

**23 April 2013**

## **DRAFT REPORT - REGULATED ELECTRICITY AND GAS PRICES**

The Independent Pricing and Regulatory Tribunal (IPART) has today released its draft reports on the proposed average prices that regulated electricity and gas retailers can charge NSW residential and small business customers from 1 July 2013 to 1 July 2016.

The draft decisions allow for an average electricity price increase for 2013/14 broadly in line with inflation at 3.0%, and an average gas price increase of 8.6%.

IPART Chairman, Dr Peter Boxall, said electricity price rises have moderated as a result of lower network price increases, while gas prices are rising by an average of 8.6% reflecting increased network and retail costs.

“The electricity price pressures caused by rising network costs and the introduction of carbon pricing are moderating,” Dr Boxall said. “While we haven’t set prices beyond 2013, at this stage we expect electricity prices to fall behind inflation in 2014 and reduce in real terms by 2015.

“The situation for future gas prices is less clear. There are continued increases in network costs. However with significant uncertainty about future wholesale prices, we are recommending a periodic review before setting the price changes for 1 July 2014 and 2015.”

### **Electricity prices**

The draft decision allows for an average price increase of 3% across NSW (including inflation). However, average price increases will vary for customers of the 3 regulated electricity retailers as follows:

- ▼ 4.3% for EnergyAustralia customers, which translates to an extra \$1.60 per week (\$83 per annum) on an average residential customer bill and \$2.25 per week (\$117 per annum) on average for its small business customers
- ▼ 3.1% for Origin Energy (Endeavour Energy) customers, which translates to an extra \$1.10 per week (\$57 per annum) on an average residential customer bill and \$1.50 per week (\$79 per annum) on average for its small business customers, and
- ▼ 0.5% for Origin Energy (Essential Energy) customers, which translates to an extra \$0.20 per week (\$11 per annum) on an average residential customer bill and \$0.30 per week (\$16 per annum) on average for its small business customers.

IPART’s draft determination indicates that the likely direction of future prices is down. The indicative price increases on 1 July 2014 are less than inflation – increasing by less than 1%, and at this stage IPART expects prices to fall by an average of around 6% on 1 July 2015, mainly reflecting lower carbon costs following the movement to a floating carbon price linked to international markets.

“These more modest price changes follow several years of large price increases driven by increases in the costs of electricity supply caused by rising network costs and the introduction of the carbon pricing mechanism,” Dr Boxall said.

The main driver of price increases for 2013 is increased retail operating costs, including the costs of acquiring and retaining customers in an increasingly competitive market. Both network (poles and wires) costs and green scheme costs have stabilised after several years of rapid growth, and electricity generation costs have fallen.

“We consider that the regulated prices are set at a level that will promote competition in the electricity market in the long-term interests of consumers,” Dr Boxall said.

## Gas prices

We have assessed the regulated retail gas prices prepared by the Standard Retailers. While we have accepted the proposals from ActewAGL and Origin, we consider that AGL's proposal of 10.7% is too high. Instead we consider an increase of 9.2% to be more reasonable for AGL given the significant increases in network costs that they will incur.

Average increases across NSW for 2013/14 will be 8.6% based on IPART's assessment; however the change in prices varies by location. Specifically, prices will increase on 1 July 2013 by:

- ▼ **9.2% for AGL**, (based on IPART's assessment) which supplies gas to over 80% of small regulated retail customers in NSW, covering Sydney, Wollongong, Newcastle, Dubbo, Orange, Parkes, and parts of the Riverina region. This translates to an extra \$1.50 per week (\$76 per annum) on an average residential customer bill and \$6.80 per week (\$356 per annum) on average for its small business customers.
- ▼ **5.5% for ActewAGL**, which supplies the regions around the NSW/ACT border (including Young, Goulburn, and Yass) and South East NSW (including Shoalhaven). This translates to an extra \$1.30 per week (\$67 per annum) on an average residential customer bill and \$4.70 per week (\$243 per annum) on average for its small business customers
- ▼ **6.4% for Origin Energy (Wagga Wagga)**, which supplies the South Western regions of NSW including Wagga Wagga and Gundagai and inland cities such as Tamworth. This translates to an extra \$1.20 per week (\$62 per annum) on an average residential customer bill and \$4.00 per week (\$209 per annum) on average for its small business customers
- ▼ **5.5% for Origin Energy (Albury/Murray Valley)**, which supplies customers on the NSW - Victorian border, including the Albury and the Murray Valley Towns. This translates to an extra \$0.95 per week (\$49 per annum) on an average residential customer bill and \$3.30 per week (\$172 per annum) on average for its small business customers

The main reason gas prices are increasing by an average of 8.6% is that network charges are continuing to increase significantly, particularly for AGL customers supplied by the Jemena gas distribution network, adding 5.8% to prices for AGL. The increases in network costs primarily result from Jemena's successful appeal to increase the charges they can levy on retailers for use of the distribution network.<sup>1</sup>

"The sustained increases in network costs have been the largest contributor to recent increases in gas prices. We consider that action is required to address policy settings that are leading to higher than necessary gas network prices," Dr Boxall said.

The merits review framework allows network businesses to appeal the regulator's decision on the charges they can levy on retailers for use of the distribution network. Most of the AER's decisions have been appealed and to date network businesses have never received an adverse adjustment to the prices they can charge.

"Changing the review framework to ensure that it serves the long term interests of customers is an important measure that Governments could implement to limit unnecessary increases in gas network prices" Dr Boxall said.

### **Customers should compare market offers**

Dr Boxall said the review of the NSW retail market undertaken as part of IPART's draft reports shows that competition in the electricity and gas markets now provides consumers with more choices, better prices and better service.

All licenced electricity and gas retailers compete with each other to offer consumers a variety of prices, terms and conditions under market contracts.

"The majority of NSW consumers are already on competitive offers rather than regulated prices with competition among retailers putting downward pressure on prices and upward pressure on service delivery that could not be achieved by regulation," he said.

To help customers compare offers and see the estimated impact of changing contracts (subject to the terms of any existing market contract), IPART operates a free electricity and gas on-line price comparison service, [www.myenergyoffers.nsw.gov.au](http://www.myenergyoffers.nsw.gov.au), that lets consumers compare offers from energy retailers in NSW. A complementary phone service is maintained by the Department of Trade and Investment, Regional Infrastructure and Services and is available on 1300 136 888.

IPART's draft report and accompanying documents are available on IPART's website, [www.ipart.nsw.gov.au](http://www.ipart.nsw.gov.au). Submissions on IPART's draft report are due on 20 May before final reports will be released in June, for implementation on 1 July 2013.

For further information, media should contact: T 9290 8420

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<sup>1</sup> Network charges, which are regulated by the Australian Energy Regulator (AER), are levied on retailers for use of the gas distribution network. Jemena successfully appealed the AER's final decision to the Australian Competition Tribunal (ACT). For information on the Jemena Access Arrangement can be found [here](#)

## **Background**

IPART sets regulated average prices paid by customers who have not signed a contract with an electricity or gas retailer or who have chosen to return to the regulated prices. Customers on contracts with retailers pay an unregulated price, however these market-based prices are influenced by changes in the regulated prices.

IPART determines the average price to be charged by electricity and gas retailers to their customers. The retailers can determine how those increases are applied across different customers, so some customers may see rises higher or lower than these levels depending on the commercial decisions of the retailers.

The Origin Energy (Endeavour Energy) and (Essential Energy) customers are the customers of the Integral Energy and Country Energy businesses, respectively, sold by the NSW Government to Origin Energy.