

INDEPENDENT PRICING AND REGULATORY TRIBUNAL

**REVIEW OF REGULATED RETAIL TARIFFS AND CHARGES FOR
GAS 2010 TO 2013**

Tribunal Members

**Mr James Cox, Acting Chairman and CEO
Ms Sibylle Krieger, Part-Time Member Held at the offices of IPART
Level 8, 1 Market Street, Sydney**

On Friday, 30 April 2010, at 10.00am

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1 OPENING REMARKS

2
3 THE ACTING CHAIRMAN: Good morning, everyone, thank
4 you for coming. We might make a start now.

5
6 My name is Jim Cox and I am acting chairman and chief
7 executive officer of IPART. Sitting with me is Sibylle
8 Krieger, who is the Tribunal's part-time member. Also with
9 us at the table we have a member of IPART's secretariat,
10 Aaron Murray, and we have representatives of our
11 consultants, SFG, here as well. Thank you everyone for
12 coming here today, we are most grateful for your assistance
13 in undertaking this review.

14
15 IPART has been asked to set regulated retail tariffs
16 and charges for gas from 2010 until 2013. The Minister for
17 Energy wrote to IPART last August requesting that we
18 continue regulating standard tariffs for small retail gas
19 customers to ensure that either new voluntary transitional
20 price arrangements (VTPAs) or gas pricing orders are in
21 place for the period from 1 July 2010 to 30 June 2013.

22
23 IPART was requested to ensure that the objectives
24 of the Gas Supply Act 1996 are taken into account and
25 that stakeholders are consulted as part of the review
26 process. In addition, to ensure that standard retail gas
27 tariffs reflect the costs of supplying natural gas to small
28 retail customers, the minister requested that IPART
29 consider whether it should undertake a review of these
30 costs, and undertake such a review if it thought this was
31 necessary.

32
33 IPART's draft report, including its draft decisions,
34 was released on 16 April. We have already received some
35 comments and submissions from individual stakeholders. We
36 believe that the VTPAs being developed provide an
37 integrated regulatory package, where all relevant costs and
38 risks are accounted for, but only once.

39
40 The package builds on the existing VTPAs and includes
41 a weighted average price cap. This allows the standard
42 retailers to recover the costs of retailing. It gives the
43 standard retailers the flexibility to set their own cost
44 reflective tariffs within an overall cap. It includes a
45 mechanism for passing through network charges into
46 regulated retail prices, and it also includes a "special
47 circumstances" clause that allows for the reopening or

1 revision of the VTPAs in the event of a significant and
2 unexpected change in the cost of supplying natural gas to
3 small customers on regulated retail tariffs.

4
5 We note that the draft VTPAs include scope for the
6 pass-through of costs associated with government-initiated
7 climate change mitigation measures. We note that the
8 federal government has recently announced that it will
9 delay introducing the carbon pollution reduction scheme.
10 We do not think this requires a change in the draft VTPAs.
11 Customers will only pay for a scheme that is implemented,
12 and if this scheme is ultimately not implemented, then
13 customers will not pay for any costs associated with a
14 CPRS. Additionally, if the CPRS is implemented in a
15 different form, we will consider the new arrangements in
16 considering pass-through amounts and prices.

17
18 It is difficult for a regulator to ensure that the
19 retail price is set at the right level and the consequences
20 of setting the price either too high or too low are
21 significant. If the cost estimates are too high, customers
22 who remain on regulated tariffs will pay more than
23 necessary to recover the efficient costs of supplying them,
24 contrary to the objective of regulating gas retail prices
25 in the first place.

26
27 If the cost estimates are too low, an efficient
28 standard retailer will not generate enough revenue to
29 recover costs which may damage their financial viability
30 and hinder the development of effective competition in the
31 market.

32
33 IPART considers that, in the longer term, an
34 effectively competitive market is likely to better protect
35 the interests of customers than a continuation of
36 retail price regulation. However, given that IPART has
37 been requested to set regulated retail tariffs and charges
38 for gas, we need to ensure that we make our decisions based
39 on a good estimate of efficient retailer costs. We need to
40 build sufficient regulatory flexibility into the price
41 control so the regulated tariffs can be adjusted during the
42 regulatory period if these costs prove to be significantly
43 different from those that are expected. We believe that our
44 draft decisions achieve these objectives.

45
46 The draft report and draft decisions set out increases
47 in typical residential customers' bills of 12 to 17 per

1 cent in nominal terms over the 2010 to 2013 period, largely
2 reflecting increased network charges, as determined by the
3 Australian Energy Regulator, which are outside the control
4 of both IPART and retailers. We recognise that these cost
5 increases will place additional financial pressure on some
6 sections of the community, even considering the New South
7 Wales Government's customer assistance package.

8
9 Today's forum provides an opportunity for stakeholders
10 to understand, seek clarification and provide comment on
11 IPART's draft report and draft decisions.

12
13 The forum is divided into a number of sessions. In
14 the first session the Secretariat will present IPART's
15 approach to this review, and provide an overview of IPART's
16 draft decisions. In the subsequent sessions, each standard
17 retailer has the opportunity to present its VTPA proposal
18 and any response to IPART's draft report and draft
19 decisions that it wishes to make.

20
21 After each presentation I will invite stakeholders at
22 the roundtable to make comments or to ask any questions.
23 Then following this, I will invite comments or questions
24 from the floor.

25
26 Today's forum is being transcribed to assist IPART in
27 finalising its report. Please introduce yourself and state
28 the organisation you represent when you begin to speak and
29 speak clearly and slowly for the benefit of transcribers.

30
31 We will now move to the first section, which presents
32 IPART's approach to this review and our draft decisions and
33 we will start with the presentation from the IPART
34 Secretariat.

35 36 PRESENTATION BY IPART

37
38 MR MURRAY: My name is Aaron Murray, I work at the
39 IPART Secretariat. As Jim has indicated this is a formal
40 public hearing and I will provide a very brief overview of our
41 approach to developing the draft decisions. I will then
42 explain the draft decisions and then explain how we will
43 finalise our decisions. I would like to remind others here
44 today that the submissions are due by 14 May.

