

FACT SHEET

Change in regulated retail gas prices from 1 July 2015

June 2015

Across NSW, regulated retail gas prices will **decrease** by an average 3.9% (including inflation) on 1 July 2015. Across Standard Retailers, the average change in regulated prices will vary – ranging from a **decrease** of 6.6% for AGL to an **increase** of 4.2% for Origin Energy's Albury/Murray Valley supply area (Table 1).

Table 1 Change in average regulated retail gas prices from 1 July 2015 (% , nominal)

Standard Retailer	Supply area	Residential customers	Small business customers	Overall
AGL	Sydney, Wollongong, Newcastle, Dubbo, Orange, Parkes and parts of the Riverina region	-7.3%	-1.1%	-6.6%
ActewAGL	NSW/ACT border and South East NSW including Shoalhaven	1.1%	2.9%	1.4%
Origin	Albury, Murray Valley area	3.9%	5.5%	4.2%
Origin	Wagga Wagga and Tamworth area	3.6%	3.6%	3.6%
NSW				-3.9%^a

^a Overall change for NSW is an average weighted by sales volume.

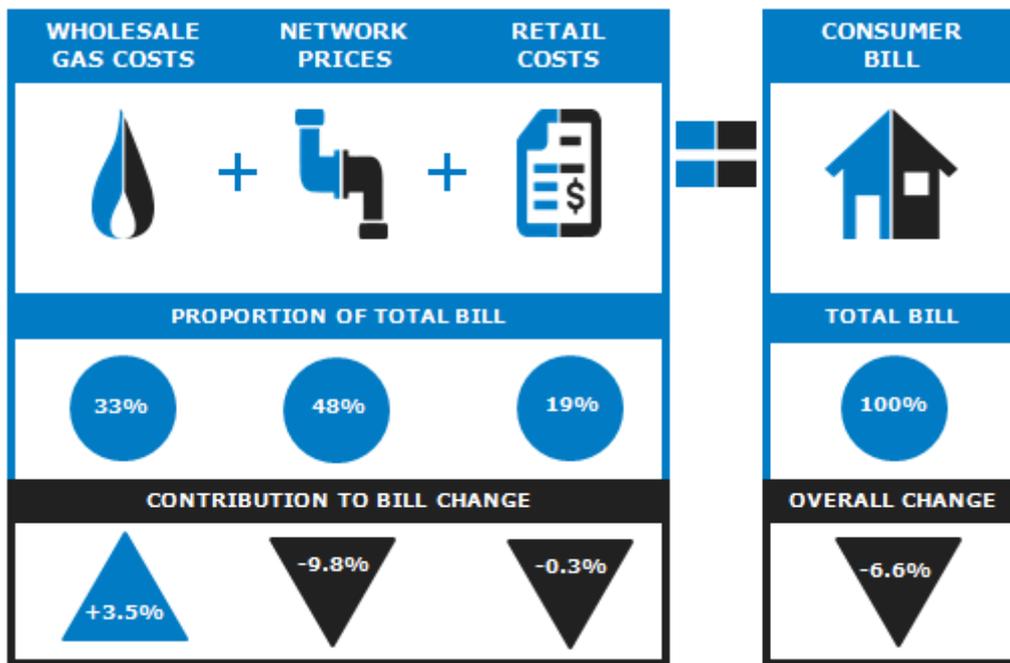
Source: AGL, ActewAGL, Origin Energy and IPART calculations.

The reason AGL's average regulated price will decrease is that Jemena's network prices in its supply area will decrease substantially in 2015-16. The decrease in Jemena's network prices is greater for residential than for small business customers. As Figure 1 shows, network prices make up about half the total gas bill for AGL customers on regulated retail prices. This component of the bill will contribute to around an average 10% reduction in the total gas bill in 2015-16, more than offsetting the increase in wholesale gas costs.

In comparison, network prices in both Origin Energy’s supply areas and part of ActewAGL’s supply area¹ will increase moderately, while the other bill components will change broadly in line with AGL’s.

As AGL supplies around 80% of customers on regulated retail gas prices in NSW, most regulated customers should see a decrease in their annual gas bills in 2015-16.

Figure 1 Gas price components and their contribution to the change in AGL’s average regulated retail gas price in 2015-16 (nominal, %)



Note: The average price change for AGL includes residential and small business customers.

Data source: IPART, based on information provided by AGL.

The sections below provide some context for this update of regulated retail gas price changes in 2015-16, and then discuss the key drivers of these changes and their impact on customer bills in more detail. The schedule of the approved prices is available on our website.

