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Review of regulated retail tariffs and charges for gas 2010-13
Independent Pricing and Regulatory Tribunal
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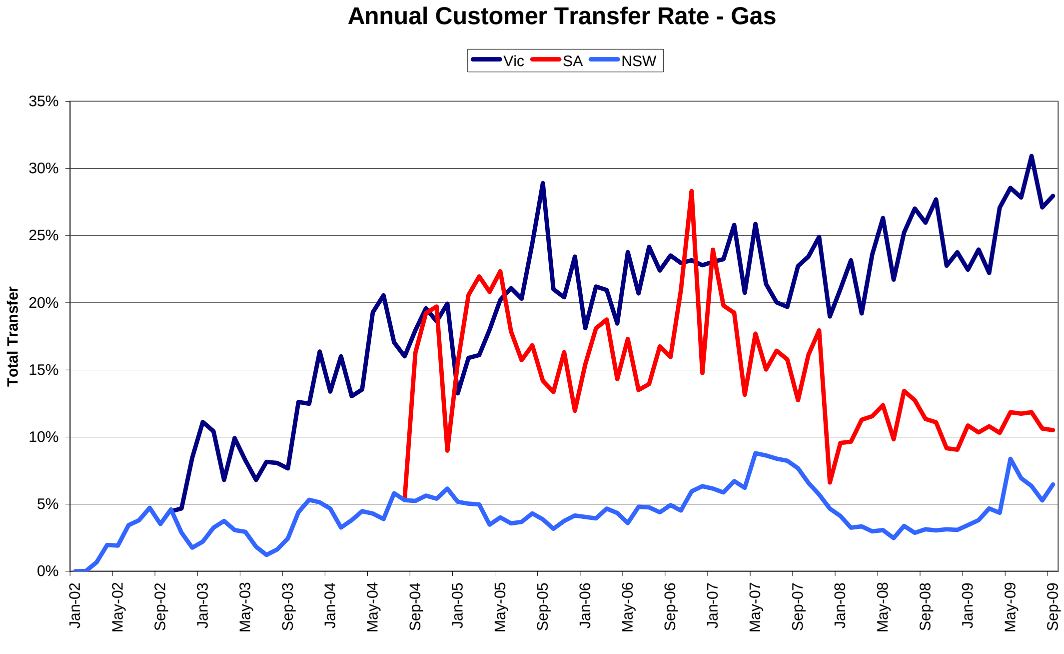
Review of regulated gas retail tariffs and charges 2010-13 – Issues Paper

Thank you for the opportunity to comment upon the Tribunal's *Review of regulated gas retail tariffs and charges for 2010-13 - Issues Paper.*

New South Wales has been consistently the least successful state in facilitating a competitive retail gas market, as shown in the graph below. It is TRUenergy's experience that this is due exclusively to the failure to set New South Wales regulated tariffs at levels which encourage effective competition, reflected in the low market share for new entry retailers and low levels of market churn. The longer retail tariffs are suppressed, the greater the threat to energy security and the greater the eventual adjustment required to provide for a sustainable retail gas market.

Detailed comments are provided below.



