INDEPENDENT PRICING AND REGULATORY TRIBUNAL

REGULATED RETAIL GAS PRICES AND SOLAR FEED-IN TARIFFS

PUBLIC FORUM

Tribunal Members:

Mr Peter Boxall, Chairman
Dr Paul Paterson, Member
Ms Catherine Jones, Member

Secretariat:

Ms Anna Brakey

At IPART's offices,
Level 8, 1 Market Street, Sydney

On Tuesday, 13 May 2014 at 10am

THE CHAIRMAN: Welcome and thank you everybody for coming. I am Peter Boxall and I am the Chairman of IPART. On my left is my fellow Tribunal member Paul Paterson and on my right my fellow Tribunal member Catherine Jones. I would like to thank you all very much for making time to attend today's forum which will look at regulated gas prices and the benchmark range for solar feed-in tariffs.

Today's forum provides both you and us with the opportunity to consider issues relating to the draft decisions we released last month. This is a public forum and forms part of the public consultation process that the Tribunal undertakes. Transcribers are present to record the proceedings and the transcript will be publicly available. So that we can have a complete record, please introduce yourself when you start to speak.

Session 1 is gas prices. This session considers regulated gas prices for 2014-15 and 2015-16. For the past decade we have regulated prices using a relatively light-handed approach that involves making multi-year pricing agreements with each retailer. This approach reflects the significant level of competition in the retail gas market. Indeed, less than 25 per cent of small customers, business and households, remain on the regulated gas prices.

The standard retailers have made pricing proposals for the next two years. To assess these proposals we have used our own estimates of efficient costs of retail gas supply, wholesale gas costs, retail operating costs and retail margin to establish a reasonable range for the total efficient costs that a new entrant retailer would face. We then compare the retailers pricing proposals to this reasonable range. One of the main drivers of the proposed price increases is increased gas commodity costs. We commissioned expert advice on forecast gas commodity costs and our consultant Richard Lewis from Jacobs SKM is here today.

As was the case last year, the reasonable range of forecast gas commodity costs over the remainder of the regulatory period is relatively broad. This means that the reasonable range of total efficient costs is also relatively broad. Our draft decisions are to accept the standard retailers' revised pricing proposals for 2014-15 and 2015-16 because they fall within the reasonable range

of efficient costs.

We recognise that price increases place strains on households and business. However, in our view, effective competition is the best way to ensure that prices are driven towards the efficient cost of supply. A well-functioning competitive market is in the long-term interests of customers and offers them the best form of price protection. Customers can minimise the impact of regulated price increases and reduce their energy costs by shopping around.

Given the size of the proposed price increases, we consider it important that standard retailers have the opportunity to outline to IPART and stakeholders what they see as the key issues in determining regulated retail prices going forward. We welcome the senior representatives from each of the standard retailers today and look forward to hearing what they have to say.

With that, I now invite each of the standard retailers to talk through their pricing proposals for 2014-15 and 2015-16. Afterwards I'll open up the discussion to questions and comments from around the room. Our first presentation will be from Paul Simshauser, Chief Economist and Group Head of Corporate Affairs for AGL. AGL is the standard retailer for the majority of New South Wales, including the Greater Sydney Area.

Following Paul, we'll hear from Keith Robertson, Manager Retail Regulatory Policy for Origin Energy. Origin is the standard retailer for Albury and the Murray Valley, as well as former Country Energy areas covering a number of towns throughout New South Wales, including Wagga Wagga.

Finally, Ayesha Razzaq, General Manager Retail at ActewAGL, will cover pricing proposals for ActewAGL's Queanbeyan, Capital and Shoalhaven regions. Presentations from the retailer - let's start with Paul.

MR SIMSHAUSER: Thank you, Chairman. Good morning to you and the members of the Tribunal and the Secretariat and ladies and gentlemen. I have a short presentation that I'll walk you through on our voluntary pricing agreement. I am going to cover four key areas, so east coast gas demand, wholesale gas forecasting, the basis of our proposal and the retail price changes.

Earlier this year we did quite a big piece of work on the east coast gas market. We published that in a paper called Solving for 'x'. One of the key outcomes of that work was a forecast of gas demand, gas supply and the issues facing the east coast market. This chart is an extract from that paper. What it shows you is the extraordinary growth in demand that the east coast will face over the course of the next three years. It is a trebling of demand from where we are at the moment, roughly 700 petajoules per annum to around about 2,100 petajoules per annum. I can't find a mature energy system anywhere in the world that's trebled in such a short space of time. It seems pretty clear to us this is going to have profound impacts for the wholesale market.

We have our own in-house views, our own in-house models on the gas market, but for the purposes of this exercise we engaged two experts and independent consultants to get their views just to calibrate our own. MDQ Consulting which is spearheaded by Craig Langford, who is a pretty well-known player in the gas market, made an analysis of the conditions and gave us expert opinion on current contract prices and future trajectories. The Brattle Group, from the United States, have some of the best energy economists in the world working for them and we got them to focus on what's likely to happen with LNG net-back prices. They obviously informed our overall view on the matter.

In terms of the basis for our proposal, there is the wholesale gas costs and the Brattle/MDQ result was consistent with the band set out by Jacobs SKM and previously ACIL Allen from prior years. Our retail costs and margins are within the standard benchmark range and of course the network charges are a pass-through.

In the process of coming up with our proposal we've tried to work on a transition towards net-back prices rather than doing it all in one fell swoop. Just to be clear on this, we are seeing and have traded contracts in the gas market with double-digit prices. Our unity load equivalent price in the first year is about $7.12 and around about $8 in the second year and obviously we shape it according to the loads. We've tried to keep a balance in the marketplace and have a transition over time rather than having a sizeable shock and a pure or strict mark to

market.

The other thing I just note by comparison to our original submission, removal of the additional competition allowance, we put that in there as being consistent with what had been done in electricity, but we understand the issues and we've taken those out.

What does that mean in terms of the 2014-15, 2015-16 prices without carbon? The retail and wholesale component all up is 11.5 per cent movement and networks is 5.7. On the assumption that carbon comes out, that will end up being a net increase of about 11.7 per cent. On a standard customer currently consuming around about $900 worth of gas per annum, it's going to be an increase of about $106 or $2 a week. That has been updated for the March CPI statistics that came out at 2.9 per cent.

You will see in the second year a 5.9 per cent price increase or a little over $1 a week for a household's average consumption. With carbon, if we work on the assumption of carbon being in the bill, not repealed in the first year, that would obviously mean the carbon component is not a negative offset. The average retail price would increase by 17.3 per cent after adjusting for the March CPI index: $156 for the average household or about $3 a week. Of course, in the second year you see a very small change overall, the assumption being carbon comes out and basically offsets whatever variations we would see in the wholesale in network components.

With that, Chairman, that's a summary of our submission. Could I also just add before I conclude, sincere apologies, I'm going to have to escape, but I will have Meng Goh sitting in for me during my absence.

THE CHAIRMAN: Thank you very much, Mr Simshauser. Next,we have Keith from Origin.

MR ROBERTSON: Thank you. I would just like to present a brief summary of our proposed pricing for the next two years. Under the voluntary pricing agreements, we had to provide a proposal covering the next two financial years with a review in February of the second year. The proposal is based on a stack of retail prices which includes the wholesale component, the network price and the carbon component and I'll come to each of these in turn.

