

**INDEPENDENT PRICING AND REGULATORY TRIBUNAL  
PUBLIC FORUM ON CHANGES IN REGULATED RETAIL ELECTRICITY  
PRICES FROM ONE JULY 2012**

**TRIBUNAL MEMBERS**

**MR PETER BOXALL, CHAIRMAN  
MR JAMES COX  
MS SIBYLLE KRIEGER**

**Held at IPART offices, Level 8, 1 Market Street  
Sydney, New South Wales  
On Monday, April 30, 2012 at 10am**

1 INTRODUCTIONS

2

3 THE CHAIRMAN: Welcome everybody. I'm Peter Boxall,  
4 Chairman of IPART. On my right is Jim Cox, the Chief  
5 Executive of IPART and full-time tribunal member. On my  
6 left is Sibylle Kreiger, part-time member of the tribunal.  
7 We also have two members of the IPART Secretariat at the  
8 table: Alexis van der Weyden and Anna Brakey.

9

10 Thank you all for coming today. We're grateful for  
11 your assistance in undertaking what is a difficult and  
12 complex review.

13

14 ELECTRICITY - CONTEXT FOR 2012 ANNUAL REVIEW

15

16 For electricity, the context of the 2012 Annual Review  
17 is that IPART is responsible for legislating electricity  
18 prices for around half of the residential and small  
19 business customers in New South Wales.

20

21 These are the prices that EnergyAustralia, Integral Energy, and  
22 Country Energy - the Standard Retailers - charge customers  
23 who have not signed a voluntary market contract  
24 with either them or another retailer. The standard retailers  
25 were purchased by TRUenergy and Origin Energy last  
26 year, and we remain responsible for setting maximum  
27 regulated prices charged by these new owners.

28 However, the new owners are continuing to use the existing  
29 brand names, and we will continue to use these in this review.  
30

31 We were requested to set regulated electricity retail  
32 tariffs and charges from 2010 until 2013. The Minister for  
33 Energy provided terms of reference for our review and  
34 determination in accordance with his powers under the  
35 Electricity Supply Act 1995.

36

37 The terms of reference specify the matters we must  
38 take into account and objectives we should aim to achieve  
39 in making the determination. They also set out some  
40 requirements related to how we should make the  
41 determination.

42

43 In March 2010, after a 9-month process that included  
44 extensive consultation and analysis, we made a  
45 determination on the amount by which each retailer could  
46 increase its average regulated price on 1 July 2010 and  
47 estimated the amount by which it could increase its price

1 on 1 July 2011 and 2012. The Determination stated we would  
2 conduct annual reviews in 2011 and 2012 to update the  
3 price increases for these years.

4

5 This review is updated to set the 1 July 2012 price  
6 increase using the approach set out in the 2010  
7 Determination. We are updating the energy costs, having  
8 regard to new information on cost inputs and policy changes  
9 made by the Federal Government, particularly in relation to  
10 the introduction of a price on carbon emissions from 1 July  
11 2012.

12

13 We issued a draft decision on 12 April, which also  
14 included analysis regarding the impact of the determination  
15 on households and small business customers, as well as  
16 recommendations on actions to mitigate future electricity  
17 price increases.

18

19 DRAFT REPORT

20

21 The draft report and determination set out significant  
22 increases in average regulated retail prices of about 16  
23 per cent in nominal terms from 1 July 2012. These  
24 increases range from 10.3 per cent for Integral Energy  
25 customers and up to 19.2 per cent for EnergyAustralia  
26 customers.

27

28 Looking at the overall drivers of this 16 per cent  
29 price increase, the main reasons electricity prices are  
30 increasing are that forecast networks costs are increasing  
31 significantly, adding to 8 per cent to final retail prices.

32

33 In addition, the Commonwealth Government's carbon  
34 pricing mechanism contributes to the other half of the  
35 average price increase. The carbon pricing mechanism will  
36 increase wholesale electricity costs. These costs are a  
37 major component of the Standard Retailers' energy costs.  
38 Under our terms of reference, increases in network costs  
39 and the introduction of carbon price should be passed  
40 through so retailers can cover their costs.

41

42 We recognise that these price increases are  
43 significant and will place substantial financial pressures  
44 on some sections of the community, particularly those with  
45 lower income. In line with the terms of reference, we have  
46 reported to Government on the impact of the increased  
47 prices on customers and have provided advice on measures to

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1 mitigate future electricity price increases.  
2  
3 We note in the report that the New South Wales and  
4 Commonwealth Government have announced measures to  
address

5 short-term affordability issues. For example, increases in  
6 the New South Wales Low Income Household Rebate and the  
7 Commonwealth Household's Assistance Package, respectively.

8  
9 We consider it important that the factors driving  
10 electricity price increases are well understood by the  
11 community. We will continue to contribute to the policy  
12 debate to seek to ensure that the appropriate measures are  
13 put in place to improve the affordability of the  
14 electricity and maintain a viable electricity sector.

15  
16 GAS - INCORPORATING THE IMPACT OF THE CARBON  
17 PRICE INTO REGULATED RETAIL GAS PRICES IN NEW  
18 SOUTH WALES FROM 1 JULY 2012

19  
20 Today's forum will also discuss the retailer's  
21 proposals to increase retail gas prices to compensate for  
22 the additional cost of the carbon price.

23  
24 In 2010, we agreed VTPAs with each standard gas  
25 retailer in New South Wales for the period 1 July 2010 to  
26 30 June 2013. Standard retailers set their regulated  
27 retail gas prices in line with their VTPAs, and we monitor  
28 their compliance.

29  
30 The Commonwealth Government's carbon pricing mechanism  
31 will place additional costs on standard retailers in  
32 supplying gas to retail customers from 1 July 2012. The  
33 VTPAs provide for standard retailers to increase gas prices  
34 to reflect these additional costs.

35  
36 The standard retailers have proposed increases in  
37 residential retail gas prices of 6 to 9 per cent to  
38 compensate for the additional costs of the carbon price.  
39 Our role is to assess whether this increase is reasonable;  
40 and, if so, a Standard Retailer will be able to increase  
41 their retail gas prices on 1 July 2012 to recover these  
42 additional costs.

43  
44 The additional costs will mean that the gas price  
45 increases from 1 July 2012 are likely to be larger than was  
46 previously indicated.

47

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1  
2 PROCEDURAL MATTERS FOR PUBLIC HEARING

3  
4 Now, today's forum will cover both electricity and gas  
5 prices. It is an opportunity for stakeholders to  
6 understand this, seek clarification, and provide comment on  
7 the Draft Report and Determination for electricity, as well  
8 seek additional information from the gas Standard  
9 Retailers' on their proposals to increase retailer gas  
10 prices.

11  
12 There will be a short presentation at the beginning of  
13 each session which will be made by members of the IPART  
14 Secretariat. I will then invite stakeholders at the round  
15 table to make comments. Following this, I will then invite  
16 comments from the floor. The second session on gas will  
17 commence immediately following the first session.

18  
19 Today's workshop is being transcribed. Please press  
20 the talk button before you speak and state which  
21 organisations you represent and speak clearly for the  
22 benefit of the transcribers.

23  
24 SESSION 1 - CHANGES TO REGULATED RETAIL  
25 ELECTRICITY PRICES FROM 1 JULY 2012

26  
27 Now, let's move to Session 1 - changes to regulated  
28 retail and electricity prices from 1 July 2012. We'll now  
29 begin the session with a presentation on issues for  
30 discussion, which include the updated estimate of energy  
31 purchase cost allowances for 2012 and 13, including the  
32 impact of the carbon price, other green costs, including  
33 expanded renewable energy target, impacts on customers, and  
34 actions to improve electricity affordability.

35  
36 I'd invite Alexis, IPART Secretariat.

