WAGAS NETWORKS

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Dr John Tamblyn
Chair
Austalian Energy Market Commission
AEMC Submissions
PO Box A2449
Sydney South NSW 1235
By email: submissions@aemc.gov.au

Your reference: 1st Interim Report, December 2008 – Reference EMO 001

Dear Dr Tamblyn

Review of Energy Market Frameworks in light of climate change policies

WestNet Energy is grateful for the opportunity to comment, on behalf of WA Gas Networks Pty Ltd (WAGN), on the Australian Energy Market Commission's (AEMC) First Interim Report for the AEMC's Review of energy market frameworks in light of climate change policies. Our formal submission with comments on the Review is attached.

WestNet Energy provides services to WAGN to assist in the operation and maintenance of its gas distribution system known as the Mid West and South West Gas Distribution System.

WAGN agrees with the Commission's preliminary finding that the current inflexibility in the retail price regulatory arrangements in Western Australia is a material issue. It strongly endorses this matter being considered further in this Review. This matter, and its implications for the related market in which WAGN operates, is the focus of the WAGN submission.

The Carbon Pollution Reduction Scheme (CPRS) introduces new dynamics into gas and related markets. WAGN, like other energy market participants, needs to have sufficient flexibility in terms of regulatory frameworks to respond to these dynamics in a timely and efficient manner.

We look forward to working further with the Commission in support of its present Review.

Yours faithfully

Justin Scotchbrook
Manager, Commercial and Regulation
On behalf of WA Gas Networks

WA GAS NETWORKS SUBMISSION TO AEMC

Review of energy market frameworks in light of climate change policies

1. EXECUTIVE SUMMARY

WestNet Energy (WNE) is grateful for the opportunity to comment, on behalf of WA Gas Networks Pty Ltd (WAGN), on the Australian Energy Market Commission's (AEMC) First Interim Report for the AEMC's review of energy market frameworks in light of climate change policies. WestNet Energy provides services to WAGN to assist in the operation and maintenance of its gas distribution system known as the Mid West and South West Gas Distribution System.

In its first Interim Report, the AEMC concluded that current market frameworks will not deliver efficient prices and services to retail customers in Western Australia following the introduction of the Carbon Pollution Reduction Scheme (CPRS) and Expanded Renewable Energy Target (ERET). The AEMC viewed this as a material problem worthy of further consideration in this Review, in conjunction with the relevant Western Australian market institutions.

WAGN agrees the current inflexibility in retail price regulatory arrangements in Western Australia is a material issue. It strongly endorses this matter being considered further in this Review and also supports the participation in the Review of relevant Western Australian market institutions.

WAGN wishes to highlight the potential adverse implications of current frameworks in WA retail markets for a related market, namely the market for gas reticulation or distribution services in which WAGN operates. WAGN suggests that this matter is sufficiently material to justify consideration in the next stage of this Review, in conjunction with relevant Western Australian market institutions.

Economic regulation of WAGN's gas distribution networks is to be undertaken under a new national gas access framework (the National Gas Law 2008), as it is to be applied in Western Australia. Draft WA regulations under this framework include a requirement that the structure and level of distribution reference tariffs, set by the WA Economic Regulation Authority (ERA), take into consideration the structure and level of capped retail tariffs.

This carries the risk that reference tariffs for WAGN's gas distribution services are not set appropriately, in accordance with the revenue and pricing principles set out in the National Gas Law 2008.

The proposed requirement for reference tariffs to take into account capped retail tariffs is not reciprocated under the existing framework for the setting of capped retail tariffs. Under the WA Gas Tariff Regulations, the setting of gas retail caps is a matter for the WA Minister of Energy. In setting caps, there is no requirement for the Minister to consider the current structure and level of reference tariffs.

WAGN suggests this matter is material in that current retail market inflexibilities could constrain the capacity of related markets (in this case gas distribution) to respond to climate change policies.

