

18 January 2013

Attention: The Project Leader
Review of Regulated Retail Prices and Charges for Gas - 2013 to 2016
Independent Pricing and Regulatory Tribunal of New South Wales
PO Box Q290,
QVB Post Office, NSW, 1230

By email

Dear Sir/Madam

RE: IPART Review of regulated retail prices and charges for gas - 2013 to 2016

Thank you for your invitation to make a submission to this important review. Momentum Energy is a second tier retailer with retail electricity licenses in Victoria, New South Wales, South Australia and the Australian Capital Territory. Momentum Energy is fully owned by Hydro Tasmania, one of the largest clean energy producers in Australia.

In considering the issues in this paper Momentum Energy believes the 2013-2016 review represents another opportunity to compare and contrast the fact that second tier retailers have a strong and growing presence in the electricity retail market in NSW, and yet are barely visible in the retail gas market. In responding to this Issues Paper, Momentum is cognisant that some of the required reform might not be able to be achieved through the regulatory arrangements under consideration in this review.

For example, while the initial Bulletin Board (BB), and the implementation of a short term trading market (STTM) and the establishment of a national gas market operator (AEMO) have been reforms that have generally improved transparency and access in natural gas markets, evidence persists that in the NSW natural gas market, problems with market structure still limit the conditions for new retailer entry and expansion. Momentum's view is that IPART should continue to focus on encouraging new entrant retailers into the NSW retail gas market, and promoting more competitive outcomes.

The difficulty that new entrant retailers have in entering the NSW gas retail market is evidenced by their market share of NSW residential natural gas small customers. In 2011, AGL held a market share of around 66 per cent, EnergyAustralia held a market share of around 24 per cent, and Origin Energy (including acquired Essential Energy / Country Energy customers) held a market share of around 8 per cent, meaning these three companies hold 98 per cent of the market¹. Closer examination reveals that Actew/AGL market share could be appropriately lumped in with the incumbents, concluding a three firm market share closer to 100%.

¹ AEMC, Review of Competition in the Retail Electricity and Natural Gas Markets in New South Wales, Issues Paper, Dec 2012

We should compare these outcomes to those seen in Victorian and South Australian retail gas markets. Whilst in NSW there is a three-firm concentration of 98 per cent, in Victoria the same three companies now hold only 80 per cent. Since 2005 second tier retailers have won 20 per cent of the retail gas market for small customers away from the original incumbents; in addition to the churn between those incumbent retailers². Similarly in South Australia nearly 50 per cent of small retail gas customers have been won away from Origin Energy since competition was introduced into the retail gas market there³.

Furthermore, NSW has the lowest percentage of any state of customer switching of retailers⁴. Momentum acknowledges that there may be other reasons for this low rate of switching apart from an absence of competition, such as customers are happy with the service they receive from their existing retailer, or that second tier retailers have deliberately chosen not to market gas in NSW. However, concurrent outcomes for these same retailers in other States do not support these hypotheses.

Momentum Energy would argue that this absence of actively competing gas retailers is due to existing barriers to entry. Specifically, the procuring wholesale gas is more difficult in NSW than Victoria. There are less supply and transportation options, and gas retailers rely heavily on bi-lateral contracts rather than purchase from the market. While gas is now transacted through the STTM at the Sydney Hub, this is primarily gas for balancing purposes. When smaller retailers are seeking reliable longer term contracts, gas producers generally demand a higher price for gas from such a lower volume purchaser, and also can insist on more onerous take or pay arrangements⁵. Gas producers also have less flexible daily cash flow arrangements⁶. Consequently for second tier retailers the price and volume of gas are unlikely to be sufficiently certain to back the provision of gas to their retail customers. It is therefore not surprising that while there may be some rivalry between the big three retailers, there is only a limited number of second tier retailers which are active in the NSW gas market.

The Retail Component

Momentum Energy's view is that the longer the price path period is fixed by IPART, the more that the issues relating to gas price and volume uncertainty will continue to restrict the entry of second tier retailers to the NSW gas market. In our assessment, Momentum Energy notes that AGL now also see significant price and volume uncertainty in these arrangements, with AGL providing advice to IPART that their long term gas supply agreements are subject to reviews in 2013⁷. To help address AGL's problem, AGL proposes revisiting the gas commodity cost component of an otherwise pre-determined WEC⁸ annually during the period 2013 - 2016. This is within the regulatory arrangements contemplated by the Issues Paper, and Momentum Energy urges IPART to give serious consideration to this as this flexibility is essential not just to AGL's benefit, as smaller retailers who are not currently contracted, or are contracted without sufficient length, may also rely upon this review mechanism to facilitate their continued or further retailer entry into the NSW retail gas market.

² AER Power of Choice Review, Chapter 4, p. 107

³ AER Power of Choice Review, Chapter 4, p. 107

⁴ AER Power of Choice Review, Chapter 4, p. 109

⁵ Report: Gas wholesale markets and retail competition in NSW and Victoria, July 2012, Hughson and Mauseth Johnson

⁶ Report: Gas wholesale markets and retail competition in NSW and Victoria, July 2012, Hughson and Mauseth Johnson

⁷ AGL, Proposed VTPA for NSW regulated gas prices from 1 July 2013 to 30 June 2016, November 2012

⁸ AGL, Proposed VTPA for NSW regulated gas prices from 1 July 2013 to 30 June 2016, November 2012

The Carbon Component

Under the current arrangements, the price of carbon will be set by the market from mid-2015. The carbon price from this date cannot be reasonably predicted, and Momentum Energy urges the regulator to allow for a review of the carbon component at that time.

In closing, Momentum reinforces its view that facilitating the entry of second tier retailers into the NSW gas retail market should be a priority for IPART, as in an environment where barriers to entry are high, and new entrants are unable to enter the market, the existing retailers are able to operate free from the competitive discipline normally imposed by the market.

Thank you for the opportunity to contribute to this important consultation. Should you or your staff wish to discuss this matter further please feel free to give me a call on (03) 8612-6471.

Yours sincerely

Alastair Phillips
General Manager Regulatory and Compliance