37  
38 MR VAN DER WEYDEN: Thanks, Chairman. I'm Alexis van  
39 der Weyden, IPART Secretariat.

40  
41 OVERVIEW OF DRAFT DECISION - SIGNIFICANT PRICE  
42 INCREASES  
43 FOR 1 JULY 2012

44  
44 As the Chairman highlighted earlier, regulated prices  
45 will increase by an average of 16 per cent across New South  
46 Wales from 1 July 2012. Network charges will add 8 per  
47 cent to retail prices and the introduction of the carbon

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1 price will add a further 9 per cent to retail prices.  
2  
3 In this session, we're going to examine these first  
4 three elements of this illustrative electricity supply  
5 chain. Namely, the cost to retailers of purchasing energy  
6 from generators; the impact of carbon on these costs; and  
7 the cost of the retailers complying with other Commonwealth  
8 and State green energy schemes.  
9  
10 Combined, these three components represent between 40  
11 and 50 per cent of the final retail price and are the major  
12 costs elements that were updated as part of this annual  
13 review.  
14  
15 Other major components of retail prices are network  
16 prices. These are the prices that network businesses can  
17 charge retailers for transporting electricity across the  
18 poles and wires. Network prices have increased by over 70 per  
19 cent in real terms over the past 5 years and that will  
20 increase further from 1 July this year, being a major  
21 driver of final retail prices. These network prices are  
22 regulated by the Australian Energy Regulator and to ensure  
23 retailers' financial viability we will allow these network  
24 prices to be passed through into retail prices.  
25  
26 We have concerns that there are a number of factors that may  
27 be contributing to higher than necessary network prices.  
28 We've made a number of recommendations to  
29 mitigate further increases in network prices, and we will  
30 discuss these later on in the presentation.  
31  
32 UPDATING THE ENERGY COST ALLOWANCES  
33  
34 To supply their customers, electricity retailers must  
35 purchase energy from the National Electricity Market. They  
36 must also comply with a range of Federal and state green  
37 energy programs. These total energy costs are the largest  
38 cost component of the retail-cost base, and as I mentioned  
39 before, represent 40 to 50 per cent of final retail prices.  
40  
41 The terms of reference require us to set an  
42 energy cost allowance made up of the wholesale energy cost  
43 allowance; other green costs, including the large scale  
44 renewable energy scheme target; the small scale renewable  
45 energy scheme; energy losses, which occur when energy is  
46 transported over the network; and NEM fees and ancillary  
47 services.

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1 In making the 2010 Determination, we estimated each  
2 retailer's total energy costs in each year of the  
3 determination period. We'd also indicated we would review  
4 this allowance in 2011 and 2012 to manage several  
5 uncertainties that could affect the level of these costs.  
6 This annual review updates our decisions on the key cost  
7 components, which are the first three points on the slide above.  
8  
9 Our determination also provides a mechanism for  
10 passing through costs associated with regulatory and  
11 taxation change events. As part of this price change from  
12 1 July, we assessed the retailers' application for passing  
13 through additional costs associated with the change to the  
14 renewable energy target; in particular, the small scale  
15 renewable energy scheme.  
16  
17 DRAFT DECISION ON ENERGY COST ALLOWANCE AND  
18 COST PASS THROUGH APPLICATIONS  
19  
20 A draft decision on the total energy cost allowance  
21 for 2012-13 ranges from \$98 to \$104 / MWh. To this, we need  
22 to add a further \$2 / MWh for additional costs associated with  
23 changes to retailers obligations under the RET for 2012,  
24 primarily the result of a significant over-supply of small  
25 scale renewable certificates reflecting the strong take-up  
26 of solar PV and solar hot water in 2011.  
27  
28 UPDATING THE ENERGY PURCHASE COST ALLOWANCE  
29  
30 In line with these terms of reference, we've  
31 determined an energy cost allowance for each Standard  
32 Retailer. We've asked Frontier Economics to calculate and  
33 recommend the efficient energy costs for each standard  
34 retailer using both an LRMC approach, which represents the  
35 cost of new generation required to meet retailers' loads,  
36 and a market-based approach which reflects the costs in  
37 purchasing energy from the National Energy Market.  
38  
39 We've used a consistent methodology to that used in  
40 our 2010 Determination; namely, we've estimated the LRMC on  
41 a stand-alone basis; meaning we built and priced a whole  
42 new theoretical generation system for each standard  
43  
44  
45  
46  
47

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1 retailers' regulated load. We've also estimated the market  
2 costs using a point-in-time estimate of contract prices and  
3 have chosen the least risky combination of spot and  
4 contract cover.

5

6 We've also incorporated a price on carbon into  
7 generators' marginal cost, meaning we have taken a  
8 carbon-inclusive approach in determining the energy  
9 purchase cost allowance.

10

11 We've updated key input assumptions, including the cost of  
12 generation and energy demand in the NEM. We've continued  
13 to rely primarily on ACILs 2011 draft report for the QCA and  
14 indexed the key cost assumptions to 2012-13 and beyond.  
15 We've done this because we do not consider the input costs  
16 published by the Australian energy market operator to be  
17 suitable for pricing purposes. We then set each retailers' energy  
18 purchase cost allowance in line with Frontier Economics'  
19 advice, and using the higher of the LRMC and market-based  
20 costs in each year as required by the terms of reference.

21

22 In terms of updating the LRMC, our draft decision  
23 provides for an increase in the LRMC of around \$13 MWh  
24 relative to 2011/12. There are two major changes which  
25 occurred since last year; a decline in the WACC  
26 primarily resulting from the historically low yield on  
27 Australian bonds leading to a drop on the annualised  
28 capital costs of generation. This is pushing the LRMC  
29 down, and in the absence of a carbon price, would have  
30 reduced the LRMC by \$6 to \$7 MWh.

31

32 However, a carbon price from 1 July significantly  
33 increases generators' marginal costs, and results in an  
34 increase costs of new generators' required to meet  
35 retailers' loads. The carbon price effect adds around \$20  
36 MWh or around 9 per cent to final retail prices. The net  
37 effect of these two factors is for an increase in the LRMC  
38 of around \$13 MWh in 2012-13. In terms of updating the  
39 market-based cost, our draft decision provides for an  
40 increase of between \$17 and \$20 MWh relative to last  
41 year.

42

43 UPDATED ENERGY PURCHASE COST ALLOWANCE -  
44 MARKET-BASED ENERGY COSTS

45

46 Similar to our updated LRMC estimates, there's two  
47 factors that are pushing the market-based costs in

1 different ways: A decline in electricity demand in the NEM  
2 and is resulting in lower spot and contract prices. This is  
3 pushing the market-base costs down, and in the absence of  
4 carbon price, would have reduced these costs by \$9 / MWh.

5

6 However, a carbon price from 1 July significantly  
7 increases generators' marginal cost and will flow through  
8 to higher spot and contract prices. The carbon price  
9 adds around \$26 to \$28 / MWh to the retailers' market-based  
10 purchase costs. The impact of carbon on the market-based  
11 costs is larger than on the LRMC estimates. This is  
12 because unlike the LRMC estimates which price a whole new  
13 theoretical generation system, the market based estimates  
14 reflect the actual mix of investment and dispatch in the  
15 NEM where there is a lower proportion of gas-fired  
16 generation plants, contributing to a higher average  
17 emissions intensity and, therefore, a higher carbon  
18 pass-through rate.

19

20 It is important to keep in mind that this \$26 to  
21 \$28 / MWh figure is not the impact of the carbon prices on  
22 wholesale prices. It's the impact on retailers' energy  
23 purchase costs, which reflects the relatively peaky nature  
24 of their load. The net effect of these two changes is for an  
25 increase in the market-based cost of \$17 to \$20 / MWh hour  
26 for 2012-13.