45
46 The overview I am going to provide will explain
47 briefly the approach to the review, the form of

1 regulation, the draft decisions themselves, implications
2 for customers, and then finally the approach for making the
3 final decision.

4
5 We started the review last year by inviting each of
6 the standard retailers to submit a proposal for a revised
7 VTPA. In general all the proposals include a continuation
8 of the weighted average price cap on the retail component
9 of prices. There are no additional side constraints on
10 individual customer bills and they also all propose the
11 automatic pass-through of network costs.

12
13 In addition to proposing a VTPA, we also asked each
14 standard retailer to submit costs and other information to
15 IPART in support of their proposals. We analysed this
16 information on the VTPAs as proposed, and the supporting
17 information. We conducted internal analysis of the
18 forecast efficient costs of each of the retailers' operating
19 costs, and we obtained external consultant advice from
20 SFG on the competitive profit margin for gas retailers -
21 they are here today. We also released their draft report.
22 We obtained external advice from MMA on forecast efficient
23 wholesale gas costs. Again that report is released as part
24 of the draft decision. This analysis enables us to form a
25 view on whether the proposals were reasonable and
26 consistent with the costs that a prudent and efficient retailer
27 would incur in providing gas to small retail customers.

28
29 We also developed assessment criteria for the review
30 to guide our analysis in decision making. This reflected
31 what the minister asked us to do, the objectives of the Gas
32 Supply Act, and, finally, the principles of good regulatory
33 practice. We also developed the generic version of the VTPA
34 to ensure transparency and consistency and that is released
35 as part of our draft report.

36
37 The draft decision was to continue the light-handed
38 form of regulation. This includes the VTPAs, the weighted
39 average price cap on the retail component only and again no
40 additional constraints on individual customer bills.

41
42 In making this draft decision, we felt it was
43 appropriate because there is no evidence of market
44 segmentation. There was no evidence that the retailers
45 were acting strategically in the market to set prices above;
46 costs; there is only a small number of regulated tariffs;
47 and, finally, the level of competition in the New South Wales

1 retail market has been increasing over the years as the
2 VTPAs were introduced. All this information can be obtained
3 from our draft report.

4
5 This slide is just to highlight for everyone the way
6 the typical customer bill is made up. There are largely
7 two components. The retail component, which is subject to
8 our draft decision, is about 50 per cent of the customer
9 bill. That covers the costs of wholesale gas, retail
10 operating costs and also the retail margin. The other
11 component is the network charges, almost 50 per cent.
12 Generally they are regulated by the AER, although for a
13 small number of customers in New South Wales they are
14 unregulated and obviously the AER is currently reviewing a
15 number of these networks charges and has issued its
16 draft decisions.

17
18 Turning to our draft decisions on tariffs, our draft
19 decision is to accept the pricing proposals of AGL, Country
20 Energy and Origin Energy. However, we reject ActewAGL's
21 pricing proposal on two grounds: firstly, that the costs
22 did not support proposed prices; and, secondly, some of the
23 costs were not consistent with those of an efficient and
24 prudent standard retailer. We agreed to pass through the
25 costs of distribution network charges. These charges, as I
26 said, are either regulated by the AER or, for a small
27 number of customers, they are unregulated, but we agree
28 that the retailers are not able to control these costs
29 and that they should be passed through in full.

30
31 We note the government's decision to delay the
32 introduction of the CPRS; however, we have agreed to pass
33 through the costs relating to climate change mitigation
34 strategies or measures introduced by governments during the
35 regulatory period. However, under the draft VTPA, IPART
36 will review and approve costs before they are passed on to
37 customers. Finally, we have agreed to retain the special
38 circumstances clause in the VTPAs. This will allow a
39 reopening or revision of the VTPAs in the event of any
40 significant and unexpected change in costs.

41
42 Draft decision on non-tariff fees and charges: we
43 allowed an increase in late payment fees for AGL from \$8.30
44 to \$14 and for Origin from \$9.70 to \$12, but we requested
45 both retailers to transition these increases. We are
46 expanding the exemption for the late payment fee to include
47 those customers on hardship policies. We also allowed an

1 administration charge on network, non-tariff fees and
2 charges, but it is to be capped at a maximum of \$2.50. For
3 all other non-network fees and charges, we have made the
4 draft decision that the CPI increase is appropriate.

5
6 The implication for customers: these are the average
7 tariff increases for each of the four standard retailers.
8 The bottom of the table shows the overall increases, the
9 network plus the retail component, and what we have in this
10 table has split how the retail contributes to the increase
11 versus how the network contributes to the increase over
12 three years.

13
14 Our draft decision in our contribution, as you can
15 see, allows for fairly modest increases in gas prices. The
16 exception to this is Origin Energy's customers in the
17 Albury region, which is less than 20,000 customers.
18 However, these face larger real increases in the first year
19 of the period to bring those tariffs back to
20 cost-reflective levels.

21
22 The other thing we note is while AGL's overall
23 increase is in line with CPI, residential customers face
24 slightly higher increases because of the tariff restructuring
25 that AGL has proposed. This increases the fixed charge to
26 residential customers, while leaving the fixed charge for
27 nonresidential customers unchanged over the period.

28
29 The indicative increases included in this table for
30 ActewAGL reflects an assumed price path of an increase of
31 CPI minus 3 per cent over the three-year period. That
32 reflects our view of their efficient costs. It should be
33 noted that the network contribution reflects the AER's
34 final decision for Country Energy and for ActewAGL's
35 Queanbeyan region; however, there's only been a draft
36 decision released on the Jemena gas networks and that
37 greatly affects the final outcomes, in particular
38 AGL and also part of ActewAGL's area.

39
40 Just to give you an idea of the impact of the draft
41 decision on typical residential customer bills: as I stated
42 earlier, AGL's typical residential customer would face
43 slightly higher increases. I should say these are nominal
44 increases as well, of 12.4 per cent over the three years.
45 Country Energy and Origin Energy customers face slightly
46 higher increases. This is driven by network increases and
47 ActewAGL again faces inevitable increases but our draft

1 decision on the retail component is for a slight real
2 reduction, so the overall increase is about 12 per cent.
3
4 Then business customer bills reflecting the proposal
5 from AGL to do some tariff restructuring: a typical
6 business customer of AGL would not face an increase over
7 the period. For Country Energy and ActewAGL their business
8 customers will face similar increases to their residential.
9 Origin Energy, their business customers face increases in
10 line with the CPI.

