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Essential Services Commission

Via email: RetailEnergyReview@esc.vic.gov.au



Tasmania 7250 Australia

www.tasgas.com.au

ABN 90 110 370 726

To whom it may concern

Developing a reference price methodology for Victoria's energy market

This submission is provided by Tas Gas Retail (TGR) in response to the abovementioned consultation paper dated 20 March 2018 (Consultation Paper). We thank you for the opportunity to respond.

We acknowledge that the Essential Services Commission (Commission) is undertaking this process at the direction of the Victorian Government. However, we would like to convey that continual regulatory intervention has a significant detrimental effect on smaller retailers by way of increased regulatory cost. Regulatory costs for small retailers is a barrier to entry into the Victorian market and as such may dampen participation of this segment. Smaller retailers can be a source of competition and innovation.

Background

In 2017 TGR commenced retailing natural gas (only) in: Kerang, Terang, Nathalia, Heathcote, Maldon, Robinvale and Swan Hill (still being constructed/commissioned Marong, Lakes Entrance, Orbost and Invermay). These towns are not connected to the Victorian gas transmission network so instead natural gas is compressed and trucked into these towns where it is decompressed and reticulated through traditional distribution networks (owned and operated by Enwave Victorian Networks). The network will pass 12,500 premises across these 11 towns.

Due to the innovative nature of the supply arrangement in these towns, our cost structures are not consistent with those outlined in Section 2 of the Consultation Paper. Whilst our unique situation does not impact the way in which the reference price methodology should be established, we wish to highlight our situation as it will have implications when the competition framework is established and the reference price applied.

Consultation Paper

We provide the following responses to the three questions posed by the Commission in its Consultation Paper:

- 1. Is the commission's proposal to adopt a cost-based approach reasonable, if not, why not?**

TGR considers that the proposed cost-based approach is reasonable.

2. Are there other approaches not outlined in this paper that the Commission should consider?

As a small retailer, we do not have the resources available in which to respond to this question.

3. Are there any other issues we should consider?

As the framework for the application of the reference price has not yet been developed, TGR makes the following recommendations, particularly in relation to natural gas:

- I. That the consultation process for the competition framework allow for further feedback regarding the appropriateness of the price methodology.
- II. That the Commission consider calculating the reference price(s) for 2018 and 2019 on a quarterly basis.

We consider that the price at which a retailer can acquire wholesale gas has a significant bearing on both the delivered price to consumers and retail competition. As such, we consider that wholesale energy pricing will be a key consideration of the Commission's competition analysis.

Key influences on the price of wholesale energy are: the number of suppliers in the market vs demand; the timing at which supply is acquired; and the buying power of the retailer (scale and scope). For natural gas, the Australian Competition and Consumer Commission's 2015 East Coast Gas Inquiry has identified limited suppliers and supply versus demand in the market as a significant issue affecting price. From our experience, the price of firm wholesale gas contracts changed dramatically from 2016 and throughout 2017 for a range of reasons including Australian government policy intervention. As a small retailer, we are acutely aware that our size and limited scope affects our buying power. However, our success in the market has varied depending on the timing in which we went to market and the availability of offers at those times.

Therefore, setting a reference price at a single point in time for a calendar year is unlikely to be relevant when comparing it to a retailer's price stack (unless that retailer acquired wholesale gas in the same period in which the reference price was set derived). As it is the Commission's intent to seek actual pricing and contract data from retailers as part of its competition review, it may be helpful to be able to compare the timing of a purchase and the scale and scope of a retailer to the nearest quarterly reference point.

- III. That the Commission consider establishing the 2018 reference pricing based on 2017 Q2 data as a minimum starting point. As retailers are required to Gazette their Standing Offers in December, internally all the components making up the retail price must be approved well in advanced of this date. I note that in the workshop held on 5 April 2018, Frontier Economics proposed to use data from November to December 2017 as the basis for the 2018 reference tariff. This would be

inappropriate. For the development of 2018 reference price(s), we ask that the Commission consider the comments made at point II above.

- IV. In establishing the benchmark approach for retail operating costs, it would be useful to understand the size and the scope of the retailers in which the benchmarked price has been based. We consider this detail to be pertinent to the competition framework when drawing comparisons to the reference price of retailers of varying sizes of scale and scope.
- V. That the Commission consider the application and timing of indexation within the pricing methodology.
- VI. That the Commission recommend to the Victorian Government that it carefully considers how and when the reference price(s) is made available to the public.

While we have no issues with the cost-based approach in developing the reference price for natural gas, we are concerned about public perception. We are concerned that our prices are going to be publicly scrutinised against a theoretical generic price which has no bearing on our actual cost structures. Such inferences may not be in the public interest.

If you have any questions regarding our response to this consultation process, please do not hesitate to contact me on [REDACTED].

Yours sincerely

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Kate Daley
Manager