27

28 UPDATED ENERGY PURCHASE COST ALLOWANCE -  
29 LRMC REMAINS HIGHER THAN MARKET COSTS  
30

31 Despite the impact on carbon being lower under the  
32 LRMC estimates, the LRMC remains higher than the  
33 market-based costs in 2012-13. For the next financial  
34 year, the LRMC will be between \$13 and \$14/ MWh higher  
35 than the market-based costs.

36

37 In line with our terms of reference, we have set the EPCA  
38 as the higher of the LRMC and market-based cost. As a  
39 result, customers' bills in 2012-13 are around 5 to 7 per  
40 cent higher than they would be if they were set in line  
41 with the market-based estimate.

42

43 COST OF COMPLYING WITH OTHER GREEN ENERGY  
44 SCHEMES

45

46 In line with the terms of reference, we've included costs  
47 associated with retailers' obligations under a variety of

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1 Federal and state green energy schemes, including:  
2 The large scale renewable energy target, which requires  
3 41000 GWh of electricity to come from large scale renewable  
4 electricity generation by 2020; a small scale renewable  
5 energy scheme, which is an uncapped scheme and requires  
6 retailers to purchase renewable certificates created by  
7 households and small businesses that take up small-scale  
8 technologies like solar panels and solar hot water heaters;  
9 the New South Wales Energy Saving Scheme, which established  
10 legislated energy savings targets for retailers in NSW.

11  
12 It is worth noting that the New South Wales Government  
13 has announced the GGAS Scheme will be discontinued  
14 following the introduction of the carbon price on 1  
15 July. These allowances reflect our estimate of the  
16 costs an efficient Standard Retailer would incur in  
17 complying with these schemes over the Determination period.  
18 These allowances do not include the costs of any carbon  
19 price because as discussed, these are incorporated in the  
20 Energy Purchase Cost Allowance.

21  
22 In making these decisions, we were guided by expert  
23 advice from Frontier Economics, and we've used the  
24 methodology consistent with our 2010 Determination and our  
25 2011 annual review. As can be seen, there's little change  
26 in the cost of complying with these green schemes between  
27 2011/12 and 2012/13.

28  
29 THE IMPACT OF GREEN SCHEMES ON REGULATED  
30 ELECTRICITY RETAIL PRICES FROM 1 JULY 2012

31  
32 However, the costs of complying with green schemes  
33 remain a major contributor to customer bills in 2012-13;  
34 adding around \$315 to a typical regulated residential  
35 customer bill in NSW.

36  
37 After the carbon price, which adds around \$169, the  
38 next largest contributor to customer bills comes from the  
39 small scale renewable energy scheme which adds around \$64  
40 per year. This also includes a draft decision to pass  
41 through additional costs associated with the scheme.

42  
43 It's important to point out this analysis is for a typical customer  
44 but for those customers who consume smaller or larger than  
45 average electricity usage, the impact of green schemes on their  
46 bills will either be smaller or larger in dollar terms.

47

1 As a result of our draft decision, a bill for a  
2 typical residential customer will increase between \$182 to  
3 \$381. Country Energy customers will experience the largest  
4 increases while Integral Energy customers will experience the  
5 smallest increases. These differences are primarily the  
6 result of differences in the increases in their underlying  
7 network prices and as a result of County Energy bills  
8 already being higher than their metropolitan neighbours.

9  
10 We recognise that under our draft decision, the  
11 percentage price rise in average electricity bills is  
12 likely to outstrip the percentage rise in average household  
13 income and, therefore, many households will spend an  
14 increasing proportion of their income on electricity bills,  
15 particularly those in low income and high consumption  
16 households. Some households with these characteristics may  
17 spend up to 14 per cent of their disposable income on their  
18 energy bills.

19  
20 While energy consumption has decreased modestly, we  
21 found that the proportion of income that households are  
22 spending on electricity has increased over the past several  
23 years and the 2012 price increases continue this trend.

24  
25 RECOMMENDATIONS TO MITIGATE FUTURE INCREASES  
26 IN ELECTRICITY PRICES

27  
28 While customers may be spending an increasing  
29 proportion of their income on electricity, it is important  
30 that retailers are able to pass on higher costs as a result  
31 of the continuing rise in network prices and green scheme  
32 costs if they are to remain financially viable.

33  
34 IPART strongly supports measures that will help to  
35 limit electricity price increases and their underlying cost  
36 drivers while maintaining the viability of the electricity  
37 retail industry. For this reason, we've made a number of  
38 recommendations for consideration by both the New South  
39 Wales and the Federal Government, which aim to improve the  
40 effectiveness of the rules and the laws which govern the  
41 industry and to ensure reliability standards, carbon  
42 reduction schemes and green subsidies become more  
43 effective, efficient, and well targeted.

44  
45 Ultimately, our recommendations are designed to ensure  
46 that electricity prices increase by no more than necessary.  
47 In particular, we consider that the National Electricity

1 Rules should be reviewed to remove the bias towards higher  
2 energy network prices. The National Electricity Law should  
3 be reviewed to prevent cherry-picking of network decisions  
4 through merit reviews. The Commonwealth and state green  
5 schemes should be reviewed to make sure they are efficient  
6 and cost effective and complimentary to the carbon price.  
7 The customer assistance measures, particularly the design  
8 and administration of emergency assistance funding should  
9 be reviewed to ensure it reaches customers most in need.

10

11 We recognise that some of these reviews are already  
12 taking place, and we will continue to be actively involved  
13 in them.

14

15 Thank you, Chairman.

16

17 THE CHAIRMAN: Thank you very much, Alexis. It's open to  
18 the round table for comments and questions. Who would like  
19 to go first?

20

21 MR MYATT: Just a couple questions. James

22 Myatt from Australia Power and Gas. You prefer a question  
23 format here? When you're talking about the cost of complying  
24 with green schemes, what allowance was made, if any, for  
25 retailers' costs associated with changes to their  
26 operational systems? A lot of your discussion is based on  
27 the direct cost of complying, but what about changes to  
28 billing systems and other systems resulting from the  
29 carbon tax. What allowance has been made for that? What  
30 allowance has been made for solar and has an allowance been  
31 made for the requirement by the New South Wales  
32 Government for messages to be printed on all bills? The  
33 Federal Government wants a bill insert supplied. What cost  
34 allowance has been made for that?

35

36 We also say there's been a declining energy market.  
37 It's been acknowledged that demand has dropped. The retail  
38 cost recovery is based on an average consumption of 7 MWh.  
39 We saw in the paper yesterday that retail consumption has  
40 dropped so to make a retail cost recovery on a MWh basis is  
41 going to be less. What allowance is made to charge against  
42 a declining base? What allowance has been placed on the  
43 carbon? Obviously, our cost is going up \$17 a MWh. What  
44 allowances were made for those? I guess these are some of  
45 the significant questions that I have.

46

47 MR VAN DER WEYDEN: Sure, sure.

1

2 THE CHAIRMAN: Thanks very much, James.

3

4 MS BRAKEY: The scope of this review is relatively narrow.  
5 We have a three-year Determination in place and  
6 specified parts of that Determination that would be updated,  
7 and specified that retail costs are not updated. They're not  
8 part of this annual review. This annual review is about the  
9 energy purchase cost allowances. There is also a mechanism  
10 to allow the updating of network costs. To the extent  
11 that there are incremental costs that accrue because  
12 of changes in legislation, there is a cost pass-through  
13 mechanism that is available to include costs. It has a  
14 materiality threshold, and no Standard Retailer  
15 has applied for a cost pass-through for the  
16 administrative or operational costs associated with the  
17 range of legislative changes. The retail prices include  
18 operating costs based on a build-up of costs for meeting the  
19 obligations that retailers face and to the extent that they have  
20 changed since we did that 2010 review, then those operational  
21 costs are not included.