Otherwise, miscellaneous charges are agreed to escalate at CPI following the original voluntary price agreement struck last year.

We foreshadowed in the pricing agreement last year that we would be seeing rising wholesale prices and that those would flow through the next two financial years. We expect our retail operating costs to be held with CPI escalation. We seek to return to a retail margin that was within IPART's estimate of what was a reasonable range and we tried to do those things in this proposal.

You can see on this slide that there is a significant increase in our price. That's 18.6 per cent for customers in the Murray Valley or Albury region and 21.8 per cent for those customers in the Wagga Wagga region. This is driven by the increase in the wholesale costs which follows that component I flagged earlier, shown in the grey shaded area, which has moved up by some 30 per cent for customers in the Murray Valley and by 40 per cent for those in the Wagga Wagga region.

That means that a typical 45 gigajoule customer in the Murray Valley and Albury would see an annual bill increase of $173 next year and it would be $224 for a typical customer in the Wagga Wagga region. Those prices for 2014-15 include carbon. If we were to strip out carbon, assuming a repeal of the carbon tax some time in July this year, then the bill increase would be $93 for customers in the Murray Valley and $158 for those in Wagga, representing around $80 in the Murray Valley and $66 in the Wagga region.

I turn to the drivers for the price increase. As Paul told you earlier, east coast gas demand is expected to treble by 2017 following a substantial shift in the supply-demand balance and as a result we will see domestic gas wholesale prices rising. They are rising for two reasons. Following on from supply-demand balance changes, we start to move up the production cost curve and we also start to see, with exports from Gladstone, a linkage to international prices.

In setting our wholesale gas cost assumptions for this proposal we have applied wholesale prices that are consistent with the current market. These are prices that we see both as a buyer and a seller in the wholesale market

and prices that are factored into retail offers that are currently being accepted by our customers. We have used that same consistent wholesale price at the railhead and have then applied the same offers or factors to reflect the retail load or the consumption patterns of retail customers as we did in the previous year's proposal.

Wholesale gas prices lie within the ranges that have been assessed as reasonable by both Jacobs SKM in their work this year and ACIL in the previous year's work. I note that SKM took two approaches - a model or theoretical construct of the market as well as an examination of current market prices.

The other part of the retail component is operating costs and margin. As I noted before, we've escalated operating costs in line with inflation which is consistent with our proposal from last year. We've sought to set prices to deliver a margin of 7 per cent, which is within the range that IPART's consultant, SFG Consulting, found to be reasonable last year. We haven't sought any allowance for customer acquisition costs.

As I noted in the slide with the bar charts on it, we've included an allowance for carbon for the prices that will apply from 1 July. However, should the Clean Energy Act be repealed the carbon component we've built in is around $1.77 a gigajoule, so 80 bucks or so for the customers in Albury. We've proposed a single carbon cost for all regions in New South Wales and should the Clean Energy Act be repealed, we will revisit that with a revised proposal to IPART that will strip out that carbon cost.

The carbon cost is the last gas price. It has moved up a bit. The price of carbon itself has increased to $25.40 a tonne and the balance of supply sources has shifted and different fields have different carbon intensity and they have moved towards the higher carbon intensity. We have received advice from our suppliers over the course of the last year of higher carbon costs than we originally estimated would be in our price, but that will reduce our tariffs of carbon if the Clean Energy Act is repealed. That concludes my presentation.

THE CHAIRMAN: Thank you very much, Keith. Ayesha from ActewAGL.

MS RAZZAQ: Good morning everyone. I would like to thank IPART for arranging this public forum today. I don't have any slides, so all good there. Before I discuss our submission I thought I'd provide a bit of background about ActewAGL retail. ActewAGL is a joint venture which is 50 per cent owned by AGL and 50 per cent by Actew which is, in effect, owned by the ACT Government. We are based in the ACT where we provide retail electricity and gas services to the ACT and surrounding regions, what we term as the Capital Regions, so areas such a Queanbeyan, Young, Yass, Goulburn, Boorawa and the Shoalhaven region.

We have a small customer base of approximately 22,000 customers. Of these, 15,500 are on regulated gas tariffs and so will be affected by this review. Given our relative size, we outsource our wholesale gas purchasing arrangement to AGL through our joint-venture arrangements. ActewAGL in its own right doesn't enter into any supply or transportation agreements with producers or transport companies. We believe this provides us an opportunity to leverage the economies of scale from AGL and we also believe that if we were to procure the gas independently, our costs would be significantly higher and also it helps us diversify our risk as well.

In terms of the VPA, ActewAGL has provided the Tribunal with its price path for the retail cost component. That includes our costs for our wholesale gas, our opex and our retail margin. At a headline figure, the real change in the retail component for ActewAGL's region is 24.7 per cent in 2014-15. The nominal change to the standing tariff - which includes carbon and network - is 17 per cent. We have provided IPART information on the overall increase both with and without carbon and should carbon be repealed, ActewAGL will pass on carbon exclusive prices to its customers and if it's retrospectively repealed, we're committed to working through adjustments so that none of our customers are any worse off.

In 2015-16 the real change to the retail component is 7.2 per cent. The nominal change to the standing tariff is 0.4 per cent and we've assumed that carbon will be removed in the 2015-16 financial year.

As has been explained by the rest of the retailers here, the nominal price increase is largely a result of the increased cost of wholesale gas, contributing to the majority of the increase. This is a nationally driven factor related to international gas price parity and as discussed, it impacts all the retailers here today. It is also worth noting that IPART's independent consultant last year, ACIL Tasman, has modelled the likely increase in wholesale gas costs and our proposal for the 2014-15 financial year is less than their estimate. The remainder of the increase relates to inflation and increases in the costs for network charges or carbon. We believe our proposal represents an efficient and prudent response to these particular costs.

Finally, I'd like to end by acknowledging that the demographics we've got in the ACT and around the ACT means that these increases will impact us a lot harder given the cold climate and especially customers who are on low incomes and minimum wages. As a company, we're committed to assisting those customers. We're running workshops this year to help the community manage the winter energy bills and do-it-yourself workshops where we're assisting customers prepare their homes for winter. We're also promoting our Staying Connected program which is helping customers with a tailored program to get them back on track and most importantly, not disconnect them or enact any debt-recovery action while they're on the program. That is a summary of our proposal. I look forward to working with IPART on this.

THE CHAIRMAN: Thank you very much, Ayesha. I throw the floor open now for questions. Are there any questions? Chris? Oliver? Rhiannon?

MR DODDS: Chris Dodds, Senior Policy Officer of the Energy and Water Ombudsman's Office of New South Wales. Earlier, about a month ago, I had cause in my job to look at the Australian Energy Regulator’s retail energy market performance update for the first two quarters of this financial year. I must say I was really shocked, I was really shocked, genuinely shocked, as someone who spends a lot of time in this industry, reading these sorts of things. I was shocked because the disconnection figures in New South Wales for the first half of this financial year were 17,051. That's disconnection when you can't afford it, it's not people moving or anything like that; this is disconnections because of affordability: 17,051 customers in the first six months. Last year the total figure was 24,800 and that had been an increase.

If the disconnection figures continue at the rate they did in the first quarter - and our complaint statistics indicate that disconnections are continuing at that rate - we're looking at a figure of 34,000 for this financial year. That's an enormous increase and it's really indicative of what everyone has been arguing for a long time. This series of electricity price increases has had a significantly adverse effect on the lowest percentile, the lowest 10th percentile, using IPART's figures, so the poorest people in the country and in New South Wales.

