

IPART Review of Gas Regulated Retail Tariffs

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ActewAGL

ActewAGL

- Australia's first true multi-utility
- Joint venture between ACTEW Corporation and The Australian Gas Light Company
- Comprises ActewAGL Distribution and ActewAGL Retail partnerships
- Retail partnership sells electricity, natural gas, internet services and other utility services in expanded ACT region.

ActewAGL's NSW customers

- 11,600 gas customers
Queanbeyan/Yarrowlumla and
Nowra/Shoalhaven
 - 11% of ActewAGL total gas customer base
- Becoming standard supplier for 12,000 gas customers in the 'Capital Region'
- VPP's for Nowra agreed in October 2002.
- VPP's for Queanbeyan agreed in July 2003.
- Both VPP's due to expire on 30 June 2004.

NSW Government's policy objectives

- Price regulation to;
 - promote competition in the energy market;
 - take proper account of and protect the interest of small retail customers; and
 - take proper account of the business interests of persons supplying energy to small retail customers.
- Regulated default tariffs until 30 June 2007
- Smooth transition from regulated prices
- Light-handed approach now appropriate
- Most effective in meeting the Government's policy objectives.

Current Voluntary Pricing Principles

- Queanbeyan
 - agreed July 2003
 - previously, prices aligned with ACT
- Shoalhaven
 - agreed October 2002
- Have ensured price stability for customers
- Created business environment to foster competition

Form of regulation

- Competition preferred to regulation
- Initial need for regulation to promote competition and protect customers
- By June 2004, NSW gas retail market open to competition for two and a half years.
- No longer a need to regulate default tariffs
- Low barriers to entry in ActewAGL supply region
- VPP's should reflect a light-handed form of regulation.

ActewAGL proposal

- *CPI Approach* based on Tribunal's Option 6:
 - “Setting a single average price constraint on all tariff categories (ie. average price constraint)”
- Average price constraint set at CPI
 - price variation of CPI or less allowed without further review
 - Price variation above CPI would require justification.
- Price constraints on tariffs may complement the CPI approach.

Benefits of *CPI Approach*

- smooth transition to market based default prices (price shocks have to be justified);
- costs variations managed more effectively and ahead of time; and
- reduce the costs of regulatory reviews (only required for “CPI plus” proposals).

Cost to be recovered

- CPI approach
 - allows the market to establish cost benchmarks
 - subject to ensuring customer protection
- CPI plus proposals may be sought
 - eg. for increase in pass-through, compliance costs
- Need to assess the merits of each proposed price variation.

Structure of Regulated Tariffs

- Majority of retail costs are passed on to retailers
- Operating costs incurred by retailers on a per customer basis
- Retailers pass on costs on a cost reflective basis
- Need to ensure tariff structures allow appropriate cost recovery.

Regulation of non-tariff charges

- Propose light-handed approach
 - Non-tariff charges to be cost reflective, and
 - Passed on to customers on a fair and reasonable basis.
- ActewAGL non-tariff charges are totally discretionary and avoidable by customers
- ActewAGL's '*Staying connected*' policy designed for customers facing hardship.