22

23 MR MYATT: So retailers are expected to absorb those?

24

25 MS BRAKEY: There is a pass-through mechanism available if  
26 any additional costs are material.

27

28 MR VAN DER WEYDEN: The NSW Government has  
29 scheduled to cease GGAS and in theory that would also lower  
30 your operating costs because you don't have to comply with  
31 that scheme.

32

33 MR MYATT: I think there's also - with the wholesale cost  
34 allowance - there is a theoretical element to being able to have a  
35 viable scope of how the costs are collected. Is there any  
36 reflection at all that these are prices that are actually available  
37 to deal with? How that's managed and what's the additional  
38 risks associated with that? I mean it's a theoretical calculation  
39 on the wholesale market and the fact that a point-in-time  
40 approach has been taken when there's a three-year price cost-  
41 base so a prudent retailer would hedge it's cost well beyond the  
42 current one year frame work, which changes that cost structure  
43 one year out or your overall hedging in a very short period of  
44 time. They're important to do because you already have a cost  
45 structure that's been hedged, and I don't think - I don't  
46 know how any allowance can be made of the overall costs to  
47 retailers to buy wholesale energy.

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1  
2 MR VAN DER WEYDEN: Just to the first point: We do compare  
3 our modelled market results to publicly available market prices  
4 such as d-cypha data, and it's proved  
5 to be very similar each time. I don't know if Frontier  
6 wants to make further comments on that?  
7  
8 ANDREW HARPHAM: Thanks, Alexis. If you have a look at  
9 our report - Andrew Harpham from Frontier Economics - if you  
10 have a look at our draft report, you can see the market  
11 modelling, which can be directly compared to the transparent  
12 market results. We have in this report - and in every other of  
13 our reports to IPART - compared our estimates of spot prices or  
14 contract prices with d-Cypha prices and compared it also to  
15 REC prices, so we are very aware of the fact ...  
16  
17 MR MYATT: So you're building a retail portfolio. How much  
18 allowance have you made on contracts being made over time?  
19  
20 MS BRAKEY: That is an IPART decision, and we have decided  
21 to use a point-in-time estimate, so we value it ...  
22  
23 MR MYATT: So retailers hedge an entire 100 per cent to a  
24 point-in-time.  
25  
26 MS BRAKEY: We're not saying you hedge all of your load at  
27 that point in time. However, we value the portfolio at a point in  
28 time. We don't value the portfolio at what you bought it at but  
29 at the current market price - similar to the way shares are  
30 valued.  
31  
32 MR MYATT: But you're valuing it and you say what value to  
33 cover and you're trying to cost an unrealistic economic  
34 outcome.  
35  
36 MS BRAKEY: But we will still value at a point-in-time,  
37 not at the purchase price. We take a point-in-time  
38 estimate of that value.  
39  
40 MR MYATT: Which I think is fundamentally flawed.  
41  
42 THE CHAIRMAN: Thanks very much, James. Other questions  
43 or comments around the table?  
44  
45 MS HODGE: Thank you. I'm Carolyn Hodge. I'm the senior  
46 policy officer with the Energy and Water Consumers'  
47 Advocacy Program at the Public Interest Advocacy Centre.

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1  
2 First of all, I'd like to thank IPART for the analysis  
3 contained in the report, especially regarding the impact of  
4 these price rises will have on residential consumers.  
5 It helps our advocacy to have some dollar figure and  
6 percentage, and I know that in country areas we've got a  
7 significant increase in percentage of people who will spend  
8 over 10 per cent of their disposable income on electricity,  
9 and that's an acceptable definition of energy poverty, so I  
10 think we really need to look at some short-term -  
11 short-term measures as to help these people cope with these  
12 increases.  
13  
14 The report notes the need for reform of the Energy  
15 Accounts Payment Assistance scheme in terms of design and  
16 administration. For people in the room, the EAPA scheme  
17 provides payment vouchers to help them pay their  
18 electricity bills.  
19  
20 Given the last two annual reviews have seen  
21 significant increases in electricity prices, does IPART  
22 consider the need to increase the funding -  
23 not to administer - but look at the way it's funded?  
24  
25 MR VAN DER WEYDEN: What we've said in the report is that  
26 we think there's a need for a comprehensive review of all  
27 customer assistance measures - EAPA is just one. We support a  
28 review of all assistance measures.  
29  
30 MS HODGE: I have to say, I don't disagree with that  
31 recommendation, but I guess what I'm looking at is that a  
32 review is more long-term - we have the review and  
33 recommendations come out of the review, and then the  
34 Government decides to accept it or not; and people will be  
35 faced with these price rises on the first of July this  
36 year.  
37  
38 They were also faced with similarly large price rises  
39 on the first of July last year, and that budget did not  
40 increase, and I know that's not within the recommendation  
41 of IPART's decision-making process. So what am I interested  
42 in? Seeing perhaps a little bit more fleshing out of  
43 some short-term recommendations that could help people  
44 immediately on the first of July, and, obviously, we want  
45 to see some evidence-based policy coming through so the  
46 review is definitely needed.  
47

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1 And PIAC will definitely support that review, but we  
2 think that the discussion of the way the rules should  
3 change or reliability standard impacts are warranted but  
4 these are long-term measures and the flow-through to  
5 customers' bills will not result in a short period, and  
6 people who are vulnerable don't have the capacity to absorb  
7 these increases.

8  
9 Thank you.

10  
11 THE CHAIRMAN: Thank you very much, Carolyn. Other  
12 questions and comments?

13  
14 MR PHILLIPS: Alistair Phillips from TRUenergy. I had a  
15 question in relation to AEMO input costs.

16 I suppose the comment was AEMO costs were not suitable.  
17 Can you just expand where you don't think they are  
18 suitable?

19  
20 MR VAN DER WEYDEN: I think they're suitable for AEMO's  
21 planning needs. The five scenarios that they use basically are to  
22 test the transmission network in a variety of ways; none of  
23 those scenarios reflect the most likely estimate of input costs.  
24 That's what we've said. And it's consistent with what we said  
25 in last year's annual review. We prefer to update input costs for  
26 our review in a consistent manner using costs that are  
27 considered to be a most likely estimate rather than selecting  
28 from five different 'what if' scenarios for which there is no base  
29 case.

30  
31 THE CHAIRMAN: Thank you, Alistair. Anybody else?  
32 Patrick?

33  
34 MR WHISH-WILSON: Thanks. Patrick Whish-Wilson from  
35 Origin Energy. Origin Energy is broadly happy with the draft  
36 report, and we appreciate IPART's proposal, and most  
37 importantly, it allowed for the necessary pass-through of the  
38 carbon costs and the network charges and the green scheme  
39 costs.

40  
41 I reiterate as IPART has identified under the draft  
42 report, the controllable costs that a retailer can actually  
43 change are actually decreasing. The increases are carbon and  
44 network driven. We have some minor issues with some of the  
45 calculations, but we'll be addressing those in our  
46 submission.

1 THE CHAIRMAN: Thank you very much, Patrick.

2  
3 MR RUDDY: Shaun Ruddy from Alinta Energy. I thank you for  
4 the opportunity to come and have a discussion on a critical  
5 issue. From an analytical view of the retailers' price  
6 Determination - and we're not in the New South Wales  
7 market as yet - we're looking at the outcome of these  
8 determinations to buy into your decision-making in terms of  
9 when and how we enter the energy market. I would  
10 support the comments that Jim's made.

11  
12 I think there is a concern that when we're looking at  
13 pricing Determination, we're only looking at certain  
14 elements in the current market, particularly not looking at  
15 a lot of the retail administration costs that go with it.  
16 Something that needs to be taken into consideration, to  
17 look at some of the relative costs, not the total relative  
18 cost, but we will put those out in a written submission.