11
12 Finally, in the approach to making or finalising this
13 decision we've sought some specific changes from AGL, a
14 revised proposal for non-tariff fees and charges to be
15 consistent with our draft decision.
16

17 For ActewAGL we are seeking a revised proposal with a
18 weighted average price cap applying to the retail component
19 only. We are also seeking a revised pricing proposal
20 consistent with the efficient costs of supplying customers
21 over the regulatory period, for Origin Energy, a revised
22 proposal consistent with our draft decision on the
23 non-tariff fees and charges and no specific changes from
24 Country Energy.

25
26 Once we have received these revised proposals and also
27 after considering stakeholder submissions, the Tribunal
28 will finalise its decision in June. Thank you, that's it.
29

30 THE ACTING CHAIRMAN: Thank you very much. We will
31 now take questions, comments on IPART's overall approach
32 and draft decision from people sitting at the table. So who
33 would like to lead off?
34

35 I take it, then, everyone accepts that it is
36 reasonable and acceptable? Great.
37

38 Any comments on people from the back of the room?
39

40 In that case I think we might move on to the proposals
41 by the individual retailers and I think the first of those
42 is from AGL. We might just ask you to make a presentation
43 on your proposal and any comments you wish to make on our
44 draft report and draft decision.
45
46
47

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1 AGL

2
3 MS GRIGGS: Good morning. My name is Beth Griggs, I am
4 from AGL. First of all I'd like to welcome the opportunity
5 IPART has presented today for a public forum. IPART is one
6 of an open and transparent process which AGL believes is
7 very important for everyone to have confidence in the
8 credibility and robustness of a regulatory review and we
9 believe IPART has achieved that, so we acknowledge that and
10 appreciate it.

11
12 We would also note at this stage - this is something
13 which IPART has already touched on - that the AER decision
14 is not yet final, so when we are speaking today we are
15 talking about retail components. That is not to say AGL
16 doesn't acknowledge that what consumers will face will be a
17 combination of the networks and the retail components, we
18 do appreciate that, but we're talking about the retail
19 component today and primarily because we actually don't
20 have much of a handle on what the AER's final decision will
21 be.
22

23 We thought it would actually be useful today just very
24 quickly to outline the purpose and the history of the VTPA.
25 The VTPA was set up as a light-handed form of regulation to
26 assist the transition to deregulation. It's intended to
27 provide price certainty to consumers and, as I said, a
28 transition to deregulation. This will be AGL's third VTPA.
29 So it's had one from July 2004 to 2007, where the tariffs
30 and the miscellaneous fees and charges were limited to an
31 increase of CPI. It has had a second VTPA which went from
32 2007 and will go to 30 June. Again tariffs and
33 miscellaneous fees and charges will also increase by CPI.
34

35 There was a special circumstances review, which IPART
36 has discussed in its draft report and we are now seeking a
37 third, and we do hope final, VTPA. That will go from
38 1 July 2010 to 30 June 2013.
39

40 We just wanted to lay that history to sort of
41 emphasise that we do appreciate IPART continuing with the
42 light-handed form of regulation. We do hold hopes that,
43 given the level of competition in New South Wales, it will
44 be the final regulated price path but we do think that the
45 form of regulation adopted in the VTPA is, in all
46 circumstances, appropriate.
47

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1 I would like to deal in a little more detail with
2 AGL's proposed VTPA. As IPART has outlined, a general
3 tariff is broken into three component parts - well, we
4 thought it was going to be broken into three component
5 parts: the retail charges, which are generally comprised of
6 wholesale energy costs, a retail operating cost and a level
7 of margin; the network tariffs, which are currently under
8 the control of the AER; and we propose a third component
9 cost, which would be the carbon component which would also
10 form a direct pass-through.

11
12 As IPART has acknowledged, that C component has
13 probably lost some relevance for the early years of the
14 price path, so we don't propose to talk too much about that
15 today. We propose a direct pass-through of the network
16 charges for the reasons which IPART has identified. First
17 of all, retailers don't control any component of that cost
18 and second there's still uncertainty around what
19 those increases are going to be for the year starting
20 1 July of 2010.

21
22 We propose the retail component to increase by CPI for
23 each year. We propose an increase of the late payment fee
24 to \$14 and other fees and charges to increase by the CPI and
25 the other matters IPART has already discussed. We also
26 propose that the formal regulation would be a weighted
27 average price cap which in general means that we are able
28 to engage in some form of rebalancing between tariffs over
29 the period of the price path, provided we stay below the
30 weighted average price cap. So overall our increase had to
31 be limited to CPI.

32
33 This has been driven by two primary considerations.
34 The first is to try and match retail tariffs with network
35 tariffs. We receive a network bill and its structure, in
36 terms of how it administers the charges, at the moment
37 doesn't match how a retailer administers the charges.
38 There's also a level of cross-subsidy between tariffs that
39 we were seeking to address over the period.

40
41 I would say at this stage what AGL is proposing is a
42 slight constraint on that, effectively, where we won't
43 rebalance by more than CPI+5 per cent each year. What that
44 effectively means for a residential customer is a
45 difference of about \$7 per annum. So the CPI+5 per cent
46 actually equates to about \$7 per annum. So the difference
47 in the rebalancing sounds probably more significant than it

1 actually will be when you look at the small level of
2 consumption that those customers subject to the rebalancing
3 will experience.

4
5 Having been through IPART's draft decision, AGL is
6 pleased with the IPART finding that the retail costs that
7 we submitted are consistent with those an efficient and
8 prudent retailer would incur. IPART has also agreed to the
9 tariff rebalancing that I've just discussed and it has
10 asked AGL to adjust its application in respect of fees
11 and charges, as IPART has already discussed. This is just
12 the information I discussed previously on how the
13 rebalancing of tariffs AGL is proposing would actually
14 work. We are still a little unsure as to exactly the
15 nature of the rebalancing because we're waiting for the AER
16 and Jemena to submit its final pricing structure but, as I
17 said, that limit of CPI plus 5 per cent will be complied
18 with through the course of the price path.

