent gas suppliers to provide gas to customers under a standard form contract which will contain minimum regulated terms and conditions.

⁸ The MoEU notes in its policy framework paper (p9) that '[t]he obligation to offer a default supply contract will extend to premises physically connected after 1 July 2001. The costs of new physical connections may be paid directly by the customer by contracting separately for the connection to be made, or paid by the retailer and recovered through an initial supply contract over a certain period. The obligation to offer a default supply contract will not apply to new customers whose premises are being physically connected for the first time and where the connection costs are to be recovered through the initial supply contract. On expiration or termination of the initial supply contract the customer will then be able to choose to be supplied under a default supply contract. However, if the customer pays separately for the physical connection, the customer would immediately be eligible for a default supply contract.'

⁹ NSW Ministry of Energy and Utilities, *Default supply contracts and pricing in the fully competitive gas retail market*, Issues Paper, 12 December 2000, p 9.

¹⁰ IPART, *Final Report, Review of the Delivered Price of Natural Gas in Wagga Wagga and Albury*, February 2000.

The Voluntary Pricing Principles include:

- limits on price increases to the residential market
- a requirement to provide prior notification to the Tribunal of any increases to default tariffs.

Limits on price increases mean that residential customers' bills cannot increase by more than \$20 or 5 per cent per annum in real terms (whichever is the greater) over the bill for the same gas consumption in any period of one year. One-month prior notice of changes to any default tariffs is required.

2.4 Developments in natural gas and electricity markets

Subsequent to the agreement of the Voluntary Pricing Principles for GSE and Origin, there have been a number of key developments in the natural gas and electricity retail markets, including:

- extension of the full retail contestability timetable due to lack of retail market system support
- development of Government policy framework on FRC in gas, culminating recently in the tabling of the Bill
- review of AGL Retail Energy Ltd (AGLRE) gas pricing
- review of regulated retail prices for electricity in New South Wales.

2.4.1 Extension of the Full Retail Contestability timetable

Changes to the full retail contestability timetable are outlined in section 2.1 of this report. This delay in the timetable necessitates a further review of gas tariff regulation applying to GSE and Origin.

2.4.2 Development of Government policy on Full Retail Contestability in gas

As discussed earlier in section 2, in December 2000, MoEU issued the Government's policy framework to support full retail competition in gas. This report outlined the Tribunal's role and responsibilities both during the transition to full retail competition and in the fully competitive market. The Bill, currently before Parliament, provides the Tribunal with powers regarding the regulation of gas prices in the lead-up to full retail competition.

Essentially, tariff regulation is evolving to be now more concerned about establishing regulated default tariffs that act as a 'safety net' for small retail customers who may not benefit from, or choose not to participate in, a competitive market. This is discussed further in section 2.5.

2.4.3 Review of AGLRE gas pricing

The Tribunal released its final decision on the regulation of prices charged to tariff customers by AGLRE in February 2001.¹¹ The outcomes of this report are discussed in detail throughout section 3. A copy of AGLRE's Voluntary Pricing Principles forms Appendix 5. One of the main objectives of the AGLRE Voluntary Pricing Principles is to establish default prices during the introduction of competition.

2.4.4 Review of regulated retail prices for electricity

The Tribunal recognises that a consistent approach to regulation in the gas and electricity sectors is desirable. Indeed this is a New South Wales Government objective:

As far as is possible and practical, the Government intends to ensure that competitive arrangements and regulation in the gas and electricity markets converge as much as possible. This approach will take into account the similarities and differences between the gas and electricity industries in NSW.¹²

However, this does not imply that regulation should be *identical* in the two sectors, because:

- competition in the two markets is developing from very different historical bases¹³
- the Tribunal's regulatory powers differ in gas and electricity¹⁴
- the operating environments of the two industries, although converging, are not identical.¹⁵

In December 2000, the Tribunal released its report on regulated retail prices for electricity to 2004.¹⁶ The determination, which forms part of the New South Wales Government's framework for the introduction of competition into the retail market, provides protection for households and businesses consuming less than \$16,000 worth of electricity each year. By 1 January 2002, all domestic consumers will be able to choose which company supplies their electricity.¹⁷ Businesses may be able to choose their supplier before that date. Customers not wishing to enter the competitive market will be able to stay on the regulated prices established under the Tribunal's determination, while consumers will also be given the flexibility to switch from a chosen supplier back to the regulated market.

The Tribunal established 'target tariffs', based on the cost of supplying customers. Included in these tariffs are a network tariff and a retail component. The retail component takes the form of a fixed service access charge and a variable charge.

¹¹ IPART, *Final Report, Review of the Delivered Price of Natural Gas to Tariff Customers Served from the AGL Gas Network in NSW*, February 2001.

¹² NSW Ministry of Energy and Utilities, *Policy Framework for Full Retail Competition in Gas*, 21 December 2000, p 6.