We are really concerned about the price shock that a 17 per cent increase in the price of gas is going to have on that particular segment of the population. We recognise IPART's statement that for most of the population this is going to be a price increase but it's not necessarily going to be a price shock, but for that lowest 10th percentile it's going to be a significant shock and it's going to add to the rapidly increasing disconnection figures and this is a difficulty, this is a problem.

It is combined with Federal Government policy, both under the previous government and under this government, that has seen the removal of people - to use cliched term - from pensions to benefits, cliched in terms of me, in terms of my contact directly with this area of work was a number of years ago. A whole number of supporting parents are now on Newstart Allowance rather than the higher rate of pay that they used to get from supporting parents payment. Our understanding is that there's a whole number of people on disability payments who are likely going to be moved back to Newstart Allowance payments. There's a really significant difference in weekly income.

People who have been struggling to actually pay their bills are going to have a fairly significant decrease in income and so for our member organisations, AGL, Origin, ActewAGL, et cetera, their hardship programs are going to get a real hit over the next 12 months and this gas price increase isn't going to help. What can be done? IPART, we understand and know what your brief is, we understand the process and we know you can't just say, "Well, it's going to affect 10 per cent, so you can't have a price rise."

There are real and significant features, specifically, the increase in wholesale gas prices, which we recognise have been driven by the move to world parity pricing. No-one is going to stand up here and demand that IPART do something about it: that's not realistic.

What we can do is look at what IPART has done in the past and suggest that possibly there is some room for similar action. At the height of the electricity price increases we know that IPART made a series of recommendations to government that we're really pleased about. We think they were the tipping points and got government to act. They were around increasing the Energy rebate, extending the energy rebate to Health Care Card holders, a number of those things have been achieved, and just over 12 months ago the Energy Retailers Association of Australia and a number of our members, including AGL and Origin, of course, specifically, community organisations like PIAC and NCOSS and the Ombudsman schemes from around Australia gathered together in the New South Wales Parliament and looked at the growing problem of affordability and made a series of recommendations.

We are going to attach those recommendations to our submission. I'm not going to take the time to go through them all. We would request that the Tribunal have a look at those and see if some of those fit your thinking and maybe your recommendation could be made to support some of those recommendations that are on the table and being lobbied for. We think that's a way that you can mitigate some of the price impacts that this decision is going to have on low income consumers.

The other thing that we'd ask - we base our work on our complaints and what customers are experiencing. We don't have economists employed. Maybe I'm wrong, maybe we're wrong, but it appears to us that a two-year price framework where the absolute bulk of the price increase is in the first year, could take into account wholesale price increases over two years, and our preference would have been a staggered figure, but leave that aside. We do think that the previous decision that was taken last year for gas and a number of years ago for electricity, where if that wholesale price movement isn't as significant or if it is more significant, we concede that as well, we think that IPART should reserve the right to reopen this if the wholesale price increase, for whatever reason, isn't as rapid as everyone is saying it will be. Most likely it will be. However, we do think that customers shouldn't be paying what in essence is a 17 per cent increase, significantly driven by wholesale price increases, if those wholesale price increases in 12 months time aren't as rapid as everyone seems to think they'll be. That's our view - do something about affordability and just double-check that those prices actually increase at the rate that everyone has predicted.

THE CHAIRMAN: Thank you very much, Chris. We look forward to your submission and including the attachment on affordability. On the issue of the price increase, in a sense what you're suggesting is that if we next year discovered that wholesale prices didn't go up by as much as we and others have predicted, there would be some capacity for clawback. I think we just need to keep in mind that less than 25 per cent of customers are on the regulated prices: that’s small gas customers. Less than 25 per cent are on the regulated price, so there is scope there to look around and in the event that prices go up by less than is forecast by IPART and the gas retailers, and anybody else for that matter, this would flow through to the market prices that would be available to customers who seek to move from the regulated price to the market price. We just need to keep that in mind too. Thank you very much, Chris. Are there other comments from my left? Rhiannon and Oliver?

MR DERUM: Could I just start? Oliver Derum from the Public Interest Advocacy Centre. I want to start with a comment on your comment and then I'll give over to Rhiannon. PIAC agrees and we welcomed in your paper the talk about the need to increase consumer participation and engagement in the market. I think the point that I want to emphasise though is that there is still some way to go in that area and make a call for resources, particularly given electricity prices are going to be deregulated, to help people out there understand what that means and how they can indeed finds the best price, because I'm sure you're aware not that many people read the papers.

THE CHAIRMAN: We're used to it.

MS COOK: Hi, I'm Rhiannon. I'm from the Council of Social Services of New South Wales. We're a peak body for

the community services sector in New South Wales. Our remit is to work on behalf of people and communities experiencing poverty throughout New South Wales. A lot of my comments echo those of Chris. We're really concerned about the impact of this price increase on low income families. As well as the hard data that shows us that electricity disconnections have gone up dramatically in recent years, there are numerous reports that show there's another whole group of families that are foregoing essentials, such as food, medical expenses and transport, in an effort to pay their utilities bills. We see part of the problem in the disconnection data, but the problem is also bigger than that.

We can expect to see the same impact happen as gas prices rise, as gas prices go up. Gas prices can be particularly problematic for low income people because the things for which gas is used - heating, hot water and cooking - are activities that you often cannot scale back without significant sacrifice to your comfort and your wellbeing. It is not a question of households cutting back how much they use to an affordable level.

On that basis, we've got a recommendation for IPART but I would also like to speak briefly about one of the most important things we think the New South Wales Government should be doing to mitigate the impact of these price rises on lower income people. We don't have the expertise or the resources to really challenge the technical aspects of these proposals and we would hope that, given the scale of these price increases, that is something that IPART will be doing in this circumstance.

In particular, we're really concerned about that massive price jump in the first year and that's going to occur in the coldest months of the year. The first time households get their bill with this big price increase, it's going to be a real shock. We would ask IPART to investigate the possibility of smoothing that price rise over a longer period.

One of our recommendations for government - and we would hope that IPART would support this - is that at the moment very different types of households in very different circumstances will often be eligible for the same level of support through the government's rebates and concessions. We know that households in regional areas pay a higher price for their energy and larger families are overrepresented in the energy stress statistics.

We think that the best way to help low-income households is to offer a proportional rebate, a rebate that reflects their energy bill rather than a flat rate where a household with an energy bill of $250 a quarter gets the same rebate as a household with an energy bill of $1,500 a quarter. We haven't come up with that recommendation on our own. It is being supported by a number of organisations, including ACOSS and a Deloitte report last year conducted for the Energy Suppliers Association of Australia. Thank you.

THE CHAIRMAN: Thanks very much, Rhiannon. Oliver?

MR DERUM: Thank you, Mr Chairman. I have a question for Keith, actually, to start with. It relates to the Albury-Murray Valley area. The price increase in the wholesale costs that you've proposed for that area is bigger than, for example, AGL's proposals for Sydney and there seems to be broad agreement amongst many of the people who've crunched these numbers, including AGL in their submission, that the price will not go up so much in Victoria in the first few years and it's my understanding, correct me if I am wrong, that that area is supplied from Victoria and because of the capacity of the gas interconnector, the price won't go up because gas won't be able to get to the LNG terminals.