The CPRS/ERET introduces new dynamics into gas and related markets. It seems likely the CPRS/ERET will influence long term demand for WAGN's gas haulage services. WAGN, like other energy market participants, needs to have sufficient flexibility in terms of regulatory frameworks to respond to these dynamics in a timely and efficient manner. However, WAGN's ability to respond is currently compromised. As a result there is a risk that efficient prices and services to retail customers in WA are not delivered.

Against this background WAGN welcomes the MCE decision announced on 6 February 2008 to ask that the Council of Australian Governments (COAG) amend the 2006 Australian Energy Market Agreement (AEMA) to specify that, where retail prices are regulated, energy cost increases associated with the CPRS shall be passed through to end-use customers.

WAGN suggests that the proposal to change the AEMA provides an opportunity to address the present inflexibility in market frameworks in WA. In addition, the ongoing energy reform process led by the WA Office of Energy provides a further opportunity. The Office of Energy reform process could also usefully be informed by further consideration of this matter in the present Review and WAGN welcomes and supports the apparent intention for the AEMC to work conjointly with the relevant WA market authorities.

WAGN notes that, in some energy retail markets, including WA, it seems likely that retail price caps will continue for some time due to delays in the development of effective retail competition. This contrasts with the apparent expectation, in the 2006 AEMA, that retail price caps would be phased out subject to reviews of retail competition.

The incorrect expectation that the current framework for retail regulation will cease to operate in the near future is possibly the underlying reason existing frameworks are not sufficiently flexible to respond to the CPRS/ERT. Accordingly, if retail price caps are to be sustained in at least some markets, then in WAGN's view, there is a case for development of a nationally consistent, flexible framework for the economic regulation of energy retail markets.

In this context, WAGN suggests the Review consider the following proposals for creating more appropriate and flexible frameworks for the economic regulation of gas and electricity retail markets:

a. Reference gas network tariffs should be automatically passed through to all classes of regulated retail gas tariffs;

b. Any prudent costs from compliance with greenhouse gas emissions measures in related markets should be automatically passed through to all classes of regulated retail gas tariffs, and should be separately itemised on retail bills;

c. A transparent, consistent and flexible, national framework for the setting of retail caps should be implemented. This would encompass:

    a. Establishment of a transparent method for setting retail caps, including the treatment of reference gas network tariffs;

    b. Decision making on retail caps would be made by an independent regulator, rather than by jurisdictional Ministers on advice from officials;

    c. Retail gas tariffs should be subject to annual adjustments between resets;

d. As provided for under the 2006 AEMA, any differences between cost reflective prices as determined by the relevant regulator and government views as to the appropriate gas retail tariff glide path would be funded from the relevant jurisdictional budget.

The proposed framework for gas summarised above draws heavily on a framework proposed by the WA Office of Energy in its 2009 Review of Electricity Tariffs. Among other things, this reflects the objective of regulatory convergence between gas and electricity retail markets. This will facilitate competition in both markets. It could also enhance efficiency in related markets, including the gas haulage market within which WAGN operates.

Informed by AEMC consideration as part of the present Review, more developed and detailed proposals to address current market inflexibilities could be implemented via a range of measures, possibly including:

- Changes to the AEMA;
- Extension of the national gas rules to codify retail price cap setting; and
- Changes to jurisdictional instruments, including regulations made under the National Gas Law.

2. WA GAS NETWORKS' INTEREST IN REVIEW OUTCOMES

2.1 Principal issue of interest to WAGN in the AEMC Review

A key finding in the First Interim Review report is that the current market frameworks will not deliver efficient prices and services to retail customers in Western Australia following the introduction of the CPRS and ERET. This is considered a material problem that warrants further consideration in this Review and in conjunction with the relevant Western Australian market institutions.

WAGN agrees that the current inflexibility in the retail price regulatory arrangements in Western Australia is a material issue that should be progressed further in this Review. WAGN wishes to highlight the potential adverse implications of current frameworks in WA retail markets for a related market, namely the market for gas reticulation services in which WAGN operates. WAGN suggests that this matter is sufficiently material for further consideration in this Review, in conjunction with relevant Western Australian market institutions.