19  
20 Thank you.

21  
22 THE CHAIRMAN: Thank you very much. Andrew Dudgeon?

23  
24 MR DUDGEON: Andrew Dudgeon from AGL. As a second  
25 tier retailer offering market contracts at a discount to the  
26 regulated price, we're extremely interested in making sure that  
27 the way IPART is setting the regulated price provides a  
28 consistent basis for long-term sustainable retail competition in  
29 the market.

30  
31 I think what Patrick touched on, I suppose, is a new concern in  
32 terms of components of energy purchase costs. Specifically the  
33 WACC in terms of generation has reduced from 7.8 to 6.5 per  
34 cent. We can see that IPART has updated the risk free rate and  
35 debt margin, but in terms of what that implies through the  
36 average cost of capital, there's an implied drop in the market  
37 return to the cost of equity, and we haven't seen any evidence  
38 of that in the report and probably nothing more broadly that  
39 they can point to.

40  
41 I think, secondly, in terms of the short-run marginal  
42 cost of new entrant coal generation in the modelling, this  
43 is lower than the existing short run marginal cost of generation.  
44 We'd say this is slightly below what we'd see as a reasonable  
45 mark, and we highlight that to IPART.

46  
47 THE CHAIRMAN: Thank you very much, Andrew. Just to

1 make a point to reiterate what Anna said with respect to points  
2 raised by James and also, essentially, seconded by Shaun,  
3 those sorts of retail costs were taken into account in  
4 the three-year review in 2010. This is the third  
5 year of the three-year review, so as Anna pointed out, we  
6 don't have an opportunity to review these retail costs again, but  
7 they were taken into account in 2010.

8

9 Andrew Lewis from the department of--

10

11 MR LEWIS: Department of Resources and Energy. No  
12 questions.

13

14 THE CHAIRMAN: Thank you. Any final comments before I  
15 turn it over to the floor? Carolyn?

16

17 MS HODGE: Thank you. I'd just like to ask a question on  
18 whether IPART has received an updated term of  
19 reference from the Government to undertake a review  
20 following this period?

21

22 THE CHAIRMAN: No. Okay. Thank you very much.  
23 Questions from the floor. Please identify yourself, name and  
24 organisation which you represent. We have any questions or  
25 comments? No, we don't. We need to maybe have people  
26 come up to the table here. I'm having a little bit of trouble  
27 seeing. That's okay. Anybody have any questions from the  
28 floor? Comments? No? Well, thank you very much - yes, we  
29 do. Thank you.

30

31 JOHN SKINNER: My name is John Skinner from the Energy  
32 Regulator. It's more of an advertisement than a comment.  
33 We're shortly commencing a process of setting network  
34 tariffs from 2014. There's a public forum in  
35 two-and-a-half weeks to commence that process which starts  
36 very soon, in June, actually; so if you'd like a form  
37 with some information, come see me after the presentation  
38 today.

39

40 THE CHAIRMAN: Thank you very much, John. Well, in that  
41 case - sorry, one more.

42

43 RUTH ROBINSON: Hi, Ruth Robinson, the executive officer of  
44 the Physical Disability Council of New South Wales. Thank  
45 you for the opportunity of being here today. I was very,  
46 very interested in some of the recommendations that related  
47 to the design and administration for emergency assistance

1 funding. I think that's a really cool initiative.

2

3 However, I'd like to actually support the comments by  
4 the representative who's sitting on the other side of the  
5 room there about the need to actually look at a very speedy  
6 initiative to provide people with an opportunity to address  
7 the difficulties that they have been experiencing in the  
8 case of the people that we represent around the state for  
9 at least 12 to 18 months, that I know of, where lots of  
10 people are unable to pay their electricity bills at all who  
11 are doing amazing things to be able to scrape the money to  
12 do it, so I think looking at some funding or rebates that  
13 are speedy that provide opportunities to people in the  
14 short-term to address their needs will be really helpful.

15

16 Thank you.

17

18 THE CHAIRMAN: Thank you very much, Ruth. Any more  
19 questions from the floor? No? Thank you very much for all  
20 your questions and comments.

21

22 SESSION 2 - INCORPORATING THE IMPACT OF THE  
23 CARBON PRICE INTO REGULATED RETAIL GAS PRICES IN  
24 NEW SOUTH WALES FROM 1 JULY 2012

25

26 We can now move into Session 2, which is incorporating  
27 the impact of the carbon price of regular active retail gas  
28 prices in New South Wales from 1 July 2012.

29

30 The Standard Retailers have proposed increases in the  
31 residential retail gas prices of 6 to 9 per cent to  
32 compensate for the additional costs of the carbon price.  
33 Our role is to assess whether this increase is reasonable,  
34 and, if so, Standard Retailers will be able to increase the  
35 retail gas prices on 1 July 2012 to recover these  
36 additional costs.

37

38 We will begin with an introduction from the IPART  
39 Secretariat and will then invite AGL, Origin Energy, and  
40 ActewAGL to each present their proposed increases in  
41 regulated gas prices from 1 July. And afterward, we'll  
42 have some questions from the round table and the floor.  
43 Thank you very much.

44

45 MR VAN DER WEYDEN: The carbon price will place  
46 additional costs on standard retailers in supplying gas to retail  
47 customers from 1 July this year. The VTPAs that we have

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1 for each of the Standard Retailers in New South Wales  
2 provides for retailers to increase retail gas prices to  
3 reflect the additional costs that are incurred under the  
4 carbon price.

5  
6 The Standard Retailers proposed increases in  
7 residential retail gas prices of 6 to 9 per cent in gas  
8 prices, and our role is to assess whether this increase is  
9 reasonable. These additional costs will mean that the gas  
10 price increases are likely to be larger than was previously  
11 indicated on 1 July this year.

12  
13 IMPACT OF CARBON ON RETAIL GAS PRICES -  
14 RETAILERS' PROPOSALS

15  
16 In this session, AGL and Origin Energy will be  
17 outlining their proposals, including a carbon price on the  
18 cost of supplying gas to customers and what the impact of  
19 these proposals on customers will be. Before we do that,  
20 it's worth mentioning that the proposed price increases  
21 discussed today do not include the impact of changes in gas  
22 network prices.

23  
24 Under the VTPAs changes in network gas prices are  
25 passed through into retail prices. Our understanding is  
26 that there are likely to be significant increases in  
27 network prices in the Jemena network supply area. Meaning  
28 AGL customers are likely to experience additional prices  
29 from 1 July this year. So, Chairman, if I may, I might  
30 hand it over to AGL for their presentation.

31  
32 THE CHAIRMAN: Thank you, Alexis. We have Mr Dudgeon.

33  
34 MR DUDGEON: Thanks, Alexis. My name is Andrew  
35 Dudgeon and I'm with AGL.

36  
37 I'd like to thank IPART for the opportunity to present  
38 today. The presentation will run through the AGL  
39 application for a change in the 2012-13 New South Wales  
40 default gas prices to reflect the impact of the carbon  
41 price from 1 July 2012.

42  
43 AGL PROPOSED CARBON COMPONENT - OVERVIEW

44  
45 As IPART described in their opening remarks, in 2010,  
46 AGL as a Standard Retailer entered in a Voluntary  
47 Transitional Price Arrangement or VTPA with IPART. The

1 VTPA sets out the process for determining default gas  
2 prices from 2010 to 2013.

3  
4 Under the VTPA, default prices are based on an  
5 allowance for a retail component and a network component.  
6 The retail component includes wholesale gas costs, retail  
7 operating costs, and a margin allowance. The network  
8 component is simply a pass-through of the network charges  
9 incurred by AGL.