MR ROBERTSON: Thanks, Oliver. We have applied a consistent wholesale energy cost across the New South Wales base on the basis that I've already said, that the supply cost, irrespective of where the resource comes from, will trend towards the same price across New South Wales. We don't think it's likely that you will have differential prices based on supply out of the Cooper Basin or out of Gippsland and I think for New South Wales you'll end up with a single price.

MR DERUM: Even if you can't physically get the gas there because of that?

MR ROBERTSON: Our view has been that the prices will move towards a single price.

DR PATERSON: Did your consultants look at that specific

issue of the distribution of gas prices across the state?

MR ROBERTSON: No. Origin hasn't engaged a set of consultants. We based our view of wholesale costs on where we are seeing the market prices both on the wholesale trades that we are a counterparty to and the retail prices that have been accepted by customers.

MS JONES: Just taking into account the concerns about affordability from Chris, Oliver and Rhiannon, we looked at the graphs that you had up before, we looked at the price increase up to 2015-16; it may be stabilising at that point. Do you expect it to keep increasing or can you maybe outline to us what circumstances you think might need to be in place for it to fall, the wholesale gas price? Have you considered?

MR ROBERTSON: Yes. I think you will see a price decline.

I should say, from the prices submitted, that there will be a decline in prices really into the second year and that reflects the view that prices will rise around more than 10 per cent going forward, but we do not expect increases of that level to follow.

MS JONES: Also, the second part - have you looked at what might make these prices fall, AGL as well as Origin?

MR GOH: Meng Goh from AGL. Given the graph that you've seen, there are a lot of uncertainties and a lot of questions about how many LNG trains have put been on and what we put forward there I think assumes about six LNG trains. There is speculation about other parties wanting to put more on. If that happens, it will put a lot more stress on the industry. It is hard to see prices coming off unless supply increases in the market. We've seen it in the US with the shale gas developments where that has actually brought prices down. Whether it happens in New South Wales it's hard to say, but if you look at all the options that we have, increasing the gas supply is probably the most viable option to affect the supply-demand balance.

THE CHAIRMAN: Thank you, Meng. Oliver?

MR DERUM: The other issue I wanted to touch on was the price path and the increase in the first year. Apart from the impacts on consumers, or perhaps related to that, we can see it being damaging to the gas market because if people see this one big price rise in the first year, a possible response to that, for those who are in a position to do so, is to say, "I'll get rid of my gas," and that can cause a death spiral, as has been discussed.

AGL - I think we were hearing from Paul earlier - seems to have recognised that in smoothing their own gas prices, so yes, in PIAC's view, that's another reason why a smooth price path would be better, not only for consumers but for the health of the market. I have one other point to make.

THE CHAIRMAN: Yes.

MR DERUM: This is probably more of an opinion. IPART is balancing the consideration of the short-term efficient price and the price that will in the long term bring players into the market, but given the uncertainty of the international price and the fact the electricity retail market has just been deregulated, therefore, logically, it follows that the gas price is liable to be deregulated potentially, with those uncertainties it's very hard for me to see a company saying, "I'm going to get into small gas retailing because things are looking good."

Therefore, PIAC thinks there is an argument at this particular point in time under those circumstances of saying, "Fixing that side of it is so complex, let's just set a price that's closest to the efficient price," and that's what we need now at this point of time.

THE CHAIRMAN: Thanks, Oliver. While you were talking I was just trying to recall what the prices went up on average last year: 5 to 9 per cent.

As you know from the paper, what very much we've done is look at what the cost of gas would be in the market that retailers have to access in order to supply it. I think, as we all agree, this is very much driven by the move to parity pricing, that as the prospect of exports gets closer and closer, that you would expect the domestic price to be pulled to the export price.

With respect to the issue of phasing, obviously, you've made the point here and no doubt you've put that in your submission and we'll have a look at it. Of course

with phasing what happens is that somebody has to wear the underpricing for a period of time and so we need to look at that very carefully before one would be making a decision on that.

Clearly, one of the drivers of the price increase is the carbon tax and in the event that that were to be reversed, that would reduce the increase by roughly a third, so we just need to keep that in mind. Rather than on average 17.6, it would be something more like 11 or 12.

Thank you very much for your contribution. Anything more at this stage? Somebody at the back has been itching to ask a question. Would you mind coming up to the microphone and letting us know your name and from which organisation?

MS WOODS: My name is Georgina Woods and I'm from the Lock the Gate Alliance. Thank you for the opportunity to ask a question. We put in a submission to the process but today we really wanted to put on the table a new piece of evidence which wasn't available to us when we made our submission.

Recognising that Mr Dodds said it's not within IPART's capacity to change the wholesale price of gas, a Credit Suisse research report from March this year states that gas exporter Santos now admits that its aim in building the Gladstone LNG project in Queensland was as much about re-rating their domestic gas portfolio as it was about opening up access to a new export market. They did it in order to drive up the price of domestic gas in order to raise the value of their existing domestic portfolio.

We think that that is in part, in great part, what is now going to be foisted upon New South Wales consumers in massive and very rapid gas price increases and we just really wanted to know what characterisation IPART would put on that behaviour by Santos and whether the exposure that it was actually a business strategy to re-rate their domestic gas portfolio might lead IPART to reconsider the recommendation to fall in line with price increases, particularly for a company like Origin who are involved in both exporting LNG and also the retail market.

THE CHAIRMAN: Thank you very much, Georgina. As you quite rightly point out, we can't solve everything. I'm not aware of that comment that's attributed to Santos, so I can't comment on that. What I would observe is where you have a country which has any commodity, gas is one but it could be anything else, that if export opportunities arise and people and exporters, private business and households and businesses don't take advantage of that export opportunity, that is income foregone. It is not a cost-free exercise. To put in place a policy to not export so that you would have more available at home and the prices at home would be lower, is not a cost-free exercise and it's a policy decision for government, both the Federal and the State Government. That is what I'd observe. Put in your submission and we will take your submission seriously, as we take all the other submissions seriously, and we'll have a look at it.

MS WOODS: I have the paper here that quotes Santos.

THE CHAIRMAN: It has been recorded and you should feel free to attach that to your submission.

MS WOODS: I would just note too that the objects of the Gas Supply Act are framed around protecting consumers rather than enabling the business strategies of international gas companies. We really hope that that is the driving force behind IPART's decision making rather than retrospectively protecting the business decisions of gas companies now that they have contracted to export the gas from Queensland.

THE CHAIRMAN: I note that comment. Thanks, Georgina. Other questions or comments from the floor? Would anybody else like to ask a question or make a comment? Yes.

MS CREENAUNE: My name is Holly Creenaune. I am from the New South Wales Land Water Future campaign. I wanted to ask if IPART has looked into other policy measures that are available to avoid domestic consumers being slugged for the actions of coal seam gas exporters. For example, have you looked at domestic gas reservation policies or the public interest test and how they might be applied to prevent cost increases in New South Wales?

THE CHAIRMAN: Holly, we are aware of those proposals, the gas reservation policy, for example, but that's a decision for government, that's a policy decision for government. In West Australia they have a gas reservation policy which

I think was linked to the building of a pipeline; but that's an issue for the New South Wales Government or the Federal Government; that's just not within our remit. We are aware of that and you should feel free to make comment on it, if you like, but I just caution you that there's a limit to our remit. Our remit is to look at the price charged for gas, small business and households on regulated contracts, which is less than 25 per cent, and to look at whether the price proposals put forward by the gas retailers are reasonable or not. Our assessment of these draft prices is that they are reasonable because they are faced with the increased costs of procuring gas in the wholesale market.

