

21 January 2013

Review of regulated retail prices and charges for gas 2013 to 2016
Independent Pricing and Regulatory Tribunal
PO Box Q290
QVB Post Office NSW 1230

By email: ipart@ipart.nsw.gov.au

Dear Sir/Madam,

RE: Review of regulated retail prices and charges for gas 2013 to 2016 – Gas Issues Paper

The Energy Retailers Association of Australia (ERAA) welcomes the opportunity to make a submission on the *Review of regulated retail prices and charges for gas, 2013 to 2016 – Gas Issues Paper* (the Issues Paper).

The ERAA represents the organisations providing electricity and gas to almost 10 million Australian households and businesses. Our member organisations are mostly privately owned, vary in size and operate in all areas within the national electricity market (NEM) and are the first point of contact for end use customers of both electricity and gas.

Under the *Competition and Consumer Act 2010 (Cth)*, the ERAA is not permitted to share or discuss information within the Association in relation to prices and the mechanisms for setting prices. We refer to the individual submissions of our members to comment on any price-specific issues including the questions raised in the Issues Paper and strongly recommend that IPART has due regard to these submissions. It is within this context that the ERAA provides the following comments on the Issues Paper.

Whilst we acknowledge that the NSW Minister for Resources and Energy has requested that IPART continues to regulate retail gas prices in accordance with the Gas Supply Act 1996, and in the absence of a Terms of Reference (TOR) that recommends a path to full price deregulation, we strongly advocate that IPART supports the proposal by Standard Retailers.ⁱ As noted by IPART in its Issues Paper there is increased wholesale uncertainty within the gas markets and *“this uncertainty – which is due to potential policy, regulatory and market changes during the period- increases the risk associated with proposing a fixed price path over the period, including the risk that regulated prices over or under recover the efficient costs of supply”*.ⁱⁱ Should IPART not approve the approach taken by Standard Retailers then this will exacerbate market risk not only for Standard Retailers, but also for all new entrants participating, or planning to participate, in the NSW gas market.

Uncertain environment

As highlighted in the Issues Paper, there has been a significant change in the economic environment in which gas is supplied on the east coast of Australia over recent times which



impacts on the setting of a 3-year price path. Whereas movements in wholesale gas costs have been somewhat predictable, in the past, this is set to change dramatically in the near future given the development of the Liquefied Natural Gas (LNG) export industry in Queensland.

International LNG prices are linked to international oil prices, and are denominated in US dollars. This introduces two elements of significant price uncertainty, in the form of fluctuating oil prices and foreign exchange rates, which have not needed to be considered in the past in forecasting domestic gas prices. The volatility of international oil prices is widely known. Oil prices are also influenced by uncertain and arbitrary factors such as political shocks and embargoes in oil-producing countries. Therefore its likely linkage to domestic gas prices in the future will introduce a level of price uncertainty that has not been experienced in Australia to date. The volatility of other prices that are linked to oil prices, such as petrol prices, is illustrative of its impact and particular their linkage to the US dollar. While the Australian dollar is currently strong as compared with the US dollar there is no guarantee that this will endure, and any variation in exchange rates could have a substantial impact on wholesale gas prices.

Accordingly, access by Queensland gas producers to export LNG markets introduces a level of uncertainty to the task of forecasting future gas prices that would make it impossible for IPART to set a reasonable future price path that would accurately reflect likely wholesale costs.

There is significant uncertainty associated with impact of the LNG projects on the domestic market including - but not limited to - the timing of projects and the likelihood of delays; gas reserves development; and global LNG market developments. This is particularly true for the period 2013-16 when most projects are scheduled to come online. As such there is no consensus as to the likely price outcomes with a wide range of prices being suggested by industry experts. As wholesale gas prices are unregulated, there is significant business risk if retailers are unable to adjust prices in a timely manner to reflect changes in underlying costs. Since retailers have different gas supply arrangements in place which are in some cases commercially sensitive, there is a risk that legitimate costs would not be included in a regulatory 3-year retail price path. Even a small departure by IPART in setting a price path which is reflective of wholesale gas costs could have a dramatic impact on the ability of retailers to recoup their costs. This would serve as a significant disincentive for retailers to continue to sell gas into the New South Wales retail market should they not be able to recover the costs of doing so. Should retailers exit this market, competition would be restricted and expected gas shortages in New South Wales further exacerbated, to the long term detriment of customers.

Retail competition is effective

Whilst there are specific wholesale impediments that are unique to the NSW gas market structure (such as limited supply and transportation options) as compared to other energy markets, there is evidence to suggest that retail gas competition is effective in New South Wales. A number of companies hold current retailer authorisations, including AGL, Origin, EnergyAustralia and Australian Power & Gas who all actively retail gas in New South Wales. Whilst the current competitive environment supports the end of price deregulation, the ToR places IPART in an untenable position of having to determine a retail price path in an environment of wholesale uncertainty. Pending the recommendations that may arise from the AEMC review of Competition in the Retail Electricity and Natural Gas Markets in New South Wales in September 2013, we strongly recommend that IPART, in its final determination, supports the proposals made by Standard Retailers as this supports the objectives of the Act, maintains NSW as a viably competitive market and protects the long term interest of consumers and the industry.

Should you wish to discuss the details of this submission further, please contact me on (02) 8241 1800 and I will be happy to facilitate such discussions with my member companies.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Cameron O'Reilly', with a large, stylized flourish at the end.

Cameron O'Reilly
Chief Executive Officer
Energy Retailers Association of Australia

ⁱ IPART (2012), *Review of regulated retail prices and charges for gas 2013 to 2016 - Issues Paper*, p.9.

ⁱⁱ *Ibid*, p.4.