19
20 In terms of the late payment fee, AGL has considered
21 IPART's draft decision and it's also considered the concern
22 being expressed more broadly in the community about the
23 increases in energy prices. AGL is actually reconsidering
24 a lower fee than that proposed, so it's reconsidering a fee
25 which will probably be limited to \$11 rather than \$14 for
26 the period of this price path. AGL will also amend its
27 proposed charges on the basis of the \$2.50 fee. Those are
28 the distribution services that that \$2.50 administration
29 fee would apply to.

30
31 Are there any questions? I didn't go into much detail
32 on any of the retail and wholesale costs. I suspect
33 everyone can live without that.

34
35 THE ACTING CHAIRMAN: Okay, this is an opportunity to
36 ask
37 questions or comments of people sitting to the table of
38 AGL.

39
40 MR DODDS: Could I just ask for clarification: a number of
41 comments that everyone will make in this process equally
42 could apply to Origin, ActewAGL, et cetera, particularly
43 around miscellaneous fees, so I don't know whether you want
44 them all or not directed at AGL but in --

45
46 THE ACTING CHAIRMAN: It is probably best to have them
47 all now and we will take the --

47

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1 MS GRIGGS: That's fine.
2
3 MR DODDS: Perhaps later on.
4
5 THE ACTING CHAIRMAN: Yes.
6
7 MR DODDS: I will start with the late payment fee,
8 obviously. The Ombudsman still stands by its long-held
9 position that late payment fees imposed are – the effect of
10 late payment fees, in particular on financially
11 disadvantaged customers, is disproportionate but leaving
12 that position aside, which we know we won't get up,
13 probably, we do have a serious concern about the lack of
14 consistency between the electricity determination and the
15 gas determination. We actually think that the electricity
16 determination was a correct determination and we note that
17 in IPART's previous gas determination we put the same
18 position forward and the argument to reject that
19 position, that the late payment fee should be consistent
20 with electricity, was that in IPART's view consistency with
21 AGL, Origin Energy in particular, operations in other
22 states, it was more important for them to be consistent
23 with that.
24
25 But we also note that in the electricity determination
26 IPART pointed out that in Victoria late payment fees are
27 banned and that in Queensland they're not allowed on
28 standard contracts. We would argue that the argument of
29 consistency with operations in other states, when you look
30 at New South Wales, Victoria and Queensland, means
31 consistency with South Australia and we don't think that
32 that it is appropriate for New South Wales to be consistent
33 with the smallest market. The Ombudsman really strongly
34 argues that the consistency should be with the electricity
35 determination, to avoid confusion on the part of customers
36 and that the arguments that IPART arrived at in the
37 electricity determination are the appropriate arguments.
38
39 We would also make the point that in the exemptions
40 attached to the late payment fee there is again a
41 discrepancy. It is only a minor one but it is a
42 discrepancy and that is that in the electricity
43 determination there is an exemption on a case-by-case basis
44 as the Ombudsman considers appropriate and that exemption
45 is not in the gas determination. I'll plead guilty that it
46 was probably the case last time and we did not pick it up
47 but we have picked it up this time.

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1
2 We think that IPART needs to have more consideration
3 to the exemption on the basis of hardship, in that we find
4 it not exactly as clear as we would like it. The issue is:
5 is the exemption for those customers who are in the
6 hardship program or for those customers that are in
7 hardship?
8
9 The NECF has a definition of self-identified hardship,
10 hardship identified by an agency that goes beyond actual
11 participation in a hardship program and that is certainly
12 the approach we would like to see, in terms of an exemption
13 from a late payment fee, in that the number of people that
14 formally participate in the structured hardship programs
15 is --
16
17 THE ACTING CHAIRMAN: So the exemption is around the
18 hardship program, in your view, or should be.
19
20 MR DODDS: We just think it is not clear and we could see
21 an argument developing over "Well, yes, this customer might
22 be in financial trouble but they're not in our hardship
23 program, so the exemption doesn't apply". We just
24 think that we need clarification on that for the sake of
25 avoiding arguments down the track.
26
27 THE ACTING CHAIRMAN: I understand.
28
29 MR DODDS: And clearly our view is the broader definition
30 is the appropriate one and would match the electricity
31 determination of exempting those customers who are
32 receiving an energy rebate.
33
34 On dishonour fees, we ask the question - understand
35 and note - the fact that the regulations don't allow a
36 service fee on credit card payments and we also note that
37 IPART has consistently, in the last two electricity
38 determinations, called on the state government to change
39 the regulations to allow dishonour fees on direct debit and
40 credit card or debit card payments. Maybe it's just I
41 can't read legislation as well as other people. I would
42 welcome some clarification on this but I can't actually
43 find the difference in the gas law and the electricity law
44 that allows the dishonour fees for debit and credit card
45 payments in your reports.
46
47 We welcome the consistency brought in by IPART's

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1 decision around a \$2.50 administration fee for the
2 pass-through of network charges. So that sort of covers
3 the more generic thing. We've got some specific comments
4 on the AGL tariff restructure.
5
6 I must say it was really difficult to identify fully
7 the tariff restructure, both in the issues paper and in
8 the AGL proposal that was attached to the issues paper.
9 Certainly the six tariff thing, we made a point about
10 complexity in people's bills. It is not really clear about
11 the response that that complexity won't be reflected into
12 the bills, in that I think there's fairly clear regulations
13 to entitle customers to know how their bills are made up.
14 We would welcome some clarification on that. When I was
15 preparing this section it was a series of questions but as
16 I read the determination and then went back and had a
17 closer look at what was being proposed, particularly around
18 the fixed charge proposal, the Ombudsman said "Be a bit
19 stronger than just asking questions".
20
21 The Ombudsman has a serious concern about the impact
22 of this tariff restructure on low income, low-consumption
23 consumers. The question was: why is business being given
24 basically a flat CPI increase and residential customers
25 bearing the greater weight of the cost increase but when
26 you actually look at table 6.2, you'll note that the lowest
27 users are getting a 5.3, 5.6, 5.6 percentage increase,
28 whereas a medium user is a 2.9, 4.5, 4.5 and progressively
29 those figures go down with business getting a minus 7,
30 minus 4 per cent increase.
31
32 We think that at a point in time where energy prices,
33 water prices, public transport prices are all adversely
34 affecting low-income consumers in a dramatic way, this is a
35 regressive pricing decision that will have an adverse
36 effect. It also ties into a long-term concern of EWON
37 around the seasonal nature of a lot of gas usage and a
38 restructuring of the tariff so more is built into the fixed
39 charge means that there is going to be considerably more
40 dissatisfaction in the consumer base as people who use
41 little or no gas from mid spring to mid autumn are going to
42 see their bills increase. They're already complaining
43 about the fact "I'm not using gas, why do I have to pay
44 this?", and we understand the reason but part - not AGL in
45 its current format but certainly AGL, when I first started,
46 which was only five years ago, was having an arrangement
47 for a free turn off and a free turn on where no fixed fees