Thank you. Anything else? Are there any other questions or comments? No? Anna.

MS BRAKEY: I just want to touch on something that Rhiannon raised which is the fact that gas retail prices change on 1 July each year and that that's in winter. Historically, we have had that 1 July price change because that's the date that the network prices change as well and so we align the network and the retail price increase.

I just wanted to maybe throw to the retailers as well to talk about whether two price increases within one year, one on 1 July to match up with the network one and potentially introduce some of the price increase, followed by another one later in the year recognising this transition issue, would be too costly or inappropriate. I was just wanting to test that with the retailers.

MR GOH: I think that's something that we could consider but it will involve basically doubling the amount of work involved and there are rules under NECF about how frequently you can change prices. It is something that we would consider.

MR ROBERTSON: Similarly, I'm happy to take that one on notice and work through the business of what's involved. There is certainly a fair amount of cost in going through a cost increase - there is a cost challenge here - and we're constrained to do no more than that every six months, but we can have a look and come back to you.

MS RAZZAQ: In terms of the IT and doubling the work, I agree with Meng and AGL, but one of the things we have at

ActewAGL we offer various different payment plans for our customers. While there's not a tariff that's smooth, people have an opportunity to pay their annual bill over 12 months. They can have a type of budget pay system so that they can smooth out their payments without having to change the tariffs.

THE CHAIRMAN: Thank you, Ayesha. Catherine?

MS JONES: Just for the retailers, with reference to what Oliver talked about, the potential smoothing of the price path and possibly, if you did that, not having so many people disconnect, do you have a feel for whether people will disconnect from gas and have you got dual fuel offerings that might discourage this? Have you thought that through?

MR ROBERTSON: I suppose one observation is that electricity prices, after a sustained period of increases, are set to fall. The government announced a 1.5 per cent decline for residential customers, so hopefully that, combined with the carbon repeal and those potential changes to the regulatory scheme down the track and in the path that we're possibly heading, that electricity prices will stabilise down for next year.

MR DODDS: Last year I did some work with financial counsellors in some of the community groups around. Particularly where people were being referred to no interest loan schemes, it has been a given that if the opportunity came to change your hot water system from electricity to gas, that's what financial counsellors would recommend and that's what no interest loan schemes would fund. And the same if the opportunity came to upgrade the heating in a house, the move to gas was an automatic given because it was more energy efficient and it was cheaper.

That advice is now on hold. The organisations are actually seeking and doing economic calculations because they're quite frightened and they don't want to be in a position to make a recommendation to low income households that in three years time there's a much more costly option than some of the options with electricity.

I think that's an indicator that at the very least there's questioning about whether gas is a viable option and most likely I suspect that given the projections that

we saw here of where the final costs of gas will go, there's a big question mark over the viability of a choice of gas as opposed to electricity in terms of costs for heating of water and heating of households.

THE CHAIRMAN: Thanks, Chris. Are there any final questions or comments? Are there any final comments from the retailers? Thank you all very much for your attendance. It's 10.50 or so, so now is a good time I think to adjourn for morning tea. We will re-assemble at say 10 past 11 and then we'll discuss the solar feed-in tariffs. Thank you.

SHORT ADJOURNMENT

THE CHAIRMAN: Welcome back. For anybody who has just joined us, my name is Peter Boxall and I'm the Chairman of IPART and I'm accompanied by my fellow Tribunal members, Paul Paterson on my left and Catherine Jones on my right.

This second session in today's public forum covers IPART's draft decision on solar feed-in tariffs for 2014-15. Again, I remind you that as this is a public hearing, transcribers are present to record the proceedings and the transcript will be publicly available. So that we have a complete record, please introduce yourself when you start to speak.

Our draft decision sets a benchmark range of 5 to 9.6 cents per kilowatt hour in 2014-15. This range is a guide to retailers and customers on the value of electricity exported to the grid by customers from their solar PV units.

We have also made a draft decision that the mandatory contribution from electricity retailers should be 5.3 cents per kilowatt hour of PV electricity exported by the Solar Bonus Scheme customers in 2014-15.

We estimated the benchmark range by taking into account when solar customers tend to export electricity to the grid and what the wholesale price of electricity is likely to be at these times. I note that this year we received a revised terms of reference and we are no longer required to estimate the direct financial gain to retailers.

For the benchmark range we considered how the value of electricity exported to grid would vary at different times of day. The upper end of the range is based on the period between 3 to 5pm when the wholesale market value of PV exports tends to be the highest. The lower end of the range is the wholesale market value at all times other than 3 to 5pm.

The benchmark range is lower than last year's range of 6.6 to 11.2 cents per kilowatt hour. This largely reflects lower forecast wholesale electricity prices. Currently, these prices reflect the market's assessment that there is a high probability that the carbon price will be repealed in 2014-15. I would just remind you that our draft decisions do not affect the feed-in tariffs received by customers in the Solar Bonus Scheme. These remain either 20 or 60 cents per kilowatt hour until the scheme ends in 2016.

For customers who are not part of the Solar Bonus Scheme, the largest ongoing financial benefit from having a PV unit is likely to be savings on electricity bills. IPART's benchmark range will give these customers an idea of the value of any electricity that they export to the grid.

In New South Wales, retailers set their own feed-in tariffs. Therefore, it is important for customers to shop around to find the best deal on their electricity, both the usage rates they pay to their retailers and any feed-in tariff their retailer pays to them. Information to compare retailers' offers is available on the Commonwealth Government's "Energy Made Easy" website.

I will now invite retailers to comment on IPART'S draft decision and on how they approach setting feed-in tariffs. After this, I will open it up to questions and comments from around the room. We will start with Meng. Meng Goh is the Manager Regulated Pricing at AGL.

MR GOH: The Origin slides are up.

THE CHAIRMAN: We always want to be flexible. We'll start with Keith. He's the Manager Retail Regulatory Policy, Origin Energy.

MR ROBERTSON: Thank you. Could I just make a few

observations on IPART's draft reports. We support the approach that IPART has taken. We note the very specific terms of reference and the approach IPART has taken complies with that and reflects the wholesale benefit to retailers. I will explain why that is the case. The other key observation is that we believe customers are able to select from a wide range of competing offers and that the competitive market is serving customers' interests in terms of feed-in tariffs. We will highlight that.

I would first like to consider the benefit that accrues to a retailer when a PV customer exports from a PV unit. That is really around the spot market purchases that the retailers avoid that's on the whole relevant to a retailer. A number of the submissions noted that perhaps the feed-in tariffs should in some way account for distribution charges. However, the distribution charges that a retailer receives are not affected by PV generation. It is all about the value of energy in the wholesale market.

We think the way that IPART and their consultants have approached this is a reasonable approach. The picture on the right extracted from IPART's report shows the spot prices over time and overlaid with that in the broken grey line is generic PV showing peak generation at around midday. IPART's approach has captured the time value of PV generation. I think that goes towards addressing some of the issues raised in a number of submissions that suggest that perhaps a time-of-use policy was required to truly reflect the time value of PV.

