



**EnergyAustralia**

21 May 2014

Dr Peter Boxall  
Chairman  
Independent Pricing & Regulatory Tribunal  
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Submitted online at [www.ipart.nsw.gov.au](http://www.ipart.nsw.gov.au)

Dear Dr Boxall

### **Submission to 2014 Review of Regulated Retail Gas Prices**

EnergyAustralia welcomes the opportunity to comment on the Independent Pricing and Regulatory Tribunal's (IPART) Draft Report on changes in regulated retail gas prices for NSW to apply from 1 July 2014. We are one of Australia's largest energy companies, providing electricity and gas to over 2.7 million household and business customers in NSW, Victoria, Queensland, South Australia and the Australian Capital Territory. We also own and operate a multi-billion dollar portfolio of energy generation and storage facilities across Australia, including coal, gas and wind assets with control of over 5,600MW of generation in the National Electricity Market.

We agree with IPART's analysis of the NSW gas market and note that many key indicators of the extent of effective competition in the NSW gas market – such as market concentration and the proportion of customers on market rather than standard offer contracts – demonstrate that the NSW gas market is becomingly increasingly competitive. This not only provides opportunities for incumbent energy businesses but also for potential entrants and significantly, for energy consumers. The most tangible benefit of greater competition for many customers will be competitive market offers that are tailored to customers' preferences and consumption profiles, along with a range of innovative products and services.

Within this context, EnergyAustralia is broadly supportive of IPART's approach to the specification of the prices the Standard Retailers in NSW can charge customers who have not signed a market contract either with them or with another retailer. IPART has adopted a pragmatic and entirely appropriate approach to the determination of regulated gas prices due to the high degree of uncertainty about the wholesale gas market and costs. This has allowed the Standard Retailers to make a pricing proposal for the first year of the 3-year term only (i.e. 2013/14) and to then submit pricing proposals annually, allowing IPART to assess how each retailer can change regulated retail prices in the second and third years.

The draft decision for the period commencing 1 July 2014, particularly the estimation of wholesale gas costs, means that average retail gas prices can increase by up to 17.5% across NSW over the next 2 years. This is reasonable in light of current understanding of the NSW wholesale gas market and our expectations for the movement of wholesale gas prices, which are subject to considerable uncertainty.

However, EnergyAustralia previously argued in 2013 and continues to hold the view that the Standard Retailers' proposals and therefore, regulated prices, reflect their respective cost structures and as a consequence, will not necessarily reflect the wholesale and operating costs of other incumbent businesses or potential new entrants. This could be offset to some degree by the inclusion of a competition allowance in regulated prices. However, we are aware that IPART has previously considered this issue in some detail and appears reluctant to reverse its stance in this instance.

Even so, the inclusion of a competition allowance or a higher allowable retail margin in regulated prices would still represent second best solutions and we strongly hold the view that the full benefits of competition will not be fully realised until price regulation is removed. Its retention provides an element of uncertainty over the medium term; while IPART has adopted a reasonable approach in this instance, there is a risk that future determinations may place greater emphasis on short term considerations, through the suppression of regulated prices below reasonable costs, the impact of which is to discourage entry and / or encourage exit. We expect this may be a particular risk with respect to gas, where domestic prices will increasingly reflect outcomes in international markets. As IPART notes, holding regulated prices below efficient costs will impose costs on energy consumers over the longer term.

EnergyAustralia views regulatory uncertainty and instability – particularly in terms of pricing and the ability of businesses to recover reasonable costs – as the major inhibitors of competition across Australian energy markets, the impact of which is ultimately borne by consumers. The retention of price regulation has the potential to undermine the development of competition over the medium term. While IPART holds the view that the incentives included in current regulated prices are sufficient to facilitate a transition to a market where around 90% of customers are on market contracts within 4 years, EnergyAustralia is not confident that will occur within an environment of regulated prices.

The NSW Government and the majority of State Governments across Australia are increasingly cognisant of the benefits of competition in energy markets, which is reflected in their COAG commitments and through the recent decision to remove retail price regulation for electricity in NSW. While this is ultimately a decision for the NSW Government, EnergyAustralia encourages IPART to promote the merits of the removal of retail price regulation, which would represent an important step towards consistency in regulation in energy markets (electricity and gas) across the country. This will consolidate recent developments in the NSW gas market and ensure its progression towards effective competition.

If you would like to discuss this submission further, please call me on (03) 8628 1479.

Regards



**Geoff Hargreaves**  
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