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1 were charged for that period. Many customers are saying
2 that should be the case "I'm not using gas, I shouldn't
3 have to pay" but this is going to actually exacerbate that
4 particular problem.
5
6 I don't know what the solution is. EWON doesn't know
7 what the solution is but we think it needs to be built into
8 consideration of a tariff proposal that's going to
9 exacerbate that problem.
10
11 So the final comment on all of that is that we welcome
12 the announcement that late payment fees aren't going to go
13 up to \$14, but combined with an increase in late payment
14 fees, the tariff restructure in AGL's proposal in our view
15 has the potential to have a particularly adverse effect on
16 disadvantaged customers who are low gas consumers.
17
18 The final point I make, with all due respect, Mr
19 Chairman, I made this point in the electricity
20 determination: in the draft issues paper IPART identified
21 that the New South Wales government was going to introduce
22 an extensive customer assistance program in December 2009
23 and I can't remember, was it March the electricity
24 determination? Other than the changes on the rebates, the
25 rest of the program is really significant in terms of a
26 range of issues: financial counsellors; possibly, we still
27 don't know; access to purchase of energy-efficient
28 whitegoods and the like.
29
30 The rest of that still hasn't happened and I think in
31 the context of all of the hardship that's happening, one
32 has to be a little bit stronger than just to note that the
33 government intends to introduce a customer assistance
34 program. I think all of the retailers need to hurry that
35 along. EWON is certainly pressuring the state government
36 as hard as we can to implement their announcements, but
37 EWON calls on the retailers to do the same thing so that,
38 as these price increases in electricity and gas come into
39 play, there are some relief programs, and that will relieve
40 the pressure on the retailers' hardship programs; it will
41 relieve the pressure on our call centre; and, most
42 importantly, it will relieve the pressure on those
43 financially disadvantaged customers who are adversely
44 affected by these price rises.
45
46 THE ACTING CHAIRMAN: Chris, thank you very much.
47 Does AGL want to respond?

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1
2 MS GRIGGS: In relation to the average price output, we do
3 understand the problems. That's why we have chosen the
4 price path which will limit the impact to customers, which
5 is an average cost of \$7 per annum. There is certainly no
6 intention on our part to transition immediately, but to do
7 so in a gradual way. I think 5 per cent sounds high, but
8 \$7 a year is the average and over that period, it is a
9 fairly reasonable transitional approach.
10
11 In terms of why we are meant to do that, within the
12 tariff structure there are, I guess two factors. The first
13 is that, in some cases we don't always recover charges
14 under current tariff structures. What that means for a
15 small customers is that in a competitive market,
16 competitors would take those customers that are more
17 profitable, which from a business perspective is not ideal;
18 but that being said we would have a transitional change
19 certainly.
20
21 The second point is around the fees and charges and
22 those sorts of things, those turn-ons and turn-offs. I can
23 get back to you on this if you like, but I would imagine
24 that is because we actually receive distribution fees and
25 charges that will attach to those services to the
26 distributors of both those fees and charges. The issues
27 around fixed charges are, of course, a long-standing issue,
28 which is what drives the cross-subsidy at the moment. We
29 don't recover all of our operating costs from small
30 customers and the rebalancing is a move to slowly redress
31 that. None of that is not meant to suggest these are not
32 very real concerns, which is why we are adjusting our late
33 payment free proposal and why we are changing the
34 rebalance to what we think will be a small financial impact in
35 the price hike.
36
37 We do understand the issues around late payment fees
38 that have been discussed over a number of years. AGL is
39 not just looking at cost recovery. We are also looking at
40 trying to manage the costs that come from late payment.
41 Our drive is most certainly to ensure the customers are
42 either paying on time or given opportunities to go on to
43 instalment plans.
44
45 AGL has actually introduced a ramping up, a process of
46 sending an SMS to customers with mobile phones two days
47 before the late payment fee is incurred. That will give

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1 them two days to pay their bill. It will actually also
2 provide them with the opportunity to either pay their bill or
3 call AGL and enter into a payment arrangement, and by those
4 means, they can avoid the late payment fee. We also have
5 an extensive hardship program and we have a few exemptions
6 from the late payment fee that attach where the customer is
7 a hardship customer and where the customer has entered into
8 an instalment plan.
9
10 The idea is certainly not to drive hardship customers
11 into further hardship on the imposition of the upcoming fee.
12 The idea is to actually get them to contact us. We want to
13 drive that self-identification. Unfortunately it is very
14 hard to identify customers in hardship unless they contact
15 you. We are hoping this SMS procedure will drive that aim
16 a bit more effectively and we are certainly looking at
17 other means of engaging the customers over the period of
18 the debt cycle to try to prevent the occurrence of late
19 payment. We do hear your concerns, which, I guess, is why
20 we have structured the rebalancing of the late payment fee
21 as we have. Did that address all of your issues?
22
23 MR DODDS: Yes - well --
24
25 MS GRIGGS: In terms of the confusion around the tariff
26 rebalancing, I totally get the confusion because it is
27 confusing. Those tariff block structures are enormously
28 confusing. We would be very happy to seek to provide
29 something --
30
31 MR DODDS: In the paperwork it just had a figure, gas
32 costs. Then it had fixed charge and it just had a
33 structure. There was no number. So it looked like both
34 business and residential were paying the same. There was
35 no indication in the issues paper that that was part of the
36 proposal until we actually saw that and then tried to dig
37 out why business prices were staying the same and
38 residential prices were going up. It was actually
39 difficult to identify that it was the fixed charge for a
40 while.
41
42 Could I ask a question. You're saying average \$7,
43 that's on the 23 gigajoules per year. Again the point we
44 make is that for the lower consumers, that is in fact
45 higher than \$7.
46
47 MS GRIGGS: I am just looking at my analyst down the back

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1 there, who tries very hard to stay in the background.