We think this approach does that. It looks at prices over a number of years and their distribution and then uses futures prices to give an indication of where the wholesale market sits on an average basis and applies the premium time value of energy to that futures price. That strikes us as an appropriate way of assessing the value of generation.

With that in mind, that's the way retailers tend to think of the value to them. There is a range of offers in the market that are plotted up there and they're sitting in IPART 's report. They sit in or around IPART's benchmark range for the current financial year, 2013-14, and similarly for the proposed range for 2014-15. We feel that IPART's range is reasonably in keeping with retailers' value of generation and customers have a good range of suppliers to choose from - together with the value of the feed-in tariff - via the offerings from retailers. For instance, feed-in tariffs from Origin are available to all customers irrespective of the energy plan they're on.

The market continues to work out appropriate offers via competition. A benchmark range is a useful tool for customers. A regulator can say what that value is, but ultimately it should be the customers' decision and there's a good degree of choice for them to select from.

THE CHAIRMAN: Thanks very much, Keith. Who is next? Meng.

MR GOH: Meng Goh from AGL. First of all, I'd like to say that the values that IPART has come up with are consistent with what we believe is the appropriate value of the PV exports. The wholesale market value approach that is specified in the terms of reference is actually our preferred methodology in any case. I think AGL has the highest feed-in tariff at the moment of 8 cents. We actually established this about four years ago when we looked at the wholesale market value of PV exports at that time and it was around 6 cents per kilowatt hour.

Given our role in the renewables industry, we wanted to distinguish AGL from other retailers and we added that premium of 2 cents, so that gives us the 8 cents. It has been at that level for quite some time now. We do review it from time to time but any change will involve some costs, so it's a balance between whether the benefit of making a change is appropriate or not.

The other thing I'll say is the range that IPART has set at the upper end of the range is based on the 3 to 5pm time slot. In our view that may create some confusion, given that currently our customer contracts are based on a single value, like 8 cents per kilowatt hour. That 8 cents is not directly comparable with the upper end of the range, which is based on 3 to 5pm. That's something we want to clear up.

THE CHAIRMAN: Thank, Meng. Next we have Joe Kremzer, Regulatory Manager, Energy Australia.

MR KREMZER: Thanks, Chairman. I will keep this quite

brief. It will be rehashing much of what Keith and Meng have already mentioned this morning. I would like to commence by saying that Energy Australia supports the continued uptake of distributed PV generation. We also support IPART's draft decision on the retailer component and the benchmark range. We see these as broadly reflective of the wholesale costs, which is the main benefit to retailers of this, and we have a strong view that it should be around the wholesale cost component, as this is a cost avoided by retailers from customers producing PV generation and it should not be reflective of those issues that retailers are unable to avoid, as Keith mentioned, such as network costs.

We believe that, given the number of metered installations out there, a large opportunity for consumers with PV generation is more reduced consumption of on-grid energy, which will decrease their own costs in that manner, and we should not be seeking to provide profits to consumers outside of that as they don't face a number of the costs that energy retailers do.

With regard to a benchmark range, we consider this is the most appropriate means of ensuring that there is competition within this sector. As pointed out on Keith's slide there and in the draft decision, there are a range of offers available to consumers and they have the ability to view all of these offers in the website, so it is up to each customer what is the best option for their purposes, what will maximise the return on the investment they've made for their solar installation.

We also consider that a benchmark range of this nature indicates the different maturity of the players in the market, the different business operating models we've got in the market and consequently, the different costs that all the retailers have out there, costs they incur when providing services to solar PV customers. As a result, the benchmark range there provides an incentive for them to gain efficiencies when dealing with customers.

When we are looking at solar PV customers being closer to 10 per cent of all consumers out there - and one in 10 of customers that call up Energy Australia for a contract have panels on their roofs - it is in our interests to reduce our costs in order to facilitate a higher rate or above, for that matter, the benchmark range which is a guide to consumers and we consider all other retailers have that same incentive to attract those customers who are out in the market. Thank you.

THE CHAIRMAN: Questions or comments. Gabrielle?

MS KUIPER: Thank you very much for the opportunity for PIAC to be involved in this process. I have several comments to make. I would start by supporting IPART's approach. We are strongly supportive of that approach. It obviously makes a lot of sense, particularly when you look at the Australian electricity market. That is the good news. The bad news is looking at what the results are. In fact, this graph is somewhat different to the report that IPART produced which shows that 30 per cent of retailers don't offer a feed-in tariff at all and in fact 50 per cent of retailers don't offer a feed-in tariff within IPART's recommended range for 2013-14. Potentially - and we don't know to what extent - households are subsidising retailers by providing free or low-cost electricity. We regard that as fundamentally inequitable.

We know that there is potentially $10 million worth of electricity there that's being provided, or up to $10 million, but we don't know what proportion is being provided free or at low cost to the retailers. Obviously, particularly in the interests of the retailers that own generation assets, we think that some sort of monitoring or assessment is required.

The three companies that are here today are companies that are providing feed-in tariffs within the benchmark range. That is suggestive overall of IPART's approach, which is to say there should be competition to deliver reasonable feed-in tariffs.

I completely understand your comment that IPART is very limited in its approach here, that the New South Wales Government decided that there shouldn't be a mandatory feed-in tariff and that also IPART is not a policymaking body, but it does have the potential to provide commentary, where appropriate, back to the New South Wales Government on issues on this.

THE CHAIRMAN: Could I ask a question of clarification on that? You mentioned that a number of retailers don't provide a feed-in tariff at all. Do they actually get many

PV exports? Do most of the retailers that don't provide a feed-in tariff get many exports?

MS KUIPER: This is an excellent question. We would love IPART or some other body to provide some analysis and monitoring because at the moment we don't know that. Of that $10 million, how much is it? Is it $50,000? Is it $5 million? How much of that is being provided free or at a subsidy to the retailers? We would be happy for anything that IPART does to shine some light on that particular issue, in both cases, as to whether or not there needs to be a change in approach to feed-in tariffs, but we just don't have that level of information. I don't know if any of the retailers are able to provide any more information.

MR GOH: Can I just comment that the three largest retailers in New South Wales do provide the feed-in tariff, so it must really be the small retailers that don't provide that. Perhaps if you come and speak with AGL then.

MS KUIPER: We certainly appreciate that of the three, AGL has the most generous feed-in tariff and we would also like to note that 8 cents a kilowatt hour we believe should be a mandatory minimum. If you look at the other States, which obviously have a different approach, with the exception of south-east Queensland, Victoria and the rest of Queensland have a minimum of 8 cents a kilowatt hour, so it seems that other States have come to the conclusion that that's a reasonable and efficient price and we question why a consumer with panels on their roof in New South Wales would be paid less than that. I think that's overall my comments. I'm happy to take questions on those comments as well.

THE CHAIRMAN: Thank you very much, Gabrielle.

MR KREMZER: Can I just respond to that? As stated, the retailers representatives are offering feed-in tariffs at varying levels. It is our experience - and it is not a one-size-fits-all thing - that solar consumers are reasonably sophisticated. They've been out and researched their requirements in terms of their installation and the majority have shopped around to find the best product that's out there for them. While there may well be a number of customers with these retailers that are not offering it, I suggest that the overwhelming majority are getting involved in the market which is what the retailers want to see and what IPART wants to see.

THE CHAIRMAN: Thanks very much, Joe. Anna?

