



**EnergyAustralia**

20<sup>th</sup> May 2013

Peter Boxall  
Chairman  
Independent Pricing & Regulatory Tribunal  
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Sydney, NSW

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Submitted online at [www.ipart.nsw.gov.au](http://www.ipart.nsw.gov.au)

Dear Dr Boxall

### **Response to the draft determination on NSW regulated retail prices and charges for gas 2013-16**

EnergyAustralia welcomes the opportunity to respond to the draft report for the review of regulated retail prices and charges for gas 2013 to 2016 (Draft Report).

#### **1. Introduction**

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We broadly support the overall approach that IPART has taken to the review of regulated gas prices for the 2013 to 2016 period. It is pleasing to see that IPART have made a draft decision to allow periodic reviews of the of the retail and carbon cost components during the regulatory period. The outlook for gas prices is quite unpredictable over the next regulatory period as IPART points out in the Draft Report:

*"In the longer term, we expect gas prices to rise towards international levels, increasing the costs of supplying gas to retail customers. However this process of price transition is unlikely to be smooth with the changing market dynamics having the potential to lead to increasing levels of price uncertainty in the gas market in the medium term."*<sup>1</sup>

In these circumstances we understand that it is challenging for IPART to "get the balance 'right' between the shorter and longer term interests of customers".<sup>2</sup> We share the concern that future gas price increases may be significant for many customers.

IPART also comments that the competitiveness of the market is sufficient to protect customers from prices being set above efficient levels. We agree, and we encourage the NSW government to remove price regulation from the gas and electricity markets as soon as practicable.

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<sup>1</sup> IPART, Review of regulated retail prices and changes for gas, 2013 to 2016: Draft Report (Draft Report), April 2013, page 18

<sup>2</sup> IPART, Draft Report, page 23

## **2. Form of regulation**

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In our view, IPART has chosen an appropriate package of regulatory mechanisms for the upcoming regulatory period. The weighted average price cap control (with no side constraints) on the retail (R) component is, in our view, the most appropriate form of price control while prices remain regulated. The network (N) and carbon (C) components of the regulated price are not controllable costs for retailers and we therefore support the continuation of these being included as pass through components.

As outlined in our first submission on regulated gas prices issues paper, we also support periodic and special circumstances reviews. We are therefore satisfied with IPART's draft decision to allow these review mechanisms through the next regulatory period. These reviews are particularly important over 2013 to 2016 considering the potential for significant and unpredictable changes in the wholesale gas price and the possible adjustments to the carbon price in the next few years.

## **3. Assessing the change to regulated price components, fees and charges**

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It is appropriate that IPART has taken a holistic approach to reviewing Standard Retailers' proposals and looked at ranges for each cost. We support the latest proposals submitted by the Standard Retailers and understand that these are likely to be acceptable to IPART.

The wholesale gas cost estimates produced by ACIL Tasman for 2013/14 are broadly consistent with our expectations of the costs incurred by the Standard Retailers. At this stage, it is difficult to assess the ACIL wholesale gas cost estimates for the latter two years of the regulatory period.

IPART notes that they are not inclined to agree to higher wholesale and retail costs and a higher retail margin to create incentives for retailers to enter the market and compete for customers.<sup>3</sup> In IPART's view, this would "likely lead to an upward bias on regulated retail prices, and is unlikely to balance the longer and shorter term objectives". Although we understand that a balance must be found, we feel that the regulated prices are based heavily on the Standard Retailers costs and may differ considerably from other retailers' cost profiles. It is difficult for us to judge how different the cost profiles might be as the data is confidential. We maintain that it is important that the regulated prices are set at a level that allows non-Standard Retailers to also compete profitably. Unless this occurs, competition could be affected in the longer term.

We support IPART's decisions to agree with the Standard Retailers' proposals on the C component and the non-tariff fees and charges.

If you would like to discuss this submission further, please call me on (03) 8628 1242.

Yours sincerely

**Melinda Green**

Regulatory Manager - Pricing

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<sup>3</sup> IPART, Draft Report, page 35