¹³ For example, long-term contracts, non-franchise supply, and private ownership are typical of the New South Wales gas market, while Government ownership, franchise supply, and shorter term contracts are dominant in the New South Wales electricity market.

¹⁴ In the gas market, the arrangements are such that the 'threat of regulation' has 'teeth' via the introduction of a gas pricing order, unlike the arrangements in the electricity market.

¹⁵ For example the NSW Government has established a 'tariff equalisation fund' in the New South Wales electricity market, which shares risks for pool price fluctuations between generators and regulated retailers.

¹⁶ IPART, *Regulated retail prices for electricity to 2004*, December 2000.

¹⁷ This is subject to necessary national retail systems being in place to support retail contestability.

Where a current tariff is above the target level, no nominal price increase is allowed. Where a tariff is below the target level, an increase of CPI or \$25 per annum (whichever is greater) for domestic customers and CPI+5 per cent or \$50 per annum (whichever is greater) for business customers is allowed. Regulated prices may change by no more than these constraints and must change only on 1 July each year. The retailer must provide notice of these changes to the Tribunal at least 30 days before their introduction.

2.5 Objectives of default tariffs

As discussed in section 2.2 of this paper, the MoEU policy framework, released in December 2000, provides for the Tribunal to establish 'default tariffs'. Default tariffs, which form part of the standard supply contract, have four objectives:

- to protect customers who are already connected to gas, by ensuring that they will not be stranded with gas appliances but have 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 a lapsed retail contract due to default by the retailer
- to protect customers who otherwise may not benefit from a competitive market.

The Bill, which has been introduced into Parliament, reinforces these objectives.

The Tribunal believes that these objectives are consistent with those of the default tariffs established for the electricity sector and will provide time for small customers to consider their options.

In addition to the default tariff, the retailer has the ability to offer market-based tariffs to customers.

In setting default tariffs, the Tribunal needs to adhere to its duties under the Act. These duties 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.

2.6 Components of the costs of the retail supply of gas

Several cost components make up the delivered price of gas. In delivering gas to a customer's door, the supplier incurs the following costs:

- the field price of gas and the cost of haulage¹⁸ (about 30 per cent)
- the cost of local transportation and metering¹⁹ (about 60 per cent)
- the cost of retailing, such as billing and marketing, and the net retail profit margin (about 10 per cent).

¹⁸ Transporting gas from the producer to the 'city gate'.

¹⁹ Transporting gas from the 'city gate' to customer premises.

2.6.1 Cost of gas, haulage, transportation and metering

The field price of gas, haulage and transportation costs for GSE and Origin are set by contracts already in place, or by reference to the relevant Access Arrangement.

The field price of gas is set by long-term supply contracts and is a market-based price. As such, changing market circumstances affect the field price of gas. GSE and Origin have different field prices of gas. GSE receives gas via the Australian Pipeline Trust (APT) pipeline from Moomba (and, by agreement, buys this gas from AGL) while Origin receives gas via the Victorian system from Longford.

Transmission costs are either set in accordance with contracts (GSE) or determined by the operation of the Victorian market carriage regime (Origin). These costs are regulated by the Australian Competition and Consumer Commission (ACCC) under the National Third Party Access Code for Natural Gas Pipelines (the Code). Network charges are regulated by IPART under the Code. The Regulator approves Access Arrangements submitted by the service provider under section 2 of the Code. The Access Arrangements for Great Southern Energy Gas Networks (GSN) and the Albury Gas Company establish tariffs for local network services and metering in each year of the Access Arrangement.

As such, the retailer's main opportunity to influence costs in the short-term is in retail costs and margin.

2.6.2 Retail costs and margin

Retail costs are expenses incurred to operate the retail component of the gas business. These may include expenses related to billing, marketing, customer advisory services, advertising, promotions, time spent handling customer inquiries and negotiating gas contracts, haulage and reticulation. Where retailers are responsible for maintaining customer service standards, these costs must be recovered through the retail margin.

The net retail margin is the margin on gas sales before interest and tax, but after all other costs (including retail costs) have been accounted for. The net retail margin therefore represents a return on the capital employed in the business. Incumbents and potential entrants alike must expect to earn a net retail margin in order to make investment in the business worthwhile. The appropriate net retail margin will depend on the specific circumstances of a firm, particularly the commercial risks that are faced. For example, if there is a significant risk of losing a significant market share, a high retail margin may also be reasonable.

Retail margins for GSE and Origin are discussed in section 3.4 of this paper.