MS BRAKEY: One of the messages that IPART has taken quite a bit of time to get out is that it is not just the feed-in tariff that a customer should look at when it enters into a contract. It is also what the charges for their consumption are. I think that looking at the feed-in tariff in isolation to the other charges that are associated with that product doesn't tell the entire story. I just wanted to point out that it is important to look at the whole contract that the customer is entering into, not just the feed-in tariff side of it.

MS KUIPER: We certainly appreciate that and we obviously encourage customers and customer advocates and financial counsellors to look at the whole range of tariffs and fees in any offering.

I think the point here is that you've got generation that's going back into the grid. What is a fair and efficient price for that? I appreciate that the three major retailers do offer a feed-in tariff. Two of the three of those are below 8 cents which we're suggesting is a benchmark, which is obviously in comparison with the other States as an efficient price. It's also about the issue of if you've got a retailer that doesn't own generation assets, they'll be more than happy to pay a feed-in tariff, you would hope, obviously because they would be receiving that electricity at a cheaper price, most likely, than what they're paying wholesale once you consider all of the other transaction costs. There is an issue of equity of when the retailer owns generation assets and when they see rooftop solar as competition for the profits they're earning from those generations.

THE CHAIRMAN: Thanks, Gabrielle. Questions or comments from the floor? Any questions or comments from the floor?

MR RUSSELL: Hello, my name is Ian Russell. I'm a member of the Solar Citizens Group. I don't pretend to represent them and nothing I say should be construed in that way. I'm just a private individual.

Could I just point out, as perhaps many of you know, that solar panel owners are very angry and they're angry

because they see the system is stacked against them. They see that the terms of reference of this inquiry don't consider what you mentioned, fairness or efficiency; they're purely about what you save by not getting electricity from the national electricity market and as most of us know, the national electricity market doesn't allow for any benefits for where the electricity is contributed.

My analogy is if you catch a train from Newcastle to Central or you catch a train from Redfern to Central, you pay the same price as far as the transport of electricity over the grid is concerned and it doesn't reflect inefficiency and if you tried to do that with the public transport system, I think the Minister would be out of a job very quickly.

Rather than gripe, I'll make two points. One, on the question of whether there should be a recommendation with or without the carbon price, we certainly consider there should be one given the potential that the carbon price won't be repealed or that it may be replaced with something different. If the Palmer United Party moves ahead with its stated aim that it thinks that the Government's alternative policy is dead in the water, then it could well be a case where a carbon price will exist and we'd like to see the Tribunal reflect that in its deliberations.

More broadly on how best to consider the price that PV exports would receive if sold on the national electricity market, I suggest why don't you just actually recommend people offer that? In fact, I suggest that they should offer that as a minimum. It is not hard. My electricity meter records how much I produce on a half-hourly basis. We know the price that the national electricity market pays every half an hour. At the end of each quarter, multiply the numbers out and pay me back: it's just maths. You've got all the data; do it.

The benefit of that is that at those times when the market does reach peak pricing, it's $12.50 a kilowatt hour, if people such as myself have an opportunity to export at that sort of price, we'll adjust our own behaviour to make sure we maximise our exports. From our point of view that offers a win-win-win situation where we get a better rate, the market is provided more electricity than it would be otherwise, which would push down wholesale prices, and because we're delivering into the grid near to where the electricity is consumed, we are actually avoiding the need for expensive infrastructure investment at the time of peak usage.

We know that's where most of the cost in the electricity market has been over recent years, expanding that peak capacity. We think we should be using more of the pricing mechanisms to help drive down that need for expansion in peak capacity rather than building and building and building and then charging all the customers for that building.

At this stage, there are 100,000 customers on net metering arrangements. By 2017 another 150,000 will go on to that and there will probably be another 100,000 customers who have installed solar by then. We could be looking at some 350,000 PV customers or one in every seven households who will have PV by then. If there's an effective market for individuals to consume, to provide in response to time-of-day pricing, obviously not everyone will but certainly most of my colleagues adjust their behaviour to suit the pricing structure. I am on a gross feed-in tariff so I do all my stuff at night, but the ones who are on net feed-in tariffs actually structure their behaviour to consume during the day. They run their pool pumps in the afternoon which is exactly what you don't want to do, but because the pricing they face is six cents or eight cents, whatever their offer is, that's the lowest price they receive at any time of the day. They're encouraged to use power at exactly the time when you don't want them to, as a society, as a market we don't want them to.

Yet, that's what your pricing signals tell us to do. If you can't go for a complete wholesale market price then certainly we'd encourage the concept of time-of-export pricing. The man from AGL suggested three to five might be confusing. Perhaps we would suggest aligning it with time-of-use pricing, so the same two o'clock start, you move to a higher price for exports and that would give at least some alignment between the signals you're sending to consumers, reduced consumption after 2pm, you would give the same sort of signals to producers, small-scale producers, to produce more after 2pm or at least consume less, which is in net effect the same.

Finally, on the question of competition, consumers are

disempowered in this market. Yes, we can choose who is our retailer but as producers we have nothing. The national electricity market just says, "We don't care about the fact that you're producing electricity and it's being sold to your next-door neighbour." That really gripes people. It just seems so unfair that there isn't any benefit or consideration given to that, to electricity that's come from the Hunter Valley and travelled over enormously expensive assets to get to the same location.

THE CHAIRMAN: Thank you very much for those points, Ian. I was just wondering what the retailers say to the idea of time-of-day export pricing.

MR ROBERTSON: I think a number of the comments you raised really go to broader reform of the network and how network tariffs are structured rather than something that can perhaps be dealt with here or indeed under retailers' pricing at the moment.

In terms of time-of-use pricing, the preference at the moment is a single rate and that's largely around the simplicity and I acknowledge that there are solar owners who are more engaged in the market and would want to see time-of-use pricing, but I think on balance, given the complications that retailers face and indeed that customers face in dealing with solar and the nature of the inquiries that we get, as things stand, we're probably better with a single rate that's easier to explain and that any further reform and move towards time-of-use pricing would require a couple of things.

First of all, a lack of online interval meters. You've got customers on the interval meters who need time-of-use pricing, and secondly, a broader consideration by the network businesses and the AER around network pricing and tariff reform, because I think there's a wider set of issues that need to be considered around how network tariffs are structured. PV customers indeed are beneficiaries from the current tariff structure, given the weighting towards variable pricing rather than fixed.

THE CHAIRMAN: Catherine.

MS JONES: Keith, you mentioned there some of the potential barriers to feed-in pricing: for instance, meters. Is that the main thing, the technical side of it, or is it more to do with the way that you structure your pricing overall?

MR ROBERTSON: It's a bit of both, but certainly most of the interval meters are in Ausgrid's network area. They had a wider roll-out of interval meters.

MR GOH: Could I just add that currently you just basically get four reads a year on a quarterly bill. Now, to move that to a half-hourly basis, that's over 8,000 reads.

MR RUSSELL: I am an AGL customer; you do it today.

MR GOH: Not four --

MR RUSSELL: I can go on your website and see my half-hourly usage and my half-hourly contribution. As long as I'm on the Ausgrid area meter, I've got that meter, your system reflects it.

MS BRAKEY: In relation to the way that we calculate the benchmark range here, we do account for the difference in losses, so that does account for whether or not it's been transported from the Hunter Valley to Sydney or whether or not it's going from one house to the next. In effect, we're paying a solar customer for more generation than they put on to the grid.