2.2 Overview of WAGN activities

WA Gas Networks Pty Ltd is the owner of the majority of the reticulated gas infrastructure in Western Australia. Its gas reticulation networks serve Geraldton, Kalgoorlie, Albany, Bunbury, Busselton, Harvey, Pinjarra, Brunswick Junction, Capel and the Perth Greater Metropolitan Area including Mandurah. These combined networks constitute approximately 12,000km of gas mains and associated infrastructure.

Over the last five years the annual growth of these networks has been approximately 260km with an average annual new customer connection rate of 20,000.

WA Gas Networks Pty Ltd ultimately is 74.1% owned by Babcock and Brown Infrastructure Group with the remaining 25.9% owned by Diversified Utility Energy Trusts.

3. FRAMEWORK FOR SETTING GAS REFERENCE TARIFFS

Economic regulation of WAGN's gas distribution networks is undertaken under third party access arrangements set out under the National Gas Access Code (now the National Gas Rules). In the case of small customers, the ERA authorises reference tariffs The Access Arrangement for WAGN reference tariffs is due to be amended by the ERA early in 2010.

The framework within which the ERA authorises reference tariffs is currently undergoing evolution following the passing of the National Gas Access (SA) Act 2008 and the corresponding National Gas Access (WA) Bill 2008, which is yet to be enacted. The Bill would give effect to the National Gas Law in WA.

Part 2 of the National Gas Law sets out the National gas objective and principles (section 23). It also sets out revenue and pricing principles (section 24). These include the principle that *'a reference tariff should allow for a return commensurate with the regulatory and commercial risks involved in providing the reference tariff to which that tariff relates.'*

In 2008 the WA Government gave notice of regulations it intends to make under section 20(4) of Part 6 of the National Gas (WA) Bill 2008. These regulations would create a requirement that the structure and level of distribution reference tariffs take into consideration the structure and level of capped retail tariffs.

This requirement would replace section 38 of the Gas Pipelines Access (Western Australia) Act 1998 which obliges the regulator, in considering a proposed Access Arrangement, to take into account the fixing of appropriate (reference) charges as a means of extending effective competition in the supply of natural gas to residential and small business customers. The reference to appropriate charges is to charges for the use of a pipeline to transport small quantities of natural gas that will enable suppliers to compete for the custom of residential and small business consumers.

These requirements create the risk that, under some circumstances, the Regulator could be obliged to set reference tariffs at levels that do not allow for a return commensurate with regulatory and commercial risks. This could occur where gas retail tariffs are not reset and consequently fall below cost reflective levels. Increases in prices in related gas transmission and upstream markets would lead to such an outcome.

Under these conditions, the Regulator could find itself unable to authorise proposed reference tariffs, if tariffs were at a level that was inconsistent with the extension of effective competition in retail gas markets.

This is a significant possibility, given significant recent increases in international gas prices, which tend to follow oil prices. As noted by the AEMC's First Interim Report, gas price internationalisation influences domestic WA gas markets more than other Australian domestic gas markets.

Further, rises in domestic gas market prices potentially flow from the CPRS itself. This reflects the lower greenhouse emissions intensity of gas. This applies to electricity generation but even more so for the use of gas as a substitute for electricity space heating, water heating and cooking, as well as other applications.

As discussed further below, at present there is little or no competition in WA retail gas markets at the small customer level. Under the existing and proposed framework, the Regulator arguably has an obligation to conclude that existing gas reference tariffs may be set too high relative to the requirement to extend retail competition. WAGN wishes to emphasise that the absence of competition in WA retail markets is the result of a combination of regulatory, upstream, related market and other matters.

Importantly from WAGN's perspective, a credible submission to the 2008 Gas Review suggested that regulated gas tariffs were set below the levels necessary to support new entry This reinforces WAGN's concerns regarding the potential risk that the ERA is obliged to constrain the reference tariff level. While a gas tariff review process, in recognition of rising upstream gas prices, was initiated following the publication of the 2007 report, there was a significant interregnum before completion of an interim gas tariff review in 2008. If a reference price authorisation had been required during the interregnum, the requirement for the regulator to set reference price levels so as to extend retail competition might have been activated.