3 ISSUES

3.1 Coverage of regulation

Which tariffs in Albury, Moama and Wagga Wagga should continue to be regulated in this transitional period to full competition? Which tariffs should be regulated in other areas in New South Wales where Origin or GSE is the incumbent or dominant retailer?²⁰

3.1.1 Customers consuming between 1 TJ and 10 TJ pa

The current Voluntary Pricing Principles for Origin and GSE cover tariffs for all customers in Albury, Moama and Wagga Wagga that consume 0–10 TJ per annum.²¹ However, in the recent AGLRE tariff review, the Tribunal determined that only those customers consuming 0–1 TJ per annum²² should be covered by the Voluntary Pricing Principles. The rationale is that large volume users will not need the protection of regulated tariffs because supply to this segment should be keenly contested.

3.1.2 Regulation of other areas

In December 2000, the MoEU issued the Government's policy framework to support full retail competition in gas (see section 2 for further detail). Recently, the Bill confirmed the Government's stance on the introduction of full retail contestability. It is apparent from this policy framework and the proposed legislation that the Government intends that all small retail gas customers should be offered a regulated tariff to act as a 'safety net' if, for example, they do not have a choice of retailer or if they do not consciously exercise a choice of retailer.

Not all areas where GSE and Origin operate in New South Wales have regulated tariffs. Ensuring that default tariffs are available to all customers would require the introduction of tariff regulation in areas such as the Central Murray Valley townships, South-West Slopes, Temora and Cooma.

The Tribunal needs to consider the appropriate level of any default tariffs set for these other areas due to different risks and costs factors involved.

3.2 Form of regulation

Are voluntary pricing principles still an appropriate form of regulation for GSE and Origin?

Section 2.2 of this paper outlined the various options available to the Tribunal for regulating prices for tariff customers in New South Wales. In particular, the Tribunal is able to make a gas pricing order under section 27 of the Act. Alternatively, the Tribunal may adopt a light-handed form of regulation. This would be backed up by the Tribunal's ability to issue a gas pricing order at any time.

²⁰ Origin is the incumbent retailer in Moama, Jindera and the Central Murray Valley townships as well as Albury. GSE is the dominant retailer in the South-West Slope towns of Culcairn, Henty and Holbrook, Temora and Cooma as well as Wagga Wagga.

²¹ Customers consuming 10TJ of gas per annum have an approximate yearly gas bill of \$100,000.

²² Consumption of 1 TJ of gas per annum equates approximately to a yearly gas bill of \$12,000.

The options for regulating the market following the introduction of competition were discussed and analysed during the review of tariffs for AGLRE customers. The Tribunal assessed three options for the form of regulation, taking into consideration its duties and obligations under the Act. These include encouraging competition, taking account of the interests of gas customers and taking account of the interests of gas retailers.

Striking an appropriate balance between these objectives is not an easy task. Ultimately, however, the Tribunal believes that, for competition to be successful in the gas retail market, it is important that regulated or default tariffs reflect the cost of gas supply wherever possible, so that they operate in a 'neutral' manner. If tariffs are below the cost of supply, it is important to ensure that undesirable price shocks are avoided as tariffs move to be more cost reflective.

After weighing the advantages and disadvantages of the alternatives in the AGLRE determination, the Tribunal decided that the most appropriate approach was to adopt a process whereby AGLRE proposes a tariff plan, subject to the Tribunal's approval. In putting together its tariff proposals, AGLRE was required to have regard to:

- the price constraints set by the Tribunal to manage the impact on customers over a period of time
- the cost parameters set out by the Tribunal
- the objective to achieve cost reflectivity by 2003/04.

Prior to any tariff change, the Tribunal would assess the extent to which it has met these conditions before giving its approval. The approved tariffs would then form the Voluntary Pricing Principles.

The Tribunal believes that these arrangements are transparent and are easily understood and administered. Most importantly, they ensure that tariffs will move towards cost-reflective levels, while protecting customers from undesirable price shocks. They are also consistent with the Tribunal's recommendations for the electricity sector.

In its previous review of regulation of prices for tariff customers in Albury and Wagga Wagga, the Tribunal assessed the reasonableness of the tariffs at that time. The Tribunal decided that, during the transitional period to full retail competition, tariff regulation would be best served by the introduction of light-handed Voluntary Pricing Principles.

The Tribunal notes that, if the Bill is passed, the Minister may give the Tribunal a written referral requiring the Tribunal to make a gas pricing order within a time specified in the referral. In that event, the Tribunal must take all reasonable steps to comply with the requirements of the referral.

3.3 Setting price limits

The Tribunal is proposing to review the price constraints for GSE and Origin. Comments on the appropriate level for such limits are sought.

In its final decision on tariff prices for AGLRE customers, the Tribunal decided that default tariffs should be broadly cost reflective. AGLRE should be able to restructure prices subject

to price constraints, and in addition, should be able to recover costs associated with implementing retail contestability.

AGLRE and the Tribunal agreed to limit the amount by which the bill of any individual residential customer (including pensioners) can increase. The bill of such customers must not exceed the bill for the preceding financial year (for the same pattern and volume of gas consumption) by more than \$15 or 3 per cent in real terms, whichever is the greater²³.

