



The Hon Anthony Roberts MP

Minister for Resources and Energy
Special Minister of State

V14/1473

Mr Hugo Harmstorf
Chief Executive Officer
Independent Pricing and Regulatory Tribunal
PO Box Q290
QVB Post Office NSW 1230

Dear Mr Harmstorf

The NSW Government welcomes the opportunity to make a submission in response to the proposals by the regulated gas retailers for the 2014 Review of Regulated Gas Retail Prices.

The NSW Government is concerned with cost of living pressures on NSW families. While the NSW Government encourages all customers to shop around to ensure they get the best deal, proposed increases of up to 20.3 per cent, which equates to an increase of \$182 on an annual bill for a typical residential customer, place considerable pressure on NSW households, small businesses and low-income customers (such as customers on a fixed low income).

In this context, the NSW Government takes a strong interest in the regulated retail gas pricing proposals put forward by the regulated offer retailers in NSW – AGL, Origin Energy and ActewAGL, and wants to ensure that any price rises imposed on customers reflect genuine cost changes faced by the industry.

In particular, the NSW Government considers that AGL and ActewAGL's pricing proposals that seek to introduce a new category of "customer acquisition and retention costs" (CARC) require careful consideration.

These stated costs represent approximately a quarter of the proposed price increases. For the average customer with a usage of 23GJ per annum, the proposed \$3.15 per GJ change will add \$72 to the average gas bill, phased in over 2 years. The Government believes that an additional charge of this magnitude would need to be strongly justified by evidence.

This is particularly the case as the issue of a separate CARC was addressed in IPART's Final Report in 2013 and was dismissed by IPART as it contradicts the light-handed approach to regulated retail gas pricing in NSW.

Given that the purpose of the current process is to update regulated prices under the existing voluntary pricing agreement, the Government strongly questions the need to reconsider this issue at this time.

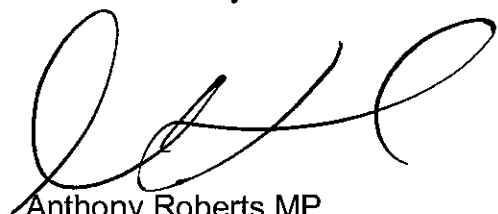
AGL cites a recent downward trend in customer churn rates as one reason to include the CARC. The NSW Government urges IPART to consider the broader criteria generally used by itself and the AEMC when assessing the competitiveness of the gas market. Any slight downward trend in gas churn, on its own, may result from the natural ebb and flow of the market, over the short term (a cyclical phenomenon), rather than indicate diminishing competition (a fundamental structural shift). Disentangling the former from the latter is difficult, and is likely to be accompanied by a high degree of uncertainty.

We also support IPART's approach to the annual review of wholesale gas costs and the Carbon Tax cost components of regulated retail gas prices and encourage IPART to ensure that the proposed increases attributed to the wholesale gas price are justified and reasonable.

The NSW Government asks IPART to apply a transparent approach to passing on savings from the repeal of the Carbon Tax and to ensure that customers do not continue to pay the price of the Carbon Tax longer than necessary.

The NSW Government suggests that IPART consider all of these factors carefully when considering the pricing proposals put forward by the regulated offer retailers, in particular, the controllable components of the retail costs.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Anthony Roberts', with a stylized, flowing script.

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