2
3 MR GOH: If I can just clarify for you, the average
4 customer uses about 23 gigajoules, the \$7 is the CPI
5 increase. So for that category of customer, it is based on
6 the increase of the CPI.

7
8 MS GRIGGS: We can probably provide EWON and PIAC, if
9 you're interested, with a breakdown on the levels of
10 exemptions, but the difference - \$7 is the level.

11
12 THE ACTING CHAIRMAN: Are there any other questions
13 or comments to AGL from people sitting at the table first?

14
15 Would anyone sitting at the back of the room like to
16 make a further comment? Thank you very much.

17
18 Can we now move on to ActewAGL.

19
20 ActewAGL

21
22 MS RAZZAQ: I apologise for being late. There were plane
23 issues coming out of Canberra and my plane was delayed by
24 an hour.

25
26 Just by way of introduction, I am the general manager
27 of retail from ActewAGL. I would like to thank IPART for
28 arranging this public forum today. Similar to AGL we are
29 pleased that IPART is conducting an open, transparent
30 process and we appreciate the opportunity to be here today
31 to discuss our proposal.

32
33 Before I get into the details of the submission, I
34 thought I'd just give everyone a background about ActewAGL
35 retail. ActewAGL is based in the ACT where we supply
36 electricity and gas services to the ACT and the surrounding
37 region. In New South Wales, we currently supply 23,000 gas
38 customers in areas such as Queanbeyan, Young, Yass,
39 Goulburn and the Shoalhaven shire. Out of those 23,000
40 customers, 17,000 are on a regulated retail gas tariff and
41 will be directly affected by IPART's review for the next
42 three-year period.

43
44 Generally ActewAGL supports IPART's review, particularly
45 the VTPA in the regulatory environment, ActewAGL
46 has proposed two major amendments to the VTPA
47 framework for the 2010 to 2013 period, the first one being

1 the ability to pass through any potential costs arising
2 from CPRS. However, I guess that is not as relevant
3 anymore, so we won't talk about that too much.

4
5 The second amendment proposed by ActewAGL relates to
6 the pass-through of the distribution network costs. Both
7 these costs are outside of each other's control. We
8 believe this represents an efficient and prudent response
9 in addressing these costs and we are pleased that the draft
10 decision by IPART allows this pass-through as well.

11
12 In terms of the pricing framework, we have submitted a
13 price path in the form of a bundled price path. What I
14 mean by a bundled price path is a price path which combines
15 the network and retail charge components. IPART, in its
16 draft decision, however, has decided only to regulate the
17 retail component and fully pass through the network
18 charges. Since this principally achieves what we wanted to
19 do, ActewAGL is comfortable with this approach also.

20
21 The price path that we submitted back in October
22 represented a small increase above CPI in the first year
23 and then based on the CPI thereafter. This was based on a
24 cost reflective assessment of our operating costs and also
25 our gas wholesale gas costs. In the draft decision IPART
26 accepted all of our costs except for our wholesale gas
27 costs. For those costs IPART has accepted MMA's
28 recommendation of \$7.10 per gigajoule.

29
30 As I mentioned earlier, we are a relatively small gas
31 player in New South Wales and in order to achieve economies
32 of scale, we have outsourced our wholesale gas purchasing
33 to AGL through our joint venture arrangements. We believe
34 if we were to purchase gas ourselves, the costs would be
35 higher than what we originally submitted to IPART. We have
36 provided IPART with the details of our actual costs and
37 have been transparent, and I guess will continue to discuss
38 this issue with IPART as part of the ongoing process.

39
40 Apart from the wholesale gas price and the price path,
41 I will just quickly touch on other parts of our submission.
42 With regard to tariff structures, we have not proposed any
43 changes to our existing structure and note that IPART has
44 accepted this.

45
46 In terms of unforeseen costs we are pleased that IPART
47 has maintained a special circumstances provision to deal

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1 with unforeseen events such as costs associated with
2 complying with new energy efficiency schemes. Finally in
3 terms of miscellaneous fees and charges, our proposal is
4 that the charges should be at least plus CPI and where we
5 incur a network charge, there should be a pass-through of
6 changes. Again I don't know whether IPART has raised any
7 concerns with that. That is our proposal in a nutshell. I
8 would be happy to take any questions if anyone has any.

9
10 THE ACTING CHAIRMAN: Thank you very much. Do you
11 want to talk about your issues as they affect ActewAGL?

12
13 MR DODDS: I have one more miscellaneous charge, but I'll
14 save that for Origin I think.

15
16 THE ACTING CHAIRMAN: Any other questions?

17
18 We obviously took a different view of costs from the
19 view that you did. Do you have any thoughts on that at
20 this stage, or is that something you would like us to take
21 up with you outside this meeting?

22
23 MS RAZZAQ: Our wholesale gas costs are confidential. We
24 are happy to reveal that on a confidential basis to IPART,
25 but it is something we are working on with AGL as a
26 wholesale provider and with IPART as an ongoing process.

27
28 THE ACTING CHAIRMAN: Thank you. Does anyone
29 sitting in the back of the room like to make a comment on
30 ActewAGL? Thank you very much.

31
32 We will now move on to Origin.

33
34 ORIGIN

35
36 MR WHISH-WILSON: May I say thank you to IPART for the
37 opportunity to speak here. This should be fairly short
38 given the draft decision. I would like to explain a few
39 things. As you will see, Origin is the standard retailer
40 for the Albury and Murray Valley regions in New South
41 Wales and we are talking about 20,000 customers.

