

Natural Gas Retail Prices - Deregulation

Prior to 1 July 2007, maximum natural gas retail prices (or tariffs) for **non-market** customers were approved each year by the Queensland Government.

Non-market customers are those that have not entered into a negotiated (or market) contract with a retailer of their choice.

Historically, the prices paid by many residential and other small consumers of natural gas were artificially low and did not reflect the full cost of their gas supply. Since 2005, the Queensland Government has gradually increased natural gas prices to align them better with the true cost of supply, and ease the price transition over time.

However, most retail prices for small customers as at 30 June 2007 still fell short of the costs of supply – an arrangement that was not sustainable and limited investment in new natural gas infrastructure.

Deregulation of Natural Gas Retail Prices

In November 2006, following extensive consultation with industry, community and consumer representatives, the Queensland Parliament passed legislation which provided for natural gas retail prices (or tariffs) to be deregulated from 1 July 2007. As a result, the regulated natural gas tariffs were revoked, effective 1 July 2007.

While there will no longer be government-set maximum prices, the price transition over the past two years has helped cushion the impact of a move to cost-reflective prices.

Gas retailers were required by law to publish new gas prices for **small**¹ non-market customers on their website by 25 June this year as well as notify the Queensland Competition Authority (QCA) and the Government.

Each gas retailer is also required to advise the QCA of any future change in the prices for non-market customers and publish the new prices on its website.

Also, if the change is an increase in prices, section 206 of the *Gas Supply Act 2003* states that the retailer must:

- publish a notice on its website at least 10 business days before the new price takes effect; and
- send the price notice to its small non-market customers with their next bill.

Benefits of Deregulation

In the past, a regulatory cap on the gas price has limited investment. By moving to a more sustainable pricing structure, the industry can invest in new natural gas networks with greater confidence. Gas distribution networks supplying homes and businesses are privately owned, not Government-owned assets, and therefore there must be incentive for private industry to invest in and expand the market.

More investment by industry is expected to lead to greater competition, which in turn is expected to deliver more competitive prices and improved services for customers. In the longer-term, a stronger gas market will mean better access to gas for small customers at competitive prices.

Remember, no pricing structure is static - prices can't remain the same forever, and energy prices have generally been reviewed annually. However, retailer pricing will be watched closely to check that any increases are reasonable and in line with the cost of supply.

¹ A small customer is one who consumes up to 1 terajoule (1 million megajoules) of natural gas per annum – an annual gas bill of approximately \$15,000.

Changes to Natural Gas Prices from 1 July 2007

The final price paid by gas customers includes a range of different costs, including:

- the cost of the gas;
- the cost of transporting the gas along transmission and distribution pipelines to individual customers; and
- retail costs.

While some of these costs are affected by the amount of gas consumed by a customer, some are essentially fixed – they are the same for all customers regardless of how much they consume (such as the cost of reading a customer's meter).

Much of the change in prices which took effect on 1 July 2007 has been in fixed costs. Retailers have amended their price structures to better reflect the true cost of supplying gas, which has resulted in an increased emphasis on fixed costs, offset to some extent by lower volume-based charges.

Putting the recent changes in perspective, for residential customers who have previously only paid minimum charges they range from a reduction in Origin Energy's Wide Bay area of about \$42 a year for the average customer, to an increase of between \$50 and \$60 a year (or about \$1.20 a week) for other Origin customers. AGL have advised an increase of about \$128 a year (\$2.60 a week) for their customers.

For a typical household with a gas hot water system the changes range from a reduction in Origin's Wide Bay area of about \$114 a year for the average customer, to an increase of between \$35 and \$40 a year (or about 80c a week) for other Origin customers. AGL have advised an increase of about \$97 a year (\$2.00 a week) for their customers.

Full Retail Competition

With the introduction of full retail competition in the natural gas market from 1 July 2007, all Queensland natural gas customers are entitled to choose which retailer to purchase their gas from. Customers should shop around to find a deal which best suits their needs, and may consider combining their electricity and natural gas accounts with the same retailer in a "dual fuel" package.

The requirement on retailers to publish their prices will provide transparency and certainty to residential and other small customers as they shop around for a retail contract that best suits them.

The QCA has set up an online "**price comparator**" to assist residential customers in comparing these prices with the deals available from retailers who are offering negotiated contracts. The price comparator can be accessed at www.qca.org.au.

More information on full retail competition, including the rights and protections available for individual customers, is available at www.thepowertochoose.qld.gov.au or by calling 1800 657 567 (freecall during business hours).

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