10  
11 The process for the year-on-year change in these  
12 components is set out in the VTPA. Also mentioned by IPART  
13 the VTPA anticipated that during the price path, a carbon  
14 price or similar government policy might be introduced.  
15 Under clause 4.10 of the VTPA, it sets out the conditions  
16 for the inclusion of a carbon component related to the  
17 introduction of a carbon price or other greenhouse gas  
18 reduction schemes.

19  
20 AGL has provided IPART with an application to apply a  
21 carbon component from 1 July 2012. AGL has calculated the  
22 carbon component by considering four separate elements.

23  
24 Firstly, upstream emissions. This represents the cost  
25 impact of the carbon price on wholesale gas production and  
26 transmission, excluding any impact on distribution charges.

27  
28 Secondly, downstream emissions. This reflects the  
29 carbon permit liability that retailers will be required to  
30 surrender on behalf of customers for the emissions  
31 resulting from the combustion of the natural gas.

32  
33 Thirdly, the introduction of the carbon price will  
34 result in increased operating costs for AGL. AGL has  
35 estimated these costs for default gas customers and  
36 proposed an allowance in the carbon component.

37  
38 Finally, the current allowance for the retail margin  
39 in the default gas price is based on a percentage range  
40 applied to retailers' revenue. To reflect the increase in  
41 wholesale gas and operating costs, AGL has included a  
42 retail margin adjustment to maintain the overall percentage  
43 margin within the current range.

44  
45 AGL notes that the application being presented today  
46 does not include any changes to the other components of the  
47 default price. Any changes in these components for 2012

1 and 2013 will be dealt with separately under the VTPA.  
2  
3 GAS SUPPLY CHAIN - CARBON EMISSION SOURCES  
4  
5 In order to better understand the elements of the  
6 proposed carbon component, it is worthwhile considering the  
7 nature of the carbon emissions along the gas supply chain  
8 and how they are estimated for an end user.  
9  
10 Broadly, carbon emissions for an end user of natural  
11 gas are split into two categories: Scope 1 or downstream  
12 emissions, which result from the combustion of natural gas;  
13 and scope 3, or upstream emissions, which include all other  
14 relevant emissions that occur prior to the end user.  
15  
16 The main sources of scope 3 emissions are the  
17 combustion of gas and any leakage of gas that occurs during  
18 the production stage. Emissions also occur during the  
19 transmission and distribution stages; again, due to  
20 combustion and any leakage of gas that occurs.  
21  
22 Under the Clean Energy Act, if the facilities in these  
23 upstream stages meet a specified threshold, they will be  
24 liable for these emissions and, therefore, they will incur  
25 a cost associated with acquiring and surrendering the  
26 equivalent amount of permits.  
27  
28 The final stage of the supply chain is the end user  
29 themselves. Under the Clean Energy Act, the retailer is  
30 liable for these emission for small users. End users can  
31 calculate the emissions associated with their gas use. The  
32 Commonwealth Department of Climate Change and Energy  
33 Efficiency undertakes detailed modelling to calculate the  
34 amount of emissions generated per unit of gas consumed for  
35 each state of Australia. This is known as the emissions  
36 factor; and for gas, factors are published separately for  
37 upstream and downstream emissions on a tonne of carbon  
38 dioxide per GJ of gas basis.  
39  
40 The upstream factors are published annually for each  
41 state in a document called the National Greenhouse Accounts  
42 Factors or NGA factors. AGL notes that the NGA scope 3  
43 emission exclude any emissions from distribution networks.  
44 This is done on the basis that if emissions from operating  
45 a distribution network do not vary significantly based on  
46 gas, then when comparing the relative greenhouse impact of  
47 using one fuel instead of another, these emissions should

1 be excluded.  
2  
3 The Department of Climate Change and Energy Efficiency  
4 also published a downstream emission factor for the  
5 combustion of natural gas. The emissions associated with  
6 the combustion represent approximately 80 per cent of  
7 emissions that occur through the supply chain.  
8  
9 Thank you.  
10  
11 EASTERN AUSTRALIAN GAS MARKET AND 2010-13 VTPA  
12  
13 In order to understand the impact of the carbon price  
14 through the supply chain, it is necessary to combine an  
15 understanding of carbon emissions from the previous slide,  
16 with the physical New South Wales gas supply chain and the  
17 nature of the relationship between suppliers, pipeline  
18 operators, and retailers.  
19  
20 A retailer such as AGL will see to manage its supply  
21 risk by acquiring gas from a number of sources.  
22 Historically, the mechanism for sourcing gas has been  
23 through long-term agreements which have been used to  
24 underwrite investment infrastructure along the supply  
25 chain. The main source of natural gas for New South Wales  
26 and hence for AGL are: The Cooper Basin, which provides a  
27 number of gas fields owned by Cooper Basin Joint Venture  
28 and are operated by Santos; the Gippsland Basin which is  
29 owned by a joint venture between ESSO Australia and BHP.  
30  
31 The gas from these suppliers is delivered along two  
32 main pipelines shown on the map: Moomba to Sydney pipeline  
33 and Eastern gas pipeline. As the main incumbent, AGL  
34 entered into long-dated agreements for the supply and  
35 transmission of gas to our customers in New South Wales  
36 with some agreements lasting between 15 and 20 years.  
37  
38 In reviewing these agreements in light of the  
39 introduction of a carbon price, AGL has confirmed that  
40 these circumstances, the notification of a price change  
41 event and its impact on prices should be provided by the  
42 supplier. To date, AGL has not received a notification of  
43 the price increase associated with our key supply  
44 agreements. However, AGL anticipates that notification  
45 will be provided by our suppliers prior to 1 July.  
46  
47 In the absence of formal notifications, AGLs

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1 requirement to advise IPART of the calculation of the  
2 carbon component by the First of May 2012, AGL has  
3 developed a methodology for estimating the impact of the  
4 carbon price on the wholesale cost of natural gas.

5  
6 UPSTREAM CARBON EMISSIONS  
7

8 So without facility-level emissions data, AGL has  
9 reviewed what data is available on the emissions intensity  
10 of the gas supply chain. In short, there is no recognised  
11 publicly available source of facility level-emissions data  
12 that AGL could use to estimate the emissions intensity of  
13 individual suppliers.

14  
15 While the National Greenhouse and Energy Reporting Act  
16 places reporting requirements on these facilities, the data  
17 reported to the Department of Climate Change and Energy  
18 Efficiency is not published at a facility level, only a  
19 corporate level. On this basis, AGL have proposed using  
20 the upstream emission factor for New South Wales from the  
21 most recent publication of the NGA factors because this  
22 provides the most transparent basis for estimating the  
23 uplift due to the carbon price.

24  
25 AGL notes that there is a precedent for using the NGA  
26 factors to estimate the uplift in wholesale gas costs.  
27 These emission factors are used by the Commonwealth  
28 Government to estimate the uplift in wholesale gas costs  
29 for companies applying for assistance under the jobs and  
30 competitiveness program previously known as the Emissions  
31 Intensive Trade Exposed Assistance Program.

32  
33 In the NGA factors from July 2001 the scope 3 emission  
34 factors for New South Wales are published on a metro and  
35 non-metro basis. Because the gas price is applied on a  
36 state-wide basis, AGL has proposed that a single emission  
37 factor be used for our customers in New South Wales, based  
38 on a weighted average of the metro and non-metro factors.  
39 The weighted average is calculated using a forecast of the  
40 split between the coastal and non-coastal regions of the  
41 distribution network load.

42  
43 This results in a load weighted average NGA factor of  
44 14.6 kg of CO<sub>2</sub> per GJ based on a \$23 carbon price in  
45 2012-13. This equates to a cost of 34 cents per GJ.

