

A few
words.

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Queensland Competition Authority
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Review of Small Customer Gas Pricing and Competition in Queensland

AGL welcomes the opportunity to comment on the Queensland Competition Authority's (QCA) Draft Report: "Review of Small Customer Gas Pricing and Competition in Queensland" (**Draft Report**).

Summary

AGL agrees with the QCA's finding that the Queensland small customer gas market is still in its infancy but some competitive signs are emerging.

In addition, AGL supports the QCA's conclusion that one of the primary factors inhibiting competition is that retail tariffs are not yet cost reflective. AGL also recognises that short term supply constraints on the Roma to Brisbane Pipeline (**BPL**) may be affecting the ability of second tier retailers accessing wholesale gas.

As stated in the Draft Report, AGL is transitioning customers on to cost reflective tariffs in the short to medium term. Once tariffs become fully cost reflective retailers will be attracted to the gas market and competition will develop further.

In regards to any capacity constraints on the RBP, AGL agrees with the QCA that as capacity increases wholesale supply issues will largely be alleviated.

Accordingly, the market is suitably addressing the above constraints on competition and there is no need for government intervention.

However, as explained below, the QCA should focus its attention on correcting market failure in the electricity market created by regulated tariffs being set at below efficient levels. This would have a positive flow on effect in the gas market.

Electricity market competition

The Draft Report fails to recognise the impact of market failure in the electricity market on competition in the gas market. That is, small customer electricity tariffs are not cost reflective in Queensland due to regulated tariffs inadequately accounting for wholesale and network costs. As a result electricity retail market competition will suffer.

The lack of active competition in the electricity market will have a flow on effect in the gas market. This is because retailers selling electricity in Queensland would ordinarily seek to win gas customers through offering dual fuel contracts. Dual fuel contracts are particularly

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important in the gas market in Queensland given the low gas consumption, therefore low revenue from gas. Dual fuel contracts allow retailers the ability to recover their fixed costs over two accounts.

While retailers are unable to make a reasonable margin on electricity tariffs, they will not retail either electricity or gas and competition will not thrive in either market.

In addition, AGL is concerned about the statement that "... electricity is likely to be cheaper than gas for most Queensland domestic customers in existing homes". AGL believes it is not possible to rely on current electricity tariffs when comparing the cost of each fuel.

Electricity tariffs are currently below cost and therefore need to rise in the near term to ensure that competition in the electricity market continues to develop.

In addition, a future adjustment to tariffs post 2010 will need to be made to take account of the Carbon Reduction Pollution Scheme, which is likely to have a greater impact on electricity tariffs than gas tariffs.

The future for the gas market

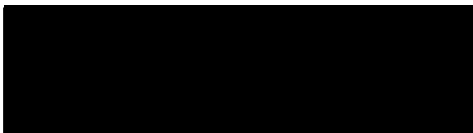
AGL believes the only action the Queensland government needs to take to improve gas market competition is to correct the market failure created in the electricity market when regulated tariffs were set at artificially low levels.

In relation to the gas market, AGL believes that no further action need be taken. With gas tariffs remaining unregulated retailers are free to move gas tariffs to cost reflective levels over time which will in turn mean that non-incumbent retailers can enter the market and recover their costs.

If the Government were to intervene and regulate gas prices, it would risk creating inefficient tariffs which would only further inhibit competition, as we have seen in the Queensland electricity market.

For any inquiries in relation to this submission please contact Michelle Shepherd on (03)8633 6194 or mshpherd@agl.com.au.

Yours sincerely,



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