Currently, prices for Origin or GSE residential customers must not exceed the amount the customer would have paid had that pattern and volume of gas been consumed over the corresponding period of the previous year by more than \$20 or 5 per cent in real terms.

This limit also includes recovery of the retail costs associated with full retail contestability. However, where the recovery of a change in *network* charges, including those associated with contestability, would result in the price constraint being exceeded, the price constraint will be eased to enable these costs to be recovered.

The Tribunal will review the appropriateness of the existing limits on price increases. Currently, GSE's Access Arrangement allows for an annual increase in network standing charges of approximately \$19. Increases in network costs take up almost all of the current limit. There is little or no flexibility within the price constraint for GSE to restructure the retail component of prices to achieve better cost reflectivity or a higher retail margin.

In determining a price constraint for Origin, further analysis of Origin's costs and the cost-reflectiveness of its tariffs needs to be undertaken.

At this stage, the Tribunal is proposing to review the price constraints for GSE and Origin, taking into account developments since the initial price constraints were introduced. If cost and risk structures are significantly different between GSE and Origin, this would justify the application of different price constraints. The Tribunal will be undertaking an assessment of the cost to both Origin and GSE of supplying gas, which includes the field price of gas, haulage costs, network charges and retail costs as well as the net retail margin (discussed in section 3.4).

3.4 Retail margin

Should the net or gross retail margins be the same for all New South Wales gas retailers? What is the correct level of the retail margin, both in the lead-up to full competition and following its introduction?

In its recent electricity price determination, the Tribunal decided that the level of retail costs recovered in regulated retail tariffs should be based on a standard industry rate, on a per customer basis. Regulated retail tariffs should be structured so that the majority of retail costs are recovered via a fixed dollar per small retail customer charge and the remainder through a small uplift on the variable (c/kWh) charge. In the review of tariffs for AGLRE customers, the Tribunal also analysed AGLRE's retail costs on the basis of an industry benchmark range of \$40 to \$60 per customer.

²³ Excluding retail contestability costs.

The Tribunal concluded in its electricity investigation that a net profit margin of 1.5 to 2.5 per cent of sales turnover provided sufficient return for the standard retail electricity suppliers in the lead-up to and the initial phase of competition. The Tribunal argued that the net profit margin should be set initially at the bottom end of this range, and should then increase as standard retail suppliers' risks increase.

In the AGLRE final report, the Tribunal concluded that the risks facing a gas and an electricity retailer in New South Wales are reasonably similar. As a result, these businesses should earn comparable profit margins. However, the Tribunal cautioned that care needs to be taken in deriving like for like margins. Returns should be based to some extent on factors related to the level of revenue and to some extent on the level of costs under management (and thus the customer base). As such, it may not be appropriate to assume that the profit margin (as a percentage of revenue) should be the same for electricity retailers as for gas retailers. It determined that a net retail margin of 2 to 3 per cent of sales revenue was reasonable for gas retailers in New South Wales.

GSE has suggested that its retail margin is too low relative to the other New South Wales gas (and electricity) utilities, and is proposing to increase this margin to levels comparable with that approved for AGLRE.

3.5 Miscellaneous charges

The AGLRE decision freezes miscellaneous charges unless prior approval is obtained from the Tribunal to increase them. Should a similar approach be adopted for GSE and Origin?

Miscellaneous charges are imposed to show customers the costs of providing services such as connections/reconnections, late payments and high bill investigations. Unlike similar charges within the electricity industry, which are currently regulated by the Tribunal, miscellaneous charges have historically not been regulated in the New South Wales gas industry. However, concerns about retail miscellaneous fees, particularly the impact of these on low-income customers, have recently been raised with the Tribunal.

Hence, in its final decision on AGLRE tariffs, the Tribunal decided that miscellaneous fees and charges should be covered by the Voluntary Pricing Principles. AGLRE agreed that it will obtain the Tribunal's approval for any changes in these fees during the four years to 2004.

Miscellaneous charges for GSE and Origin have not been regulated in the past. However, the Tribunal now wishes to consider whether they should be regulated.

GSE and Origin's miscellaneous charges are presented in the following table along with those for AGLRE. These charges are inclusive of GST.

Table 3.1 Miscellaneous charges for NSW gas retailers

Description of fee	AGLRE	GSE	Origin
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	

3.6 Treatment of contestability costs

The Tribunal invites comment on how retail contestability costs should be recovered in default tariffs.

Contestability costs include costs relating to:

- the provision of retail market services
- the establishment and operation of the Gas Retail Market Company²⁴
- the flow through of retail contestability costs incurred by the network service providers

²⁴ In December 2000, the Gas Retail Market Company (GRMCo) was established with eight foundation industry members. GRMCo is to facilitate the work of industry to deliver the required gas retail market services to support full competition.