46  
47

1 DOWNSTREAM COMBUSTION CARBON EMISSIONS  
2

3 The second part of the carbon component represents the  
4 cost of the emissions associated with the combustion of  
5 natural gas by the end user. Under the Clean Energy Act, a  
6 retailer of natural gas is liable for the potential  
7 greenhouse gas emissions embodied in the natural gas for  
8 supply to small users.

9  
10 The amount of greenhouse gas emissions that result  
11 from the combustion of natural gas is defined under the  
12 National Greenhouse and Energy Reporting Measurement  
13 Determination. Taking into consideration the emission of  
14 carbon dioxide, methane and nitrous oxide from the gas  
15 combustion, the emission factor is 51.33 kg of CO<sub>2</sub> per GJ;  
16 multiplying this emission factor by a \$23 carbon price in  
17 2012 results in a cost of \$1.18 per GJ.

18  
19 Thirdly, AGL has included an allowance in the carbon  
20 component to reflect the increase in operating costs  
21 associated with the introduction of a carbon price.

22  
23 RETAIL COST ALLOWANCE ADJUSTMENT  
24

25 As part of our 2012-13 budgeting processes, AGL has  
26 developed forecasts of the operational cost of complying  
27 with the legislation for our gas customers, and on this  
28 basis, AGL has proposed to IPART that an additional 13  
29 cents per GJ be included to allow for costs such as IT  
30 system changes specifically related to carbon.

31  
32 Additionally, staff is required to manage the permit  
33 liability and other compliance elements of the scheme; and  
34 for 2012-13, AGL has reviewed the impact of the  
35 introduction of a carbon price on current bad and doubtful  
36 debt levels. As a result, AGL has forecast an increase in  
37 our debt provisions and additional credit management and  
38 collection activities.

39  
40 To come up with the proposed cost allowance, AGL has  
41 taken these carbon-related costs and apportioned the  
42 relevant cost to our customer segments. AGL anticipate  
43 that further details of the carbon-related operating costs  
44 will be provided to IPART as part of the review process.

45  
46 The final element of the carbon component is an  
47 adjustment to maintain the current level of retail margin

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1 in the default price. The uplift in retailers costs due to  
2 carbon price means that unless a specific allowance is made  
3 to adjust the retail margin, then the percentage margin  
4 would reduce as a total of AGLs revenue.

5

6 AGL has proposed an amount of 13 cents per GJ in order  
7 to maintain the current margin within the recommended  
8 reasonable range of 7.3 per cent to 8.3 per cent that was  
9 used in IPARTs final report for regulated gas prices in  
10 June 2010.

11

12 In summary, AGL has proposed a carbon component under  
13 the VTPA of \$1.78 per GJ to apply to default prices from 1  
14 July 2012. AGL notes that this carbon component excludes  
15 any change to the retail or network components of the VTPA  
16 as mentioned previously.

17

#### 18 CARBON COMPONENT - ANNUAL BILL IMPACT

19

20 Finally, as part of our application, AGL has  
21 summarised the likely impact on customers' bills from the  
22 introduction of the proposed carbon component. If the  
23 proposed carbon component is approved by IPART, it will be  
24 included in the usage charge for customers.

25

26 No amendment is proposed to the fixed supply charge  
27 part of the bill. Factoring in this increase in the usage  
28 rate for a typical household customer that uses 23 GJ per  
29 year of gas, the proposed amount would result in an  
30 increase of 6.3 per cent in their overall gas bill or  
31 around \$45 per year, including GST.

32

33 The increase as a percentage of customers' bills  
34 changes depending on the customers' level of usage. This  
35 is because the proposed flat increase in the usage rate  
36 would be applied to tariffs that have a declining block  
37 structure.

38

39 Thank you for your time this morning.

40

41 THE CHAIRMAN: Thank you very much, Andrew. Next, we  
42 have Patrick from Origin.

43

44 MR WHISH-WILSON: Patrick Whish-Wilson from Origin. I'm  
45 a regulatory pricing manager for Origin. This will be very  
46 quick because I think we've covered most of the components  
47 that was passed through. As you know, the carbon scheme

1 starts from 1 July, and Origin's a Standard Retailer - has  
2 been a Standard Retailer for Murray Valley and Albury. We  
3 also act as country Energy in Wagga Wagga and  
4 Gundagai as well, so we made application for the carbon  
5 components.

6

7 As Andrew specified, there's four major areas with  
8 carbon that will have an impact. One is related to the  
9 customer consumption. The second one is third party  
10 gas suppliers and getting the physical gas to the  
11 customer; and the thirdly, the additional costs of actually  
12 administering the scheme because it's quite complex; and  
13 fourth is the network costs that we are averaging from the  
14 distribution network that we haven't seen as yet.

15

16 Please note that for Origin's application, we didn't  
17 include distribution costs. We also don't include number 3  
18 costs associated with the retail cost of administering the  
19 scheme. We agree with AGL that there are costs for the  
20 scheme and are significant; but at this point in time, we are  
21 not in a position to rigorously provide them to IPART, so  
22 we have not included them.

23

24 So if we go to the first two elements of the cost.

25 The first one is direct emissions which is the factor that  
26 Andrew went into detail on, so I'm not going to talk in  
27 detail about that. Of course, it is a direct emission of  
28 cost.

29

30 The second is indirect emission. This is where we  
31 differ from AGL. This refers to the costs - the emission  
32 costs from the gas suppliers and the transition pipeline.  
33 Origin was in a position to have many of the gas fields  
34 that we utilised and we've done this throughout our whole  
35 part - across Australia, so we will vary in that regard.

36

37 And the final figure at the bottom as with AGL will be  
38 uplifted by retail margins to ensure that it applies as to the  
39 previous VTPA. Here's a summary of our costs: The direct cost  
40 using the NGA factor is \$1.18. It is the indirect costs of scope 3  
41 areas, that will vary. See, we've got it split it up between  
42 wellhead and transmission costs. We actually work through the  
43 wellhead cost, which is basically the emission intensity for each  
44 gas field used to supply Wagga Wagga, and then use the actual  
45 length of the transmission pipelines used to transport it to  
46 them. At the end of the day, they're small costs, but that's why  
47 the costs are so specific and you get a variation

1 from Wagga Wagga and Albury/the Murray Valley.  
2  
3 So here is the customer impact on the major two  
4 regions: There's been other regions in the country that  
5 are small, but they vary depending on customers using up to  
6 \$1.55. For Murray Valley customers, it's a \$75 dollar  
7 cost. Wagga Wagga, which you can check the percentage, as  
8 you see, are also significant, 7.1 per cent. The costs are  
9 higher because at Albury cost rises were much lower than in  
10 New South Wales. We haven't included impacts on business  
11 components which is dependent on the use of the customer.  
12 We're talking 7 to 9 per cent, depending on the usage or  
13 their actual position, but I haven't got any more detail.  
14 Our application is with IPART, if you wish to look at it.  
15 I thought that would be enough today.  
16  
17 THE CHAIRMAN: Thank you very much, Patrick. I'm advised  
18 that ActewAGL couldn't be here. We got a rather short  
19 notice on that. What I'd like to do now is throw it up  
20 to questions. Firstly, the round table? Any questions  
21 or comments and then to the floor. Questions? Comments  
22 around the table? Jim?  
23  
24 MR COX: Just ask this for my own benefit. It seems to me  
25 that the dollar impacts are higher for Origin than AGL.  
26 I'd like to understand the impact relating to that?  
27  
28 MR WHISH-WILSON: Sorry, the actual dollar is lower. It's  
29 a total impact mainly based on consumption, so our Origin  
30 customers use 14 GJ compared to--  
31  
32 MR COX: I think you showed us where it says the increase  
33 is 9 per cent. There's a lower figure for AGL, 6 or  
34 something. I'm trying to understand what's behind the  
35 increase, different methodology or circumstance?  
36  
37 MR WHISH-WILSON: Circumstance. Once again, the Albury  
38 and Murray Valley will show it's 9 per cent because their  
39 dollar - their gas price is much lower than for New South  
40 Wales; so it's a bigger per cent and a lower impact.  
41  
42 THE CHAIRMAN: Thanks, Jim. Other comments or comments  
43 around table? Alexis?  
44  
45 MR VAN DER WEYDEN: Thanks. There's been a bit of  
46 discussion on network prices. Does Peter want to comment  
47 on the increases from 1 July, including what is likely to

