

FACT SHEET

Regulated retail gas prices from 1 July 2014 to 30 June 2016

23 April 2014

IPART today released its draft report on regulated retail gas prices in NSW for the period 1 July 2014 to 30 June 2016. Under our draft decisions, average regulated retail prices can increase by between 14.4% and 19.4% over the next 2 years depending on the supply area.

These price increases will affect small gas customers¹ who remain on regulated prices after 1 July 2014. More than 75% of small gas customers are no longer on regulated prices and have instead chosen to enter into a market contract with a gas retailer.

How does IPART regulate retail gas prices?

For the past 10 years, we have regulated retail gas prices using a relatively light-handed approach that involves making multi-year pricing agreements (known as Voluntary Pricing Arrangements) with each Standard Retailer (AGL, ActewAGL and Origin Energy). This reflects the significant level of competition in the retail gas market.

The Standard Retailers then set their own regulated prices to comply with these agreements, and we monitor their compliance. In 2013, we reached new pricing agreements with the Standard Retailers, for the period 1 July 2013 to 30 June 2016.

In line with these agreements, the Standard Retailers submitted their original pricing proposals for 2014/15 and 2015/16 to us in February 2014. Revised proposals were submitted in March 2014. In reaching our decision to accept the retailers' revised proposals, we assessed them to ensure they reflect reasonable efficient costs of supply. We took into account stakeholder comments on the proposals, and considered how well the proposals would meet the objectives of the *Gas Supply Act 1996*, including protecting the interests of customers and encouraging development of the competitive market.

¹ Small gas customers are those that consume less than 1,000 gigajoule (GJ) per year.

What are the price changes for each Standard Retailer?

Our draft decision is to accept the proposed increases in regulated gas retail prices from 1 July 2014 to 30 June 2016 as shown in Table 1.

Table 1 IPART's draft decision on regulated average retail gas price increases from 1 July 2014 to 30 June 2016 (including inflation, %)

Standard Retailer	2014/15	2015/16	cumulative
AGL (Greater Sydney region and inland NSW)	16.9%	0.7%	17.6%
ActewAGL (NSW/ACT border and Shoalhaven)	17.0%	0.4%	17.5%
Origin Energy (Albury/Murray Valley)	18.6%	-3.4%	14.4%
Origin Energy (Wagga Wagga)	21.8%	-2.0%	19.4%
NSW average	17.6%	-0.03%	17.5%

Why are gas prices increasing?

The main driver for price increases is structural changes in the wholesale gas market, including increased exposure to the international gas market.² Higher wholesale gas prices, combined with relatively small changes in other retail costs, account for the majority of the retailers' overall proposed price increases for 2014/15.

The allowed increases in regulated retail gas prices follow increases in prices in 2012/13 and 2013/14³. The main reason for these past increases were sustained rises in network costs. Further increases in network costs contribute to some of the approved increases in regulated prices from 1 July 2014. This is particularly the case for AGL and ActewAGL's capital region, which will see a further rise in network costs on 1 July 2014.

All 3 Standard Retailers have included the legislated increase in the carbon price from 1 July 2014. This accounts for a very small share of the increase in prices in 2014/15. However, there are no carbon costs in regulated prices from 1 July 2015, in line with the Commonwealth Government's commitment to removing the carbon price.⁴

