

Thursday 30 June 2011



2011 Review of Gas Standing Contract Prices

Final Price Determination

The Essential Services Commission of SA (the Commission) has today released its Final Price Determination in respect of the standing contract prices which Origin Energy Retail Ltd (Origin Energy) will be allowed to charge its South Australian gas standing contract customers over the next three years (1 July 2011 to 30 June 2014).

The standing contract is the retail gas contract that Origin Energy must offer to all South Australian small customers (residential and small and medium enterprise (SME) customers consuming less than 1TJ per annum). Less than 30% of all small gas customers now use the standing contract as the majority of customers have elected to switch to a market contract.

The gas standing contract price is built up from two components: network charges and retail charges. The network component consists of Envestra's distribution tariffs, and comprises approximately 55% of a typical residential bill. The retail component makes up the remaining 45%, and consists of Origin Energy's retailer tariffs which include the cost of energy and retail operating costs.

In this price-setting process, the Commission is only considering the retailer component of tariffs. The Australian Energy Regulator (AER) regulates the distribution components of gas network tariffs in South Australia.

The Commission's approach to fixing the standing contract price

In order to set the retailer component of tariffs at an appropriate level, the Commission examined the various costs that a prudent standing contract retailer faces:

- ▲ wholesale gas costs – that is, the cost of purchasing gas from gas producers;
- ▲ transmission costs – the cost of transporting gas via transmission pipelines to the gas distribution networks;
- ▲ retail operating costs – the cost of running a retail operation; and
- ▲ retail margin – which covers other retail costs such as working capital, depreciation and a return on assets.

Having considered a proposal put forward by Origin Energy, submissions from interested parties, and expert reports it has commissioned, the Commission's Final Decision sets a gas standing contract price path lower than that proposed by Origin Energy.

A key consideration for the Commission in this review has been whether the gas standing contract price should continue to be set based on the costs of a notional stand-alone gas retailer. The reality of how the gas market has developed in South Australia, since the advent of full retail competition in 2004, is that gas is typically marketed by dual-fuel energy retailers as the secondary fuel to electricity. There has been no gas-only retail market entrant to date, either in South Australia, or in any other Australian jurisdiction.

It is the conclusion of the Commission that no reasonable gas standing contract price could be set that would encourage a gas-only retail market entrant and that, whilst strong competition exists in the energy retail market, that competition is in the electricity-only and dual-fuel retailing markets.

For these reasons, the Commission has set the gas standing contract price based on the costs of a notional efficient dual-fuel retailer, and has reduced the allowance for gas customer acquisition costs to those related to marketing gas as a secondary fuel on a dual-fuel acquisition basis.

The Commission's cost assessment

Tables 1 & 2 show the increase in standing contract prices for small customers under the Commission's Final Price Determination, based on different usage levels, and incorporates both retailer and network charges, and inflation at a CPI rate of 3.33%.

Table 1 – Indicative annual bill impact of the Commission's Final Price Determination on residential customers (GST exclusive)

	2010/11BILL (\$)	2011/12 BILL (\$)	CHANGE (\$)	CHANGE (%)
RESIDENTIAL CUSTOMER - LOW USAGE (6GJ ANNUALLY)				
ORIGIN ENERGY – RETAIL COMPONENT	\$ 140.55	\$ 149.85	\$ 9.30	6.62%
ENVESTRA – DISTRIBUTION COMPONENT	\$ 180.65	\$ 213.46	\$ 32.81	18.16%
TOTAL	\$ 321.20	\$ 363.32	\$ 42.11	13.11%

	2010/11BILL (\$)	2011/12 BILL (\$)	CHANGE (\$)	CHANGE (%)
RESIDENTIAL CUSTOMER - MEDIUM USAGE (21GJ ANNUALLY)				
ORIGIN ENERGY – RETAIL COMPONENT	\$ 277.48	\$ 295.00	\$ 17.52	6.32%
ENVESTRA – DISTRIBUTION COMPONENT	\$ 331.22	\$ 397.77	\$ 66.55	20.09%
TOTAL	\$ 608.69	\$ 692.77	\$ 84.07	13.81%

	2010/11BILL (\$)	2011/12 BILL (\$)	CHANGE (\$)	CHANGE (%)
RESIDENTIAL CUSTOMER - HIGH USAGE (45GJ ANNUALLY)				
ORIGIN ENERGY – RETAIL COMPONENT	\$ 487.84	\$ 518.00	\$ 30.16	6.18%
ENVESTRA – DISTRIBUTION COMPONENT	\$ 456.02	\$ 502.17	\$ 46.15	10.12%
TOTAL	\$ 943.85	\$ 1,020.16	\$ 76.31	8.09%

Table 2 – Indicative annual bill impact of the Commission’s Final Price Determination on a typical small business customer (GST exclusive)

	2010/11BILL (\$)	2011/12 BILL (\$)	CHANGE (\$)	CHANGE (%)
SMALL BUSINESS CUSTOMER - MEDIUM USAGE (150GJ ANNUALLY)				
ORIGIN ENERGY – RETAIL COMPONENT	\$ 1,113.59	\$ 1,143.43	\$ 29.84	2.68%
ENVESTRA – DISTRIBUTION COMPONENT	\$ 1,546.30	\$ 1,781.65	\$ 235.35	15.22%
TOTAL	\$ 2,659.89	\$ 2,925.08	\$ 265.19	9.97%

The increase in the residential retailer average revenue is driven by various factors, including the Commission’s decision on load factors (which impacts on wholesale gas costs and transmission costs) and the inclusion of an explicit allowance for CARC within retail operating costs, albeit that the CARC has been determined on a dual-fuel basis.

The Commission has set prices for the retail component for a three year period. The Final Determination sees prices for both residential and small business customers moving in line with inflation (CPI) in the second and third years of the period.

The Commission notes that there are a significant number of market contract offers available to small customers that are priced below the standing contract price, and the Commission encourages customers to take advantage of the price discounts that are available.

To assist with this, the Commission offers an online price comparison service on its website (www.escosa.sa.gov.au) and, for those who do not have access to the internet, a telephone version of this service is available on Freecall 1800 633 592.

The Commission’s Final Price Determination and Statement of Reasons are available on the Commission’s website at: www.escosa.sa.gov.au.

For any further media enquiries, contact Dr Patrick Walsh, Chairperson, ESCOSA, on 8463 4444.