Chris Hartcher MP
Minister for Resources and Energy
Special Minister of State and
Minister for the Central Coast

V13/446

Dr Peter Boxall AO
Chairman
Independent Pricing and Regulatory Tribunal
PO Box Q290
QVB POST OFFICE NSW 1230

Dear Dr Boxall

I am pleased to make a submission on behalf of the NSW Government in response to the Independent Pricing and Regulatory Tribunal's (IPART's) Issues Paper on the above review.

The NSW Government is committed to putting downward pressure on the cost of living. As you are aware, the Government has enacted a number of reforms to reduce the upward pressure on electricity prices including:

- Reforming the NSW electricity network businesses with more than $400 million of savings to flow through to consumers;
- Requesting the NSW networks businesses to cap price rises at CPI or below over the next six years;
- Taking action to revise NSW electricity network reliability standards so that a secure and reliable energy supply is achieved more cost effectively;
- Requesting NSW electricity network and transmission companies revise capital expenditure plans in light of decreased demand forecasts;
- Maintaining the option of regulated prices but encouraging competition through new Terms of Reference for setting regulated retail prices from 2013-16;
- Capping electricity company dividends at forecast levels;
- Commencing a review of competition in NSW retail energy markets;
- Increasing the NSW Government's Low Income Household Rebate and Medical Energy Rebate;
- Establishing a new Family Energy Rebate;
- Closing the unsustainable Solar Bonus Scheme;
- Reducing duplication among federal and state green schemes; and
- Establishing a fair and reasonable benchmark solar feed-in-tariff.

GPO Box 5341, Sydney NSW 2001
Phone: (61 2) 9228 5289 Fax: (61 2) 9228 3448 Email: office@hartcher.minister.nsw.gov.au

Not only have these reforms strengthened the electricity policy framework, as a result of these reforms, electricity prices are forecast to stabilise over the next six years.

In the context of the Government's successful electricity reform agenda, we are concerned about the impact on consumers of AGL's proposed increase in gas prices.

AGL's proposed increase in its retail margin creates an average 10.4% increase in customers' bills in the first year. The NSW Government does not view this to be in the best interests of consumers, particularly given the increase would apply to the area containing the largest household market for gas in NSW.

More than 1.1 million or nearly 50% of households in NSW currently use reticulated natural gas. Approximately 300,000 additional NSW customers use bottled Liquid Petroleum Gas (LPG) (however the price of LPG is not set by IPART). The number of NSW customers using gas is growing as households and businesses look to gas as a clean, reliable and affordable fuel that provides a way for them to better manage their rising energy costs. Unexpected increases in gas prices could undermine community support for gas as a fuel source.

While the NSW Government remains committed to increasing the availability of gas across NSW particularly at a time of rising energy costs, one of the key factors that will influence further uptake of gas by households, business and industry is price.

A major factor that appears to be driving retail price increases is the expected increase in wholesale gas prices, as a result of an uncertain supply-demand balance following the expiry of long term supply contracts.

The NSW Government recognises that the gas market is likely to experience higher wholesale gas costs during the course of the next determination and is working to ensure that the policy framework for gas supports the long term interests of consumers in accessing a reliable and affordable gas supply.

NSW gas consumers currently rely heavily on gas imported from Victoria, South Australia and Queensland. Approximately 6% of the gas consumed in NSW is from production based in this State.

Until such time that sufficient additional gas production is brought online, and given the questions around gas availability for both the gas supply industry in NSW and more broadly along the east coast, the NSW Government supports an annual review of wholesale costs during the course of the next determination period. The Government believes this is preferable to a forecast for the duration of the determination period that reflects current supply uncertainty.

We strongly encourage IPART to carefully and fully assess the other variable cost components that make up the final retail tariff to ensure minimum cost impost on NSW households.

The Government remains concerned by AGL's proposed 40% increase to its retail margin in the first year, rising from 5.7% to 8% for customers in Sydney, the Hunter, the Illawarra and the Central Coast.

The Government notes that this proposed margin is at the high end of IPART's recommended margin range of 7.3% to 8.3%. Other pricing options including a staged increase as opposed to a single large increase may be worth considering as a better outcome for NSW consumers. While the Government accepts that retailers should receive an appropriate margin, this should not be excessive and full consideration should be given to consumer impacts.

In relation to the network component of retail tariffs, the NSW Government recognises that these are determined through a transparent and open regulatory process undertaken by the Australian Energy Regulator (AER).

The NSW Government remains committed to doing everything it can to protect NSW households from rising gas prices and requests that determinations be made in the best interests of the consumer.

The NSW Government will continue to take a keen interest in the progress of IPART's review process and looks forward to receiving the draft report in March.

Yours Sincerely

Chris Hartcher MP

5.2.13