- the establishment and operation of retailers' internal systems to integrate with the market business system
- increased authorisation fees to cover Government expenditure to facilitate full retail contestability.

The Tribunal notes that industry participants will have little or no control over a significant part of these costs. However, retailers and distributors will have some discretion over the development of their own systems that interface with the market system. At this stage, the extent and timing of these costs are still uncertain.

In the case of AGLRE, the Tribunal decided that:

- increases in tariffs due to the recovery of retail contestability costs will fall outside the price constraints
- the process for recovery of these costs will be similar to the policy contained in AGLGN's Access Arrangement, that is, only efficient costs are to be recovered after an independent assessment
- the method of recovery (that is, who should pay, how, and when) will be considered by the Tribunal when the costs are more certain.

Currently, the Voluntary Pricing Principles for GSE and Origin allow the price constraint to be increased if the pass through of *network* charges would otherwise exceed the price constraint. However, costs incurred by the incumbent retailer on its own systems and procedures for the introduction of retail contestability must be recovered from price increases that are within the constraints.

Because of the smaller size of their respective markets, the allocation of retail contestability costs is particularly relevant for Albury and Wagga Wagga. While retailers supplying to regional areas will still incur the costs associated with the introduction of competition into the gas markets, these costs will need to be recovered from a smaller number of customers in the regional markets. Hence, while contestability costs may impose a relatively insignificant burden for metropolitan consumers since the costs are spread over many consumers, the impact on consumers in regional areas has the potential to be relatively high. The proportion of the costs that are recovered through standing charges as opposed to variable charges (and vice versa) and the distribution of costs between tariff customers and other customers will be important.

APPENDIX 1 EXISTING TARIFF MARKET IN ALBURY AND WAGGA WAGGA

A1.1 Albury

Albury Gas Company (AGC) is the authorised network operator in Albury, Moama, Jindera (in the Hume Shire) and the New South Wales Murray Valley towns. The incumbent retailer supplying gas in these regions is Origin Energy.

AGC's distribution network in Albury, Moama and Jindera is about 325 kilometres in length and serves approximately 16,500 customers who consume a total of about 3 PJ of gas per year. Natural gas was officially turned on at the Albury city gate on 2 June 1977. Reticulation of natural gas to the town of Jindera commenced on 29 August 1995 and to Moama two days later.

Most of the gas consumers served by AGC network are tariff customers. They consume about 33 per cent of total gas sold. Within this total, AGC network has about 100 industrial and commercial customers that consume about 9 per cent of total gas sold.

About 95 per cent of all natural gas customers using AGC network are residential customers. Of all the households that have access to the Albury network, 84 per cent are connected to gas.

In Albury, there are also eight contract customers who account for the remaining 67 per cent of gas consumed. These customers generally use gas for commercial uses ranging from a variety of processing and manufacturing plants to hospital services.

Although Moama is located in New South Wales, its distribution network is an extension of the network serving Echuca in Victoria and is not connected to the distribution network serving Albury and Jindera. There are towns with similar characteristics to Moama in the Central Murray region.

A1.2 Wagga Wagga

Situated halfway between Sydney and Melbourne, Wagga Wagga is a significant regional centre with a population of approximately 57,000. The largest inland city in New South Wales, it is the commercial centre of the Riverina district. It is strategically located on the route of the recently commissioned Wodonga to Wagga Wagga pipeline connection between the Victorian and New South Wales gas networks.

Gas has been available in Wagga Wagga since the late 1880s. Manufactured gas was used until natural gas from the Cooper Basin became available in 1981. The supply and reticulation of gas was a business of the Wagga Wagga City Council from the introduction of gas until 27 June 1997 when GSE acquired the utility. To meet ring-fencing requirements under the National Third Party Access Code for Natural Gas Pipeline Systems (the Code), GSE has established a wholly owned subsidiary to operate the gas network, Great Southern Energy Gas Networks Pty Limited (GSN). Operating and maintenance and support services are currently provided by GSE, which charges GSN for these services. GSE is also the incumbent gas retailer on the GSN system.

The Wagga Wagga system currently serves about 15,000 customers purchasing a total of approximately 1.6 PJ of gas each year, which is transported through 525 kilometres of pipes/mains.

Most of the gas consumers in Wagga Wagga are tariff customers. They consume about 47 per cent of total gas sold. The tariff market can be separated into residential, commercial and industrial sub-classes. Residential customers account for 96 per cent of all natural gas customers in Wagga Wagga and consume about 35 per cent of the total Wagga Wagga load. Of all the households in Wagga Wagga with access to gas mains, 85 per cent are connected to gas. By comparison, about 60 per cent of households with access to the gas mains are connected in Sydney.

The other tariff customer sub-class is industrial and commercial customers. There are over 400 industrial and commercial customers in Wagga Wagga consuming 12 per cent of total gas sold.