Question	TRUenergy Comment
Do Voluntary Transitional Pricing Agreements VTPAs continue to be an appropriate form of regulation for the Standard Retailers' regulated retail gas tariffs, given the objectives and context for this review? Are there enhancements that can be made to the current approach?	To the extent that price regulation is retained, TRUenergy generally supports a light handed approach to retail price setting. However, with respect to the New South Wales retail gas market, it is now apparent that the VTPA's have failed to establish levels of competition consistent with other jurisdictions. In this context the Tribunal should review the pricing proposals of the incumbent retailers on the basis that they will not be sufficient to achieve the policy objective of facilitating effective retail competition.
Is there adequate information available for customers to make informed choices when choosing a gas supplier? If not, what measures could be implemented to address this?	Evidence from all jurisdictions is that customers exercise choice overwhelming in response to retailer acquisition campaigns, rather than on the basis of information sought by customers. (eg. AEMC Victorian Competition Review, 1st Final Report p64; http://www.aemc.gov.au/Media/docs/First%20Final%20Report-9cb80465-545e-4f24-a7e8-3545b98144d1-0.pdf). Information provision is irrelevant to the low levels of choice being exercised. The reduction in marketing activity is due to the inability of new entrant retailers to compete against incumbents at current price setting levels.
Are the proposed assessment criteria appropriate to guide our analysis and decision-making for this review?	Assessment criteria 1(a) require the setting of prices that recover the "efficient costs of supplying gas". We note that for the 2010 electricity draft determination, consultants provided the Tribunal with a range of efficient costs for the retail cost components. In other words, any costs which fell within the range would be considered reasonable, and if submitted by a retailer as part of a propose-respond model, would have been approved. However, the Tribunal arbitrarily chose to adopt the mid-point of the consultant's efficient range. In doing so it has acted contrary to criteria 1(b) to facilitate the development of effective retail competition, given the comparatively low level of competition. We recommend that the Tribunal acts in a manner consistent with both the "efficient cost" and "facilitate competition" criteria, which can only be achieved, given the state of the state of the New South Wales gas retail market, by setting cost allowances at the upper end of the efficient range.

Do stakeholders consider that the Standard Retailers' proposals are reasonable in general? Are there any specific issues or individual components of the proposals that stakeholders wish to comment on?	It is unlikely that the Standard Retailers' proposals are sufficient to facilitate the level of competitive activity which has charcterised other retail gas markets. Setting retail operating costs and retail margin allowances at the upper end of the efficient cost range, as identified in the 2010 electricity price draft determination, would facilitate this adjustment
Does a WAPC best meet the objectives for this review? Are there enhancements that can be made to the current approach? Is there any evidence to suggest that a WAPC is inappropriate? Are there other approaches to setting retail tariffs that IPART should consider?	TRUenergy supports the WAPC approach, as it generally promotes cost-reflectivity, and thus competition, within price setting constraints.
Should IPART accept the Standard Retailers' proposal to pass network charges through to customers?	Yes. Network costs are uncountable, and the bundled retail tariff cannot be cost reflective unless full network tariff pass through is allowed.
What is the most appropriate way to address uncertain costs associated with national climate change measures in the new VTPAs? If the Standard Retailers set retail prices based on their own forecasts of CPRS permit costs, should this forecast ever be reconciled with the actual costs of permits?	TRUenergy supports the proposal for costs associated with the CPRS to be passed through a retailer-initiated annual adjustment mechanism. Given the asymmetrical risks of price setting, any ex-post review by IPART should only make further adjustment on the basis of an initial under-estimate.
Is the Standard Retailer the only party who should trigger special circumstances and a review or re-opening of a VTPA?	Second tier retailers should also have the ability to trigger special the circumstances clause and a review or re-opening of the VTPA, given the impact of regulated prices on the competitiveness of new entrant market offers.
Should there be a materiality threshold to trigger a special circumstances review? And if so, what should that threshold be?	No. Given the unforeseen nature of the special circumstance which would have triggered the review, and the impact of any cost underestimate on retail competition, the setting of an arbitrary threshold is inappropriate.

Have there been any significant changes to retail business activities since the 2007 review? And if so, what are the implications for wholesale gas costs?	The short term trading market will impose additional costs and risks on gas retailers, which, in addition to imbalance and deviation charges, will include establishment costs and the costs of securing additional pipeline or shipper services.
Are previous retail operating cost analyses and benchmarks a valid starting point? If not what are the alternative approaches?	The 2010 Electricity Draft Determination identified an efficient range for retail operating costs (including customer acquisition costs with an adjustment for double counting) of between \$82.70 and \$127.70. Given the dormant level of competitive activity in the New South Wales gas market, it is appropriate to set operating costs at the high end of this range.
Have there been any significant changes to retail business activities since the 2007 review? And if so, what are the implications for the retail margin?	The 2010 Electricity Draft Determination identified an efficient range for the retail margin at between 4.8% and 6.1%. Given the dormant level of competitive activity in the New South Wales gas market, it is appropriate to set retail margins at the high end of this range.

Please contact me on (03) 8628 1122 if you require additional information.

Yours sincerely,

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