¹ Some ActewAGL’s gas customers are supplied by the Jemena distribution network which also supplies AGL customers. Like AGL customers, these customers will also experience a reduction in the total bill due to lower network prices.

1 Context for this price update

Most residential and small business gas customers in NSW pay **unregulated** retail prices, which are set by the competitive market. However, around 21% have not yet moved to the competitive market.² These customers are supplied by the Standard Retailer in their area (AGL, ActewAGL or Origin Energy), and pay retail prices regulated by IPART.

In June 2014 we made a decision on the average changes each Standard Retailer could make in these regulated retail prices for the next two years, after an extensive public consultation and review process. We assessed the Standard Retailers' proposals against our own estimate of the change in the efficient costs of supplying gas over the two-year period – including wholesale gas costs, network prices and retail costs. We decided regulated retail prices could increase by an average of 11.2% across NSW in 2014-15, and by a further average of 4.2% in 2015-16.³ We also undertook to update our decision on the average price changes in 2015-16 in June 2015 to take account of the latest information on gas network prices and forecast inflation.

2 Key drivers of price changes in 2015-16

We have now completed our update on average price changes in 2015-16. We have incorporated the final approved network prices to apply in each retail supply area in 2015-16. This includes the prices set by the Australian Energy Regulator's (AER's) recently released final determination for Jemena (which owns the gas network in AGL's area and part of ActewAGL's area). We have also adjusted the average price change for each Standard Retailer to reflect the most recent inflation forecast.⁴

As indicated above, as a result of this update the average change in regulated retail prices in 2015-16 will range from a decrease of 6.6% on average in AGL's area to an increase of 4.2% in Origin Energy's Albury/Murray Valley supply area. The main drivers of these price changes are wholesale gas costs and network prices:

- ▼ Wholesale gas costs are rising across NSW, putting upward pressure on regulated retail gas prices in all retail supply areas.

² As at June 2014 based on information provided by AGL, ActewAGL and Origin Energy.

³ The average increases of 11.2% in 2014-15 and 4.2% in 2015-16 account for the repeal of the carbon pricing mechanism. Our final decision on average regulated retail gas prices in June 2014 was revised down in August 2014 following the repeal of the carbon pricing mechanism. See IPART, *Fact Sheet - Removing carbon costs from regulated gas prices*, August 2014, p 2.

⁴ Our June 2014 decision on the average price changes for 2015-16 reflected the forecast inflation for this year available at the time of the decision. We have updated the price changes to reflect the latest available forecast inflation for the year.

- ▼ Network prices are falling substantially in AGL's area and part of ActewAGL's area (the Capital region in NSW). This fall is much more than expected when we made our June 2014 decision, and more than offsets the impact of rising wholesale gas costs in these areas. In ActewAGL's Shoalhaven area and the two Origin Energy areas, network prices are rising moderately, adding to the impact of rising wholesale gas costs.

Forecast inflation is lower than expected when we made our June 2014 decision – 1.3%⁵ rather than 2.5% – and this has slightly reduced the upward pressure on regulated retail prices in 2015-16 relative to the June 2014 decision. Retail costs have remained relatively steady.

2.1 Wholesale gas costs

Wholesale gas costs are one of the major cost components recovered in regulated retail gas prices, and represent around a third of a typical residential gas bill in NSW. They include gas commodity and transmission costs, the costs of meeting peak demand and market-related costs.

When we made our June 2014 decision, we estimated that these costs, particularly gas commodity costs, would increase substantially in 2014-15 and more moderately in 2015-16 due to changes in the eastern Australian gas markets. One of the most significant changes was the commencement of liquefied natural gas (LNG) exports from Queensland, which gives gas producers the option to sell gas into Asia where prices are higher than historical local prices.⁶ This means Asian LNG prices will be an important factor influencing domestic gas prices.

We recognised there was uncertainty about how fast and far wholesale gas costs would rise. However, we took the view that if these costs rise less than forecast, competition would ensure that retailers' market prices reflect the lower wholesale gas costs. Customers on regulated prices could move on to a market contract to access these lower prices.

Given this, we did not undertake to update the wholesale gas costs component of regulated retail gas prices in 2015-16. Nevertheless, we have looked at the developments in the gas market since our June 2014 decision to confirm that our view remains reasonable.

⁵ March 2014 to March 2015, Australian Bureau of Statistics, *All Capitals Consumer Price Index* 6401.0

⁶ For more discussion on the internationalisation of gas markets see IPART, *Changes in regulated retail gas prices from 1 July 2014 – Final Report*, June 2014, pp 14-15.