MR RUSSELL: Can I respond to that?

THE CHAIRMAN: Yes.

MR RUSSELL: That's the technical answer, yes, that it's slightly more than my power that has come from the Hunter, but that doesn't cover the cost of the infrastructure to get it there. All those expensive transformers and things are not captured in that price.

MS BRAKEY: That's right, that's a network pricing issue and I do note that the AEC is undertaking a review of network pricing structures at the moment.

THE CHAIRMAN: Joe, do you have a comment on time-of-day export prices?

MR KREMZER: Look, I understand Ian's comment that it

should be simple to do, but there are, as Keith suggested, even with the correct meter in place, retailer systems in place and there have been well-publicised issues with retail systems out there, including our own. It is not a simple thing to do. However, I just point out that the current form of the benchmark range doesn't preclude a retailer from offering these sorts of issues. I haven't got anyone from my product team with me at the moment, so I'm not suggesting for a moment this is on our radar, but there is a possibility out there, if retailers are able to make it work, they may look at that as a means of attracting solar customers.

THE CHAIRMAN: Yes. I would also make a similar comment. We have a situation here where we've set a benchmark. It is an advisory benchmark. Retailers can charge above or below the benchmark or within the benchmark or not at all. It is then up to the market to determine the pricing arrangement between the various retailers and the PV exporters and if it's technically possible to, as you say it is, actually price the PV exports into the grid on a half-hourly basis, then some response from the market needs to come forward to take that up.

It hasn't come forward yet. The question is are the costs of implementing it for a relatively small export market such that it is not worth the retailer to try it? I think that in the future it's probably something we will see, but it hasn't come yet. The important point is what Joe made that I also just want to reiterate. It is not precluded by the current regime. A fixed price, such as eight cents or something like that, in a sense would preclude it.

This regime has the maximum of flexibility and so it allows PV exporters and retailers who are interested in pursuing this, where the appropriate meter is in place, to do it, if it's worth their while. That's a very, interesting contribution, Ian. Thank you very much for coming. You could say more if you've got more.

MR RUSSELL: I will just say that I think IPART has the opportunity to make the marketplace rather than simply be the receiver of what the market determines. I think that the retailers will always prefer simplicity, but by offering periods of high marginal pricing, that can lead to behavioural change. I know in New South Wales there has been a great deal of resistance to putting in time-of-usage meters, even though that would be clearly beneficial to the community as a whole and the Productivity Commission points out that it is successful. Where people have time-of-use meters they do change their behaviour.

We would save ourselves a lot of money if this was introduced more broadly, so I think we really should be looking to encourage that and also too if IPART can establish a market for small providers to provide at appropriate times with high pricing, once battery technology becomes more established, that will become a very viable way for people to pay for that technology by being able to provide at the critical peaks.

THE CHAIRMAN: That raises another point, because as technology develops and you have battery technology which can be put in place by householders, that allows householders then to store and export at a time and so that's another way of the market developing. Thank you very much. Gabrielle.

MS KUIPER: Could I just make a comment on your point? I think absolutely in an ideal world you would hope to see a lot of competition and some innovation in the way that the retailers are structuring their offers with regard to households that have PV panels. However, we haven't seen this and I notice that the Victorian retailers did the same thing. In an ideal world, if it's deregulated, there would be a lot of innovation, but I think given the nature of the electricity market and with all due respect to the retailers here, they're all "gen-tailers" and when you own generation assets I think it is a bit unrealistic to expect them to innovate too much when it is fundamentally not necessarily in their interests.

The Victorian regulator said that in an ideal world it would be opened up and there would be a lot of innovation. They decided that we're not at that point yet. We haven't seen innovation. As to your point, we haven't seen anyone offer even at the top end of the benchmark range, let alone above it. While all retailers have the opportunity to do that, they're obviously all tending towards the bottom end of the range, or below, or nothing, so that suggests that it's one of those things. In an ideal world competition would deliver, it hasn't delivered, so maybe we need to look at an alternative in the interim, in the interests of

consumers.

THE CHAIRMAN: Thank you, Gabrielle. Are there any other questions or comments?

MR PFANNENBERG: My name is Volker Pfannenberg. I'm also from the Solar Citizens. I just want to make some remarks on the environmental and renewable energy side of the whole discussion. I am aware that of course it goes basically for hard dollars, but I think there's also an aspect which has to do with climate change and global warming. I just went through the work and had a look at the Australian Pollution Inventory what sort of emissions come out of the two biggest power plants in the Hunter Valley, which of course are Bayswater and Liddell. I just want to share these amounts with you. This is for the period 2012-2013: CO_2 in this period is 20,375,000 tonnes; nitrous oxide, 61,000 tonnes; carbon monoxide, 2,700 tonnes; sulphur oxide, 1,000,010 tonnes and small particle 2.539 tonnes. It is proven by most people who've had a look at the health effects of energy created from coal that especially these emissions have really severe impacts on human health, regarding pulmonary diseases and cardiac diseases.

I just want to point out that the people who have solar panels, I'm one of them, not only do something good for themselves, they also do something good for the community and the environment. I wonder if that has been taken into account enough by our dear friends the retailers, or if it is just something which you only know the externalities, which is the costs which are not fair according to the product but are carried by the community, that is, pollution and its health impacts on the community, they're not taken care of and I think it is time that the community and organisations like you looked into that.

THE CHAIRMAN: Thank you very much, Volker. The retailers and IPART and others have no choice but to take it into account because the former government put a price on carbon and the current government is contemplating repealing the price on carbon and putting in place their energy emissions reduction fund. These are both mechanisms which are designed to send a signal to people using coal and other things that you're concerned about to basically use less of it. That's what the generators are doing, they're responding to that, so we have a situation where you end up with a result where you have more renewable energy and less coal generating electricity in Australia.

You might argue that that's not enough and if you were to sustain that argument you would want to increase the price on carbon and get them to use even less coal and more renewable energy. On top of this, the government also has the renewable energy target which might well be suggesting a mix which is greater or less than what the market would deliver. This stuff is in the system for generators and retailers, it is in the system for IPART in making these recommendations. Again, you might argue that that's not enough and that would be an argument for a higher carbon price or equivalent mechanism.

MR PFANNENBERG: I appreciate your comment, but you're all aware that we might lose the renewable energy target or it might be heavily reduced. I am aware of what your function is but I thought, as somebody who has solar panels and is interested in the environment and things, there's much too much carbon in the air. I just wanted to say that it's worthwhile, beside all of that, what is discussed regarding profits or not profits. It is important that we don't lose the largest aspect, that we all live on this planet and I think if we go on like this here, we might have troubles or my grandchildren or children might have trouble to do that. Thank you.

THE CHAIRMAN: Thank you very much. Anybody else? Any questions or comments? Any further questions or comments? It is just about 12 o'clock. In that case, I'd like to thank you all very much for coming and for your contribution to what was a very interesting double session. The transcript of today's proceedings will be available on our website in a few days time. Submissions on our draft reports are due on 21 May and given the tight time frame, we will be most unlikely to accept late submissions, so please, if you can get them in by 21 May that would be good.

We cannot guarantee that we will accept them if they come in late. We intend to release our final decisions by mid-June to give retailers and customers and other stakeholders enough time before they take effect on 1 July. Thank you very much and have a good day.

AT 12PM THE TRIBUNAL ADJOURNED ACCORDINGLY