42
43 I would first like to reiterate some comments made by
44 the other retailers. Origin found this a very light-handed
45 transparent process, which is very much appreciated given
46 the size of the network and the customers we are talking
47 about. It really is very much appreciated.

1
2 THE ACTING CHAIRMAN: Thank you.

3
4 MR WHISH-WILSON: Also Origin welcomes the introduction
5 of the N+R method. We have had some personal experience of
6 the bundled tariff situation, so we think this will work in
7 the next three years for the VTPA. We are also pleased to
8 see that IPART has, in the main, approved or accepted
9 Origin's proposal for their VTPA.

10
11 One thing stands out when you read the draft decision
12 and Origin's proposal. I know IPART has indicated that
13 there will be a catch-up for network charges. I thought I
14 would explain Origin's position in that regard. Given the
15 location of our customers in the Albury/Murray Valley area,
16 those customers actually receive their gas supplies from
17 the transmission and distribution networks under the
18 Victorian jurisdiction.

19
20 What has happened is in the last three years, from
21 2007 to 2010, the VTPAs mirrored beautifully the New South
22 Wales AER decisions so there were no surprises fortunately.
23 In Origin's case, the VTPA was set with a CPI increase on
24 the bundled tariff, but both GasNet transmission lines in
25 Victoria and Envestra's distribution networks had decisions
26 mid-period. They had very significant changes to their
27 prices. Origin has not pursued a pass-through in this
28 period, but now we are at the point where we require an
29 uplift in the 2010-11 year in order to get back to cost
30 reflectivity. IPART has recognised this and we appreciate
31 that. We have given IPART all the data.

32
33 Just as an indication, the GasNet tariffs in 2008 for
34 the Albury area went up by 80 per cent and they are 10 per
35 cent of our costs, despite our CPI. I know that one may
36 look at these tables and think that Origin's first year
37 looks startling, but that is the reasoning. It is purely a
38 catch-up for network changes and you will see that in the
39 following two years the transition is CPI+1 per cent in
40 line with other retailers.

41
42 Other than that, the only other thing that Origin has
43 changed in the VTPA is in line with other retailers' N+R
44 method, the ETS or CPRS, which we will not have to be
45 concerned about, and also fees and charges, which I am sure
46 Chris Dodds might want to ask about.

47

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1 Our \$12 late payment fee is inserted - as AGL said -
2 for consistency with Origin's late payment fee across the
3 jurisdictions, and that is based on our costs. I agree with
4 AGL that part of that cost is caused by the late payment.
5 Also part of that cost is a result of the non-communication
6 with customers who get in this situation. Origin,
7 therefore, welcomes both the inclusion of the hardship
8 program and omission from late payment and also as
9 indicated on a case-by-case basis by the Ombudsman. You
10 have to consider that Origin as a retailer also does
11 case-by-case late payment fees, so they are considered.
12

13 Another thing I wish to bring up, and I know IPART has
14 noted this but it probably is not clear, is that that \$12
15 late payment fee has meant, for example, a 1 per cent
16 reduction in every customer's bill in the Albury/Murray
17 Valley area. So there are pros and cons when you argue
18 these late payment fees. I would be happy to answer any
19 other questions.
20

21 THE ACTING CHAIRMAN: Thank you very much. Are
22 there any questions and comments to Origin?
23

24 MR DODDS: I have a general comment in terms of fees and
25 charges again. It is about consistency across the board
26 and hopefully moving to national regulations and seeing a
27 bit more of this. At this point in time we are talking
28 about consistency in New South Wales, and the concern that
29 this is an industry that is being encouraged to be
30 competitive, but there are very small margins to be
31 competitive within price, which means having to have a
32 whole range of attractions, whether it be public image,
33 lots of advertising, or whatever. We have seen this in
34 other similar industries where there is not a huge amount
35 of room for movement in actual prices, in particular
36 telecommunications, just going down, but they match each
37 other in prices on the whole. In telecommunications and
38 banking, we have seen a really significant move in the last
39 10 years to generate a whole lot more income through fees
40 and charges. With gas there is an account opening fee.
41 There is not with electricity. We are seeing a trend for a
42 whole range of new charges being brought in.
43

44 We have been communicating with a couple of major
45 suppliers about new procedures they have introduced for
46 account closing fees for standard customers, some of which
47 we would argue actually breach the AER and the previous

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1 IPART determination about charging for a special meter
2 reading fee on a move-out, but also requesting
3 disconnection on move-outs, which is an added charge.
4

5 We do see a trend in energy industries to follow the
6 direction of banking and telecommunications to move to a
7 whole lot of fees and charges while trying to lower the
8 basic price. We think it is more appropriate in an
9 essential service that the cost of doing business be
10 reflected in the price that customers pay rather than in a
11 whole number of additional fees and charges, which we would
12 argue adversely impact on those customers least able to
13 manage their own affairs. In general terms we are just
14 making that comment and probably will in our submission.
15

16 THE ACTING CHAIRMAN: Thank you. Do you want to
17 respond to that or --
18

19 MR DODDS: It is a general comment.
20

21 MR WHISH-WILSON: It is a general comment.
22

23 MR HAMILTON: I am happy to make an impartial comment
24 as an independent retailer in between the retailers. The user
25 pays; those fees represent the costs imposed by that group
26 of consumers. The question is the extent to which you
27 smear it across the customer base. Patrick said there is a
28 1 per cent decrease for those other consumers. There is a
29 legitimate argument that the costs should fall on those
30 consumers who incur those costs. As to the extent to which
31 those costs are smeared across other users, there is an
32 important equity consideration there as well. I think that
33 is fundamental to the argument.
34

35 MR WHISH-WILSON: And that is changing yearly too as
36 some of these things might not have been costs to retailers
37 years ago, but now costs are getting quite large.
38

39 MR HAMILTON: Consumers in financial difficulty should
40 do everything they can to pay their bills on time; otherwise
41 others would be carrying the costs of consumers who don't.
42 It is difficult for society to deal with those sorts of
43 questions generally, but that's the challenge we face.
44

45 THE ACTING CHAIRMAN: I guess the argument is that
46 these fees particularly adversely affect low income consumers
47 who are being disadvantaged by rising bills in general. That

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1 is why it is a difficult issue.
2
3 MR HAMILTON: Chris raised a number of issues in terms of
4 connection and disconnection. Generally it's a broader
5 issue than that, I think.