We found that the recent fall in oil prices may reduce domestic wholesale costs for some retailers. This development has reduced Asian LNG prices that are linked to the oil price, as well as some domestic contract prices that are explicitly linked to oil prices. However, depreciation of the Australian dollar against the US dollar over the same period is likely to have partly offset any such cost reduction. In addition, where retailers have domestic contract prices that are not explicitly linked to oil prices, there are unlikely to be any wholesale cost reductions in response to the fall in oil prices in 2015-16.⁷

There have also been changes in the outlook for domestic supply and demand for gas in 2019 and 2020.⁸ However, in our view these changes will not significantly affect wholesale gas costs in 2015-16.

On balance, we are satisfied that the allowance for wholesale gas costs included in the updated regulated retail gas prices in 2015-16 remains appropriate and reflects the efficient costs faced by a new entrant retailer. We maintain the view that if retailers can meet their efficient wholesale gas costs for less than allowed for in the regulated prices, competition will ensure that the prices offered in the competitive market reflect these lower costs.⁹ The free comparison service, Energy Made Easy, indicates that currently, some retailers are offering discounts in excess of 10% off the variable charge included in the regulated price.¹⁰

2.2 Network prices

The gas distribution networks across NSW charge retailers for using the network to deliver gas to their customers. Retailers pass the network prices directly through to customers in their retail gas bill, and they typically make up around half of the total bill. We have updated the network prices component of regulated retail gas prices in 2015-16 to reflect the final network prices for this year (which weren't known at the time of our June 2014 decision).

⁷ The lower than forecast oil prices will likely need to persist for some time before they will affect these contract gas prices, as in most cases the prices are only adjusted after a periodic review. Recently oil prices have been trending up again. U.S. Energy Information Administration <http://www.eia.gov/dnav/pet/hist/LeafHandler.ashx?n=p&s=rbrte&f=m> accessed 11 June 2015.

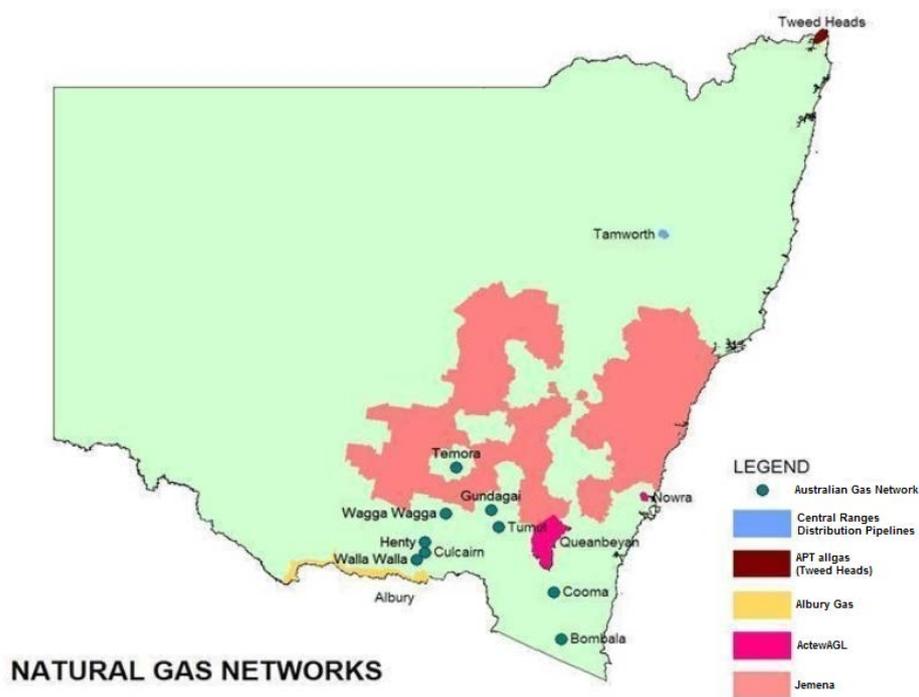
⁸ The Australian Energy Market Operator (AEMO) updated its projections for gas supply and demand in the coming years. Whereas it previously projected supply gaps in NSW in 2019 and 2020, it now expects there will be no supply gaps. See AEMO, *Gas Statement of Opportunities for South-Eastern Australia*, April 2015, p 6.

⁹ IPART, *Changes in regulated retail gas prices from 1 July 2014 – Final Report*, June 2014, p 26.

¹⁰ As at 1 June 2015 (Energy Made Easy, <https://www.energymadeeasy.gov.au/>, accessed 1 June 2015).