There are also 14 contract customers. These customers account for the remaining 53 per cent of gas consumed. Commercial uses range from board processing, wool combing and hospital services, to plywood manufacture and asphalt production. Gas is also used by large army and airforce establishments and by Charles Sturt University.

In addition to the Wagga Wagga market, Great Southern Energy has recently begun supplying natural gas to Cooma, Temora and the South-West Slope towns of Culcairn, Henty and Holbrook.

APPENDIX 2 GAS SUPPLY ACT 1996

The Tribunal regulates gas reticulation and gas supply under the *Gas Supply Act 1996* (the Act). Specifically, the Tribunal's powers in relation to regulating the price of natural gas are set out in section 27 of the Act.

27 Gas Pricing Orders

- (1) *The Tribunal may make an order (a gas pricing order) establishing a pricing mechanism according to which charges for natural gas supplied to tariff customers are to be fixed.*
- (2) *A gas pricing order:*
 - (a) *may fix the maximum gas tariffs or maximum average gas tariffs and other charges, or the methodology by which maximum gas tariffs or maximum average gas tariffs and other charges are to be calculated, either in relation to tariff customers generally or in relation to any specified class of tariff customer; and*
 - (b) *may prohibit the imposition of any specified charges or class of charges for any specified service or class of services provided to tariff customers generally or to any specified class of tariff customers.*
- (3) *It is a condition of a supplier's authorisation that the supplier must not impose charges on a tariff customer otherwise than in accordance with any relevant gas pricing order, subject to any other condition imposed on the authorisation with respect to the implementation of Government policy on community service obligations to tariff customers (such as a condition requiring the granting of discounts or rebates).*
- (4) *At any time after the expiry of 12 months from the date on which the current gas pricing order was made, an authorised supplier may apply to the Tribunal for a new gas pricing order on the basis that changes in circumstances (such as general inflationary trends) mean that the current gas pricing order is now out of date.*

The process for appeals and reviews of decisions is outlined in sections 28–30 of the Act. An authorised supplier who is aggrieved by the Tribunal's gas pricing order, or by a decision by the Tribunal not to make a new gas pricing order may apply to the Minister for a review of that order or decision. The Minister will then establish a review panel, consisting of three persons, to review the order or decision. The decision of the review panel will take effect as if it were a decision of the Tribunal and has effect from the day on which it is given or some specified later date.

Under section 32(1) of the Act, the Tribunal may conduct investigations for the purpose of enabling it to exercise its functions under the Act, including making a gas pricing order. Any investigations conducted by the Tribunal are consistent with the Act's statutory objectives.

The objectives of the Act are listed in section 3(1). They are:

- (a) *to encourage the development of a competitive market in gas, so as to promote the thermally efficient use of gas and to deliver a safe and reliable supply of gas in compliance with the principles of ecologically sustainable development contained in section 6(2) of the Protection of the Environment Administration Act 1991;*

- (b) to regulate gas reticulation and gas supply, so as to promote customer choice in relation to gas supply;*
- (c) to promote the safe use of gas.*

To ensure that objectives are met for gas supply and gas users, the Tribunal (and others) have the duties outlined in sections 3(4) and (5) of the Act. These are:

3(4) In relation to persons involved in the supply of gas (authorised suppliers and licensed distributors), the duties are as follows:

- (a) to ensure that the public receives the benefit of a competitive gas market;*
- (b) to take proper account of the interests of tariff customers in respect of gas pricing and other terms of gas supply;*
- (c) to take proper account of the business interests of persons supplying gas to the tariff market;*
- (d) to encourage the development of competitive gas supply in the non-tariff market, with a focus on free and fair trade.*

3(5) In relation to gas users, the duties are to promote the efficient and safe use of gas.

APPENDIX 3 CURRENT VOLUNTARY PRICING PRINCIPLES FOR ORIGIN ENERGY AND GREAT SOUTHERN ENERGY (WITH EFFECT FROM 1 JANUARY 2000 TO 30 JUNE 2001)

The incumbent retailer voluntarily submits to the following pricing principles:

