

11 May 2016

Dr Peter Boxall
Chairman
Independent Pricing and Regulatory Tribunal
Level 15, 2-24 Rawson Place
SYDNEY NSW 2000



Online submission

Dear Dr Boxall

Review of regulated retail prices and charges for gas from 1 July 2016

PIAC welcomes the opportunity to comment on IPART's draft determination for the regulated retail prices and charges for gas in NSW.

PIAC is an independent, non-profit law and policy organisation that works for a fair, just and democratic society, empowering citizens, consumers and communities by taking strategic action on public interest issues. PIAC identifies public interest issues and, where possible and appropriate, works co-operatively with other organisations to advocate for individuals and groups affected. PIAC's Energy and Water Consumers' Advocacy Program develops policy and advocates in the interests of low-income and other residential consumers in the NSW energy and water markets.

Effectiveness of competition in the NSW retail gas market

IPART was tasked with assessing the effectiveness of competition in the retail gas market during this price review. In previous submissions PIAC has raised concerns about the effectiveness of competition in regional areas, in light of the low number of retailers and market offers available to customers outside of the major metropolitan areas.

Overall, IPART has determined that the level of competition is effective for 95% of consumers in NSW. For the remaining areas, IPART's view is that current efforts to improve competition will be effective. These measures include removing price regulation and making the Shoalhaven area subject to the retail market procedures in order to allow new retailers to provide gas in the area.

PIAC supports the work of AEMO to amend the market procedures to allow new retailers to operate in Shoalhaven. However, PIAC reiterates its previously raised concerns, including its reservations about the removal of price regulation as a means of increasing competition. PIAC remains concerned that the removal of price regulation will leave the 20 per cent of customers who remain on the standard contract without protections. PIAC is also concerned that competition in regional areas may never significantly increase because the small number of customers generally makes it unprofitable for retailers to sell there.

PIAC is not satisfied that IPART has given sufficient consideration to specific barriers to entry in regional NSW gas markets, including the size of customer base, the higher customer acquisition costs, and the limited geographical pipeline coverage and

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capacity of regional pipelines.¹ The ACCC recently released its review on the east coast gas market and found that there are issues of access and capacity in regional pipelines. In particular, it raised concerns about the potential for hoarding by incumbent retailers.² If this is occurring, it constitutes a significant barrier to entry. PIAC is concerned that this has not been sufficiently addressed by IPART.

IPART contends that for the majority of the market the threat of competition from electricity is enough to keep gas prices affordable. However, the ACCC has found that the threat from electricity 'provides a weak constraint on pipelines'.³ While this finding was for pipeline pricing, this does have an impact on the final prices paid by consumers. PIAC recommends that IPART give additional consideration to the ACCC's findings on regional gas customers.

Finally, for many customers, particularly those on low incomes and renters, gas is not a fuel of choice. If the fixed appliances in their homes are gas-powered, they continue to use them regardless of whether gas is the more affordable option. Gas is increasingly becoming unaffordable for many households, as evidenced by the increase in gas debts, gas disconnections and complaints about gas retailers to the Energy and Water Ombudsman of NSW (EWON). PIAC recommends that IPART provide some measures to ensure these customers are protected, and that it creates a more detailed plan to address these specific concerns as we transition to full price deregulation in July 2017. PIAC would welcome the opportunity to work with IPART over the next twelve months in the lead up to full price deregulation to ensure that vulnerable and regional customers are supported during this process.

Retail gas prices and charges

IPART has indicated that it will accept the proposed prices for the three standard retailers in NSW (AGL, Origin and ActewAGL). The retailers have proposed to maintain current retail component and distribution charges, with increases in line with inflation. While PIAC accepts this finding, it has concerns about the timing of price deregulation, because the impact of the LNG export industry on domestic prices will coincide with the deregulation of gas prices. PIAC recommends that IPART provide a transitional tariff to counter the effects of the changes in the wholesale market, in order to insulate consumers from any associated shocks.

PIAC looks forward to working with IPART on these issues over the coming year.

Yours sincerely



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1 IPART *Review of regulated retail prices and charges for gas from 1 July 2016*. 22.

2 ACCC *Inquiry into the east coast gas market*. April 2016. 15.

3 *Ibid* 99.