There are several gas distribution networks in NSW (Figure 2), and each of the Standard Retailers operates in one or more of these network areas. The largest is the Jemena Gas Network, which covers Sydney, Wollongong, Newcastle, Dubbo, Orange, Parkes and parts of the Riverina. As indicated above, AGL is the Standard Retailer that operates in this network area, and supplies gas to around 80% of all customers on regulated retail prices. Network prices in most network areas are regulated by the AER – only those in the Shoalhaven and Wagga Wagga and surrounding areas¹¹ are not regulated.

Figure 2 NSW/ACT gas network areas



Note: IPART does not have a pricing agreement that covers the Tweed Heads network. This is part of the south-east Queensland distribution network area.

Data source: Adapted from NSW Trade & Investment, Resources & Energy, *Gas connections*, <http://www.resourcesandenergy.nsw.gov.au/energy-consumers/energy-providers/household-gas-connections>, accessed 25 May 2015.

¹¹ Note that for simplicity in this fact sheet we refer to Australian Gas Networks shown in Figure 2 collectively as ‘Wagga Wagga and surrounding areas’.

Table 2 Gas distribution network suppliers for each supply area

Standard Retailer	Gas distribution network supplier	Average network price change in 2015-16 (including inflation)
AGL	Jemena	-20.2%
ActewAGL	Jemena (Capital region NSW)	-17.4%
	ActewAGL (Queanbeyan)	0%
	ActewAGL (Shoalhaven)	2.5%
Origin Energy	Australian Gas Network (Wagga Wagga and surrounding areas) ^a	2.5%
	Australian Gas Network (Albury/Murray Valley) ^a	2.5%
	Central Ranges Distribution Pipeline (Tamworth)	1.3%

^a Australian Gas Network was previously known as Envestra.

Source: AGL, ActewAGL and Origin Energy based on final network prices in 2015-16.

Each gas distribution network's prices are changing by different amounts in 2015-16 (Table 2), and this is the main reason for the variation in the average retail price changes across Standard Retailers:

- ▼ Jemena's network prices will decrease in line with the AER's recent final decision on Jemena's access arrangement for 2015-20. This decision resulted in an average network price reduction of 20.2% and 17.4% in 2015-16 in nominal terms for AGL and ActewAGL respectively. More information about the AER's decision can be found on its website.¹²
- ▼ ActewAGL's Queanbeyan network prices will not change, as the AER has granted ActewAGL an extension to propose a new access arrangement for this network.¹³ Network prices in the Shoalhaven are increasing by an average 2.5% in nominal terms.
- ▼ The Australian Gas Network's Wagga Wagga prices (which are unregulated)¹⁴ will increase by an average 2.5% in nominal terms.
- ▼ The Australian Gas Network's prices in Albury and Murray Valley and Central Ranges Distribution Pipeline's price in Tamworth will increase by around the rate of inflation in 2015-16 based on access arrangements. In 2015-16 Origin Energy has changed the structure of its regulated retail prices in the Albury/Murray Valley area to reflect the underlying network price structure.

¹² AER, *Jemena Gas Networks (NSW) - Access arrangement 2015-20*, <http://www.aer.gov.au/node/24741>, accessed 11 June 2015.

¹³ ActewAGL's current access arrangement is due to end on 30 June 2015. However, the AER has granted an extension to the submission date for the next access arrangement until 30 June 2015. As a result of this extension, the network prices in force at 30 June 2015 will continue unchanged until 30 June 2016. AER, *ActewAGL (ACT, Queanbeyan and Palerang) - Access arrangement 2016-2021*, <http://www.aer.gov.au/node/26561> accessed 26 May 2015.

¹⁴ In April 2014, the NSW Government made a decision to revoke regulatory coverage of Australian Gas Networks' Wagga Wagga gas network. AER, *Wagga Wagga - gas distribution network*, <https://www.aer.gov.au/node/1369> accessed 26 May 2015.

3 Impact of price changes on typical customer bills

In Table 1 above we show the **overall** average change in each Standard Retailer's regulated retail gas prices in 2015-16. However, the impact of changes in regulated retail prices for individual customers could be higher or lower than these average changes, depending on factors such as where they live, how much gas they use and when they use it.

In Tables 3 and 4 we summarise the change in annual customer bills for typical residential and small business customers in each gas supply area. These annual bills are based on typical annual consumption for customers in each supply area.

A typical annual bill for an AGL residential customer will **fall** by \$118 (or 11.7%) in 2015-16. As discussed above, this is largely the result of lower network prices in the Jemena network area. Similarly, a typical annual bill for an ActewAGL residential customer in the Capital area will fall by \$129 (or 9.7%) in 2015-16, as these customers are also in the Jemena network supply area. For residential customers in other network supply areas there will be a modest increase of between \$30 and \$63 in typical annual bills.