1. Customers on tariffs at the commencement of retail contestability will be given the option of remaining on those tariffs ('default tariffs') for the following periods ('grace period') following the introduction of retail contestability:
 - a) for 1–10TJ pa customers, until 31 December 2000; and
 - b) for 0–1TJ pa customers, until 30 June 2001.
2. During the grace period, changes to the default tariff for residential customers will be subject to the following explicit constraints:
 - a) Subject to paragraph (b), during the relevant grace period, the amount paid by a residential customer for the pattern and volume of gas it consumes will not exceed by more than \$20 or 5 per cent in real terms, whichever is the greater ('price constraint'), the amount the customer would have paid had that pattern and volume of gas been consumed over the corresponding period of the previous year. Calculation of real changes in prices will be measured with reference to the Australian Bureau of Statistics March All Capital CPI series.
 - b) Where the full pass through of a change in **network charges** including those associated with contestability (whether under an Access Arrangement or otherwise) would result in the price constraint being exceeded, the price constraint will be increased automatically to include the full pass through of those costs.
 - c) Net increases in costs resulting from introduction of the goods and services tax (GST) as defined in the *A New Tax System (Goods and Services) Tax Act 1999 and associated tax changes* may be added to the price constraint in paragraph (a) from the date that the GST becomes effective. The method of determining the price increases resulting from the introduction of the GST and associated tax changes will be resolved separately.
3. Changes to default tariffs for industrial and commercial customers will not be subject to paragraph 2 above.
4. The incumbent retailer must notify the Tribunal in writing at least one month prior to amending its default tariffs for residential, industrial or commercial customers. This notification must include the following:
 - a) an estimate (and associated methodology) of 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 that existing prices were not covering 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 that vary with the absolute magnitude of gas consumption per customer (in \$ per GJ);
 - c) 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
 - d) other supporting information required by the Tribunal.
5. The one month notice period advice (as required by paragraph 4) is for the purpose of information only. Under this voluntary agreement, the Tribunal monitors price changes to determine whether they are in accordance with the voluntary pricing principles set out in paragraph (2) above.
6. Nothing in these voluntary pricing principles removes the Tribunal's ability to make a gas pricing order pursuant to section 27 of the Gas Supply Act 1996 or indeed any other powers of the Tribunal.

APPENDIX 4 CURRENT PRICES FOR ORIGIN ENERGY AND GREAT SOUTHERN ENERGY

Current tariffs for Albury and Moama are presented in the following table. All tariffs, including supply charges, apply to a two-monthly billing period.

Table A4.1 Current tariffs for Albury and Moama

Tariffs inclusive of GST		
RESIDENTIAL	Peak	Off-peak
03 Domestic General		
Supply Charge	\$16.17	\$16.17
0-4000 MJ (c/MJ)	0.7640	0.7530
>4000 MJ (c/MJ)	0.9819	0.9599
	All Periods	
01/02 Multiple Residential		
Supply Charge – Tariff 01		\$31.26
Supply Charge – Tariff 02		\$98.19
All gas (c/MJ)		0.9460
	All Periods	
04/05 Residential Bulk Hot Water		
Supply Charge – Tariff 03		\$31.26
Supply Charge – Tariff 04		\$98.19
All gas (c/MJ)		0.9460
	All Periods	
10/11 Bulk Supply to Flats for Storage Water Heating		
Supply Charge – Tariff 03		\$31.26
Supply Charge – Tariff 04		\$98.19
All gas (c/MJ)		1.0242
	All Periods	
Metered Bulk Hot Water		
Max rate (c/L)		0.5280
COMMERCIAL/INDUSTRIAL		
	All Periods	
13/21 Commercial/Industrial		
Supply Charge		\$20.39
First 100,000 MJ (c/MJ)		1.0262
Next 450,000 MJ (c/MJ)		0.8082
Over 550,000 MJ (c/MJ)		0.5621
	All Periods	
14/22 Commercial/Industrial		
Supply Charge		\$186.74
First 100,000 MJ (c/MJ)		0.9296
Next 450,000 MJ (c/MJ)		0.8082
Over 550,000 MJ (c/MJ)		0.5621

Current tariffs for Wagga Wagga are presented in the following table. All tariffs apply per quarter.

Table A4.2 Current tariffs for Wagga Wagga

Tariffs inclusive of GST	
RESIDENTIAL	
	All Periods
Residential General	
Access Charge	\$26.41
Min. Charge	\$6.14
All MJ (c/MJ)	1.014
	All Periods
Residential Hot Water	
Access Charge	\$26.41
Min. Charge	\$6.14
All MJ (c/MJ)	0.989
COMMERCIAL/INDUSTRIAL	
	All Periods
Commercial	
Access Charge	\$26.41
Min. Charge	\$6.14
All MJ (c/MJ)	1.014
	All Periods
Industrial	
Access Charge	\$192.91
Min. Charge	-
All MJ (c/MJ)	1.014

APPENDIX 5 VOLUNTARY PRICING PRINCIPLES FOR AGLRE

AGL Retail Energy Ltd (AGLRE) voluntarily agrees to the following pricing principles:

1. Default tariffs will be available to all tariff customers whose consumption is below 1 TJ a year until 30 June 2004.
2. A review of the VPPs arrangement will be conducted from 2002 or under special circumstances, either at the request of AGLRE 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 AGLRE's costs
 - changes in AGLRE's cost components, such as the field price of natural gas or the impacts of regulatory decisions on haulage rates
 - 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.
3. Default 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. AGLRE will implement tariff changes over the period 2000/01 to 2003/04 subject to the following price constraints:

Residential tariffs

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 \$15 (in nominal terms) or 3 per cent in real terms, whichever is the greater.