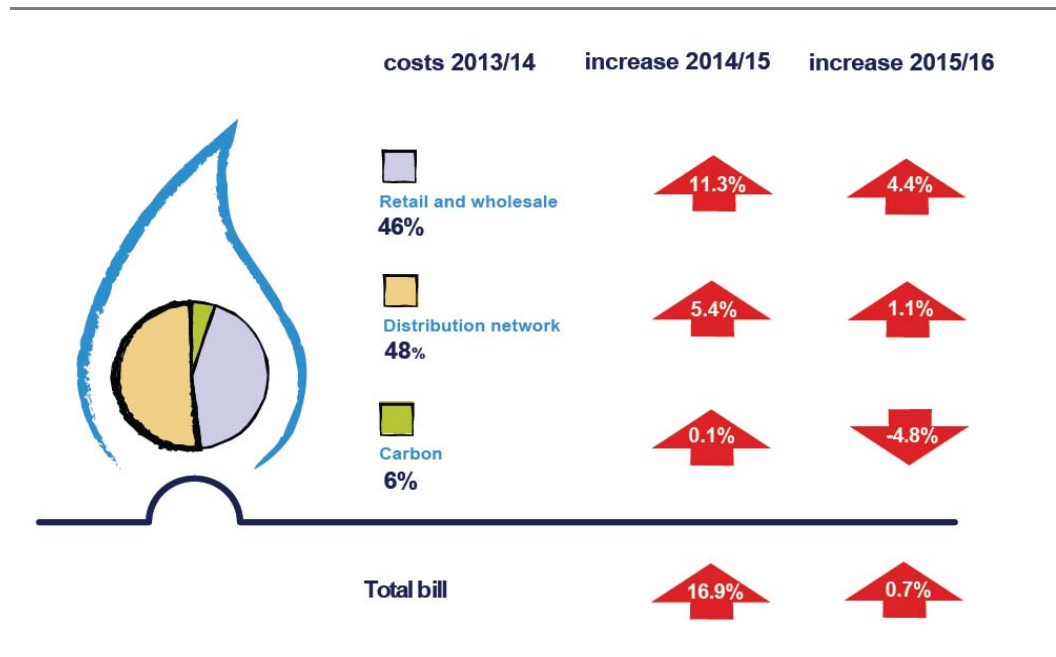
² The development of liquefied natural gas (LNG) export facilities on the eastern coast of Australia means that Australia's domestic gas market will increasingly be influenced by the international market. However, there is still significant uncertainty around the impact this will have on gas prices in the domestic market.

³ Average regulated retail gas prices in NSW increased by 14% on 1 July 2012, and another 8.5% on 1 July 2013.

⁴ Our regulatory framework allows for the carbon component to be removed from regulated prices should the carbon price be repealed during 2014/15. If repeal of the carbon price does not take effect by 1 July 2015, the carbon price for 2015/16 is unknown. In this case, we will agree with the Standard Retailers an approach to estimating the appropriate carbon component of regulated retail prices for 2015/16.

Figure 1 illustrates the cost components that make up AGL's bills in 2013/14, and shows how changes in the different components results in an overall increase in the regulated retail gas price of 17.6% by 30 June 2016.

Figure 1 Drivers of increase in AGL's average regulated retail gas prices from 1 July 2014 to 30 June 2016 (including inflation, %)



What will be the impact on typical gas customers' bills?

Tables 2 and 3 illustrate the potential impact of the price increases on residential and business customers' bills respectively.

Table 2 Indicative bill increases by 30 June 2016 for typical residential customers (including inflation and GST)

Standard Retailer	Current bill (2013/14)	Estimated bill (2014/15)	Estimated bill (2015/16)	\$ increase over 2 years
AGL	901	1,053	1,060	159
ActewAGL	1,292	1,512	1,519	226
Origin Energy (Albury/Murray Valley)	933	1,105	1,067	135
Origin Energy (Wagga Wagga)	1,027	1,251	1,225	199

Note: This assumes a typical customer uses 23GJ, 45GJ, 45GJ, and 37GJ of gas per annum in the AGL, ActewAGL, Origin Energy (Albury/Murray Valley) and Origin Energy (Wagga Wagga) areas. Impact on bills includes GST.

Table 3 Indicative bill increases by 30 June 2016 for typical business customers (including inflation, excluding GST)

	Current bill (2013/14)	Estimated bill (2014/15)	Estimated bill (2015/16)	\$ increase over 2 years
AGL	4,201	4,910	4,942	741
ActewAGL	4,997	5,845	5,871	875
Origin Energy (Albury/Murray Valley)	3,295	3,906	3,771	476
Origin Energy (Wagga Wagga)	3,503	4,267	4,181	678

Note: This assumes a typical customer uses 184GJ, 246GJ, 209GJ and 231GJ of gas per annum in the AGL, ActewAGL, Origin Energy (Albury/Murray Valley) and Origin Energy (Wagga Wagga) areas. Impact on bills excludes GST.

How can I get a better deal on my gas service?

Depending on where you are located, there may be a number of market offers for gas available from your current or other gas retailers. To learn more about energy offers in your area, please visit www.energymadeeasy.gov.au, or you can telephone the retailers directly.

How can I have a say before IPART makes its final decision?

We will hold a public forum on 13 May 2014. Stakeholders are invited to respond to our draft report by 21 May 2014. Late submissions may not be accepted.

You can make a submission online at:

www.ipart.nsw.gov.au/Home/Consumer_Information/Lodge_a_submission

You can also send comments by mail to:

2014 Review of regulated retail gas prices
Independent Pricing and Regulatory Tribunal
PO Box Q290
QVB Post Office NSW 1230

We will release a final report in June 2014 with regulated gas prices to increase on 1 July 2014.