Table 3 Annual bill for typical residential customers (nominal \$, inc GST)

Standard retailer	Supply area	Annual usage (GJ)	2014-15 annual bill (\$)	2015-16 annual bill (\$)	\$ change	% change
AGL	Various ^a	23	1,009	891	-118	-11.7
ActewAGL	Capital region NSW	35	1,323	1,195	-129	-9.7
	Queanbeyan	35	1,142	1,195	53	4.6
	Shoalhaven	35	1,125	1,188	63	5.6
Origin Energy	Albury	44	1,013	1,054	41	4.1
	Murray Valley	31	1,066	1,097	31	2.9
	Wagga Wagga	42	1,266	1,313	47	3.7
	Tumut & Gundagai	26	1,025	1,058	33	3.2
	Culcairn, Holbrook, Temora, Henty, Walla Walla	23	910	940	30	3.3
	Cooma, Bombala	32	1,110	1,146	36	3.3
	Tamworth	17	961	997	37	3.8

^a AGL's supply area includes Sydney, Wollongong, Newcastle, Dubbo, Orange, Parkes and parts of the Riverina region.

Note: AGL and ActewAGL's annual bills are calculated based on even consumption across the year. Origin Energy's annual bills are calculated based on seasonally adjusted annual consumption. Numbers may not add up due to rounding.

Source: AGL, ActewAGL, Origin Energy and IPART calculations.

A typical annual bill for an AGL small business customer will **fall** by \$93 (or 1.8%) in 2015-16. The percentage reduction is not as significant as it is for AGL's residential customers, as Jemena's network prices are falling more for residential customers than for small business customers. A typical annual bill for an ActewAGL small business customer in the Capital area will fall by \$27 (or 0.4%) in 2015-16. In other supply areas typical annual bills for small business customers in 2015-16 will increase by between \$10 and \$393.

Around 21% of retail gas customers in NSW remain on regulated prices. Customers who remain on regulated prices can shop around to find a better offer in a market contract. There are currently discounts of over 10% off the regulated price available in market contracts.¹⁵

To help customers identify and compare the offers available in their supply area, the Australian Government provides a free energy price comparator service, Energy Made Easy.

Table 4 Annual bill for typical small business customers (nominal \$, inc GST)

Standard retailer	Supply area	Annual usage (GJ)	2014-15 annual bill (\$)	2015-16 annual bill (\$)	\$ change	% change
AGL	Various ^a	184	5,129	5,037	-93	-1.8
ActewAGL	Capital region NSW	246	6,333	6,306	-27	-0.4
	Queanbeyan	246	5,933	6,197	264	4.4
	Shoalhaven	246	6,663	7,026	363	5.4
Origin Energy	Albury	209	3,867	4,154	287	7.4
	Murray Valley	346	7,712	7,721	10	0.1
	Wagga Wagga	212	3,972	4,117	146	3.7
	Tumut & Gundagai	159	3,931	4,062	131	3.3
	Culcairn, Holbrook, Temora, Henty, Walla Walla	175	3,929	4,059	130	3.3
	Cooma, Bombala	306	7,300	7,550	250	3.4
	Tamworth	262	9,974	10,367	393	3.9

^a AGL's supply area includes Sydney, Wollongong, Newcastle, Dubbo, Orange, Parkes and parts of the Riverina region.

Note: AGL and ActewAGL's annual bills are calculated based on even consumption across the year. Origin Energy's annual bills are calculated based on seasonally adjusted annual consumption. Numbers may not add up due to rounding.

Source: AGL, ActewAGL, Origin Energy and IPART calculations.

¹⁵ For more information on these discounts go to www.energymadeeasy.gov.au.

4 Compliance statement

IPART has completed an assessment of the regulated retail gas prices and charges for 2015-16. Our assessment confirmed that:

- ▼ underlying network charges have been appropriately passed through into retail prices
- ▼ the retail components have changed by no more than that approved by IPART, and
- ▼ miscellaneous charges have changed by no more than agreed under the Voluntary Pricing Agreement.¹⁶

We are satisfied that the proposed prices and charges for 2015-16 are in compliance with the Voluntary Pricing Agreements and our updated final decisions. The approved prices and charges for 2015-16 are available on our website.

¹⁶ The Voluntary Pricing Agreements are available on IPART's website. http://www.ipart.nsw.gov.au/Home/Industries/Gas/Reviews/Retail_Pricing/Review_of_regulated_gas_retail_prices_2013_to_2016.