4. AGLRE's current tariff plan over the period 2000/01 and 2003/04 is shown in Table A5.1. Default tariffs are set out for the first two years (that is, 2000/01 and 2001/02). Price movements beyond 2001/02 are to be regarded as indicative only subject to the mid-term review. The CPI for adjusting prices is defined in paragraph 11.

**Table A5.1 Agreed tariff plan for tariff customers using <1 TJ⁽¹⁾
(excluding pass through of full retail contestability costs)⁽²⁾**

Tariff	2000/01 ⁽³⁾ (March 2001)	2001/02	2002/03 (Indicative only)	2003/04 (indicative only)
Residential general: Supply charge Energy rate	\$2.50/qtr -	- CPI ₁ ^{-GST}	\$3.75/qtr -	\$3.75/qtr -
Residential economy: Supply fee Energy rate	\$2.50/qtr -	- CPI ₁ ^{-GST}	\$2.50/qtr CPI ₂ ^{-GST}	CPI ₃ ^{-GST} + 3% 1st block: CPI ₃ ^{-GST} + 3% 2 nd block: CPI ₃ ^{-GST} - X% ⁽⁴⁾
Residential economy plus: Supply fee Energy rate 1 st block 2 nd block	3% 3% -	CPI ₁ ^{-GST} CPI ₁ ^{-GST} CPI ₁ ^{-GST}	CPI ₂ ^{-GST} + 3% CPI ₂ ^{-GST} + 3% CPI ₂ ^{-GST} - 1%	CPI ₃ ^{-GST} + 3% CPI ₃ ^{-GST} + 3% CPI ₃ ^{-GST} - 1%
Business 0-1TJ: Supply fee Energy rate	- -	CPI ₁ ^{-GST} + 3% CPI ₁ ^{-GST}	CPI ₂ ^{-GST} + 3% CPI ₂ ^{-GST} - 1%	CPI ₃ ^{-GST} + 3% CPI ₃ ^{-GST} - 1%

Note:

1. This tariff plan applies to tariffs in NSW excluding Yass. Price changes in Yass will be subject to the price constraints in paragraph (3).
 2. The CPI for adjusting prices is CPI exclusive of GST.
 3. This will be in addition to the increase of 1.9 per cent effective from 1 July 2000.
 4. The value of 'X' will be determined at a mid-term review.
7. Where customers have accepted a competitive offer under a contestable gas retail market, they will be able to revert to AGLRE's default tariffs without penalty once they have met their contractual obligations.
 8. AGLRE will be able to pass through to customers costs associated with implementing full retail contestability (FRC) in addition to the price constraints specified in paragraph (3) and the tariff plan in paragraph (4). Costs associated with FRC include, but are not limited to, costs imposed by the Gas Retail Market Company (GRMCo) and other external agencies, increases in network charges and prudent costs incurred by AGLRE. The costs will be recovered in accordance with established cost allocation and recovery mechanisms or, if there are no established mechanisms, the Tribunal will determine a mechanism to recover these costs including an assessment of such costs.
 9. AGLRE will not vary miscellaneous fees and charges without prior approval of the Tribunal.
 10. AGLRE must notify the Tribunal in writing at least one month prior to amending its default 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 did 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.
5. Under this voluntary agreement, the Tribunal will monitor price changes to determine whether they accord with the voluntary pricing principles set out in paragraphs (1) to (8) above. Nothing in these voluntary pricing principles removes the Tribunal's ability to impose a gas pricing order pursuant to section 27 of the *Gas Supply Act 1996* or indeed any other powers of the Tribunal.
 6. AGLRE will provide information relating to the development of a competitive gas retail market, if requested by the Tribunal.
 7. On 1 July 2001, tariffs may be adjusted as set out in Table A5.1. For the purpose of pricing adjustment, CPI_1^{-GST} means the number derived from the application of the following formula:

$$CPI_1^{-GST} = \left(\frac{CPI_{Jun2000}^{-GST} + CPI_{Sep2000}^{-GST} + CPI_{Dec2000}^{-GST} + CPI_{Mar2001}^{-GST}}{CPI_{Jun1999} + CPI_{Sep1999} + CPI_{Dec1999} + CPI_{Mar2000}} - 1 \right) \times 100\%$$

and

On 1 July 2002 and 1 July 2003, tariffs may be adjusted as set out in Table A5.1, subject to the mid-term review. For this purpose, CPI^{-GST} means the number derived from the application of the following formula:

For the year 2002/03:

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

and for the year 2003/04:

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

where:

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, with the corresponding subtext (for example _{Jun2000}), it 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, with the corresponding subtext (for example _{Jun2001}), it means the CPI for the quarter end of the year indicated (in the example, the June quarter for the year 2001).