1 be effected as a result of carbon on their distribution costs?  
2  
3 MR HARCUS: Peter - Jemena, Peter HARCUS. Prices are  
4 regulated and the access arrangements were approved last  
5 year. We have submitted our prices  
6 to the AER and they are subject to approval. We're not sure of  
7 We're in the process of seeking approval and have not received  
8 any feedback yet on that.  
9 Yes, the prices we submitted to the AER include the  
10 impact on carbon. It's cost reflective and varies  
11 very much in accordance with the NGER calculation  
12 methodology, so there's - there's a flow-through of carbon costs,  
13 and an increase to the volumetric charge.  
14  
15 MR VAN DER WEYDEN: Can I just ask one for you? Have  
16 you got a figure, rough figure, of the likely price increase for 1  
17 July?  
18  
19 MR HARCUS: Well, it's an average figure and includes  
20 inflation. The price was set for the last three years, the first two  
21 years used the original decision. There's an x-factor that was  
22 approved for that part of 8.6 per cent so with CPI 3 per cent, so  
23 there's an average if 11.7 per cent in that pricing.  
24  
25 MR VAN DER WEYDEN: Plus carbon?  
26 MR HARCUS: Yes, but its minimal.  
27  
28 THE CHAIRMAN: Thank you. Carolyn?  
29  
30 MS HODGE: Perhaps this is a question for the retailers  
31 here who are dual fuel retailers like AGL and Origin.  
32 Given that they're looking at carbon prices for the First  
33 of July for electricity and for gas, I was wondering if you  
34 could tell me - if you could foresee an increase in calls  
35 to come through as the price flows to customers' bills?  
36  
37 MR DUDGEON: I'd say I think our teams are adequately  
38 resourced, but what we're doing at the moment in terms of  
39 being able to brief customer service representatives,  
40 particularly customer service teams to be able to explain  
41 to people the nature of the impact related to the carbon  
42 prices and what that will do in terms of impacts on their  
43 bills and fuel prices and deal broadly in what we can do in  
44 terms of energy efficiency or, I suppose, bill payments or  
45 anything like that; what we can try and do as a result of  
46 the impact on that.  
47

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1 MR WHISH-WILSON: I just agree with Andrew's comments.  
2 The team of people working on this carbon implementation is  
3 enormous. It's implementing what you would call a super  
4 hybrid program that is focused 1 July.  
5  
6 MS HODGE: Do you feel, though, that their call centres are  
7 well equipped in instruction of additional costs? Not just  
8 about carbon, per se, but price rise flow? Regulated  
9 retail prices will reflect the mark of this as well as  
10 related retail prices. I'm guessing that people are  
11 struggling now; after 1 July will be struggling even more  
12 so in looking for help, and I just want to understand  
13 whether the call centre will be well equipped to take those  
14 calls reasonably quickly. The community organisations will  
15 be able to get through to negotiate? We have a hardship  
16 team that deals with payments and people will have access  
17 to a program to identify themselves or identified by your  
18 staff as being in a hardship?  
19  
20 MR PHILLIPS: We - in terms of what Patrick mentioned - in  
21 terms of the amount of resources and the teams that are  
22 looking into the noncompliance of this and that type, it's  
23 focused through our retail business; and communication and  
24 customer impact; that is something that is definitely  
25 facilitated through managers. We're also in a situation of  
26 seeing - helping our customers deal with the impacts of the  
27 carbon price, along with other things, but I suppose it's  
28 really as we said in a number of ways: It's not just at  
29 the call centres. It's also about the message of the bill  
30 which both with the New South Wales Government introduced  
31 so you'll see some customers going through to the IPART  
32 tool to get their information as well as you got the  
33 Commonwealth Government as well. They set up a call centre  
34 as well to look at - I suppose get information about the  
35 introduction of the carbon price, so I think, yes, there's  
36 been pressure on the call centres, but also things which  
37 are also being done by Government to help customers deal  
38 with the new policy.  
39  
40 THE CHAIRMAN: Thanks, Alistair. Any other questions  
41 around the table for the retailers, for AGL and Origin or  
42 IPART? Comments? No? Thank you very much. Questions or  
43 comments? We have one out at the back.  
44  
45 MALE SPEAKER: Good morning. I'm name is (indistinct)  
46 from the Carbon Management Consulting Firm. This question  
47 is addressed primarily to retailers, but, obviously, IPART

1 Secretariat may also answer it. I'm asking this question  
2 from the understanding that the construction of the carbon  
3 price is meant to facilitate a shift towards more renewable  
4 energy and technologies so - and I also understand from  
5 presentation by the retailers that the impact of the carbon  
6 price is meant to be passed through completely to the end  
7 users. How will it affect a customer, say, who has a 100  
8 per cent green power, green gas contract and is currently  
9 paying a premium over the prices that have been put in the  
10 gas contract? Assuming I'm on a 100 per cent green gas  
11 contract, I'm already paying to offset carbon emission  
12 through the 100 per cent green gas contract; given that the  
13 carbon price is being passed and the green power contracts  
14 involve a premium or whether these basic would - how would  
15 it effect these groups of customers as well?  
16  
17 Thank you.  
18  
19 MR WHISH-WILSON: No, it's a good question. I know as I  
20 was talking originally in having a huge team. With people,  
21 that's one of the questions. An example you gave when  
22 you're a 100 per cent wind customer. That - I know they're  
23 looking at the idea of how do we exclude carbon customers  
24 bills because they're already paying the green. But that's  
25 one of the questions. Some customers are paying ten per  
26 cent so how do we offset that. All I can guarantee is that  
27 it's being looked at and to make sure that people aren't  
28 being doubled up for a contribution to the green.  
29  
30 THE CHAIRMAN: Andrew Dudgeon?  
31  
32 MR DUDGEON: I probably wouldn't have any more to say  
33 than what Pat's contributed. As he said, we have a lot of  
34 people working on the VIPA, but we don't have any green gas  
35 products that would otherwise be impacted by it.  
36  
37 THE CHAIRMAN: Thank you. Any other questions,  
38 comments from the floor? No? All right. Any final comments  
39 around the table? No? That just leaves me to wrap it up and  
40 thank you all very much around table and the floor for  
41 their contribution.  
42  
43 Just to remind you that submissions to the draft  
44 reports are due on the 10th of May 2012. All submissions,  
45 comments, and questions should be made directly to IPART.  
46 Anyone with questions regarding how to make a submission  
47 should contact IPART Secretariat.

1  
2 The next stage of this review is the release of our  
3 Final Report and Determination in mid-June. This is  
4 necessary to ensure that new prices can come into effect by  
5 1 July 2012. So we do ask stakeholders to ensure that your  
6 submissions are received by the due date, given you're  
7 tight timeframe for the completion of the review. Also we  
8 cannot guarantee any submissions received after May 10 will  
9 be considered.

10  
11 Transcription of today's proceedings will be available  
12 on IPART's website in a few days.

13  
14 Finally, just once again, thank you very much for  
15 attending.

16  
17 THE TRIBUNAL ADJOURNED ACCORDINGLY

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