6
7 MR DODDS: We are saying that these are issues that
8 IPART needs to take into account when making any decisions
9 on changing or introducing new fees, changing fees,
10 et cetera.

11
12 MR HAMILTON: Generally with a late payment the easiest
13 thing for a customer to do is pick up the phone. I don't
14 know of any retailer who would charge a customer who rings
15 up and says, "I'm having trouble paying my bill." That's
16 the easiest thing to do - pick up the phone.

17
18 THE ACTING CHAIRMAN: Thank you. Are there any
19 other
20 comments?

21 MS GRIGGS: When fees are charged there is a cost
22 pass-through consideration. We are seeking to engage with
23 our customers and to identify those customers who are
24 having trouble paying their bills. I'll put my hand up; I
25 actually pay my bill late quite often just because I am a
26 bit disorganised. So distinguishing me from other people
27 is actually not easy. We are really trying to focus on
28 drawing out those customers who are having difficulty and
29 inviting them to contact us. It is not a perfect method,
30 but we are seeking to get better at it.

31
32 THE ACTING CHAIRMAN: Are there any other comments?
33 Would anyone sitting in the back of the room like to make a
34 comment at this stage? Thank you.

35
36 Let us move on then to Country Energy.

37
38 COUNTRY ENERGY

39
40 MS LINDSAY: Firstly, thank you, Jim, for the opportunity
41 to speak today. Like other retailers here today I wish to
42 congratulate you on the process that you have employed to
43 conduct this review. In terms of our proposed VTPA, it
44 does not differ too greatly from the other proposals by the
45 standard retailers. We also propose CPI increases to the R
46 component of our tariffs. Network charges were also to be
47 passed through directly to customers.

1
2 The next point is less relevant, but that is the C
3 component and the carbon pollution reduction scheme.
4 Moving forward, three years is a long time. A lot can
5 happen, so we would like to see that included for any carbon
6 reduction initiatives.

7
8 The special circumstances clause has been quite
9 important during the last period. We are pleased that has
10 been retained and that was one of our proposals.

11
12 Our non-tariff fees and charges probably do differ
13 from the other standard retailers where we have to align
14 them with the electricity determination, and that's for
15 obvious reasons. We are predominantly a state-based
16 electricity supplier and only have 23,000 gas customers in
17 the southern part of New South Wales.

18
19 With regard to the form of regulation in the VTPA, we
20 find it to be an effective form of light-handed regulation.
21 That is probably something we would like to see in the
22 electricity world at some point. We believe the current
23 framework is well understood and provides a sound
24 mechanism to maintain prices at cost reflective levels.
25 We also believe that VTPAs do help the objective of reducing
26 reliance on regulated retail tariffs for customers with a view
27 to phasing out regulated pricing and moving towards
28 competition, and again we do support using the WAPC for
29 the R component and the pass through of network charges.

30
31 In terms of the costs of supply, I don't think many
32 aspects of this have been touched on today but we do not
33 disagree greatly with IPART's draft decision. We believe
34 the retail operating cost is in line with what we believe
35 an efficient retailer would have as a retail operating
36 cost. We also believe the retail margin is appropriate and
37 we also support the methodology employed by MMA in
38 terms of determining the wholesale gas costs. We don't have
39 any issues there. Finally, the network charges are a
40 non-controllable cost and having that as a direct
41 pass-through is an important feature of the VTPA in our
42 proposal and IPART's draft decision.

43
44 Risks and uncertainties and the N+R+C formula: As I
45 said before, the carbon pollution reduction scheme is less
46 relevant, but we would like to see the C component retained
47 for any potential changes or anything that may happen over

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1 the next three-year period.
2
3 There are special circumstances provisions and we
4 support their inclusion going forward, because one of the
5 most important components of the VTPA is to make sure prices
6 can remain at cost reflective levels particularly if
7 something unusual happens. No-one has a crystal ball; so
8 it is a fail-safe mechanism.

9
10 In terms of some benchmarking and this is probably
11 good for Origin Energy, our price does compare favourably
12 with the other standard retailers - 30,000 units. For
13 business customer we also still compare quite favourably.

14
15 On a final note in terms of customer impact, I know a
16 lot of retailers do have hardship programs. In addition to
17 the Government assistance measures and also the community
18 organisations that work with customers, we also operate our
19 hardship program Country Support. It has been in place for
20 quite a number of years. It is a program that we are very,
21 very proud of. It has been really successful. We have
22 helped over 13,000 customers during that time. We
23 currently have more than 3,000 customers that we work with
24 continually on the program and this is an important
25 mechanism to help customers in hardship going forward.

26
27 Are there any questions?

28
29 THE ACTING CHAIRMAN: Thank you. Are there any
30 comments or questions for Country Energy from those sitting
31 at the table?

32
33 Anyone at the back of the room? Thank you very much.

34
35 CLOSING REMARKS

36
37 THE ACTING CHAIRMAN: I think it just remains for me
38 then to close the session. I think what I got out of it is sort
39 of this general endorsement of the approach that IPART has
40 taken, so thank you for that. An interesting discussion on
41 issues relating to fees and charges and to hardship that we
42 will need to consider further, I think.

43
44 Please remember that submissions on the draft report
45 are due on the 14th of May and all submissions, comments,
46 questions should be made directly to IPART. Anyone with
47 any questions regarding how to make a submission should

1 contact Aaron Murray, sitting over on my left here, from
2 the IPART secretariat.

3
4 The next stage of the review is the release of IPART's
5 final report, which will be in mid-June 2010 and we'll need
6 to release the report in mid-June so that new prices can
7 come into effect by the 1st of July. Obviously that's a
8 fairly tight timetable, so we do ask people to ensure their
9 submissions are received by the due date, which is 14 May.

10
11 The transcript of today's proceedings will be
12 available on IPART's web site in a few days time and thank
13 you very much for coming.

14
15 AT 11.09AM THE TRIBUNAL ADJOURNED
16 ACCORDINGLY

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