The CPRS/ERET introduce new dynamics into gas and related markets. It seems likely the CPRS/ERET will influence long term demand for WAGN's gas haulage services, although there is uncertainty whether demand will increase or decrease. WAGN, like other energy market participants, needs to have sufficient flexibility in terms of regulatory frameworks to respond to these dynamics in a timely and efficient manner.

However, WAGN's ability to respond is currently compromised. As a result there is a risk that efficient prices and services to retail customers in WA are not delivered.

4. FRAMEWORK FOR GAS TARIFF (RETAIL PRICE CAP) SETTING

The requirement for reference tariffs to take into account the promotion of retail market competition is not reciprocated by a requirement for gas retail prices to be set at levels which provide a return to gas distributors that is commensurate with regulatory and commercial risks.

The Gas Tariff Regulations, as amended, provide little guidance as to how future gas retail caps are to be set, or how often and under what triggers they are to be reset or otherwise adjusted. There is no requirement for gas retail tariffs to be cost-reflective. There are no guidelines as to the identification of costs to be incorporated into gas retail tariffs, or for the method for their calculation.

Importantly from a WAGN perspective, under the Gas Tariff Regulations, there is no requirement to pass through changes in reference gas haulage charges in gas retail tariffs. It is therefore possible that the Minister would not be obliged to increase retail gas tariffs following a decision by the ERA to approve increased gas haulage charges. Further, there appears to be no obligation promptly to pass on any change in supply costs flowing from the introduction of the CPRS/ERET.

The Regulations provide that the WA Energy Minister, rather than an independent regulator, is the decision maker. In the case of the 2008 Review, the investigatory and consultative process was conducted by the Office of Energy, not by the ERA. The WA Minister sets the terms of reference for the Gas Tariff Review.

The 2008 Interim Gas Review set retail gas caps for a period of 12 months to the end of June 2009. This may have been intended to align the retail gas reset process with the review of WAGN's reference tariffs.

A further implication of the framework for the setting of gas retail tariffs in WA is that there appears little opportunity for independent review of the outcome of Gas Tariff decisions. This compares with Access Arrangements under the National Gas and Electricity Rules, which provide for reviews of pricing decisions by independent regulators.

The gas retail tariff setting framework in WA appears unusual compared with most other jurisdictions, where gas retail price caps continue to apply. There, gas retail price caps are typically approved by independent regulators.

It is also notable that, in other major capital cities, there is active competition in retail gas markets at the residential and small business level. The existence of competition, alongside continuing gas retail price caps in some jurisdictions, suggest that retail price caps in other markets are set and maintained at broadly cost-reflective levels. Based on the foregoing, it appears possible that differences in frameworks for the setting of retail price caps between WA and other Australian jurisdictions might form part of the historical explanation for recent changes in gas retail price caps in WA to lag behind changes elsewhere.

4.4 Background to gas retail price regulation in WA

Caps on gas tariffs for households and small business customers were introduced in 2000 as part of the privatisation of AlintaGas. The *Energy Coordination (Gas Tariffs) Regulations 2000* (the "Tariff Regulations") provide that the price of gas to existing small use customers would be capped under tariffs set out in the Tariff Regulations. This requirement also extended to any new small use customers. The Tariff Regulations apply to any retailer that is licensed to supply gas to small use customers in the areas subject to the Tariff Regulations: the Mid-West/South-West area (including the Perth Metropolitan area), the Kalgoorlie-Boulder area, and the Albany area (the "Tariff Areas").

The tariff caps were intended to provide a "safety net" for customers, allowing for a sufficient margin for gas retailers, accounting for the risks faced by those retailers. It was originally intended that these tariff caps would cease to apply to small business customers as of 1 July 2002 and that residential tariffs would escalate at CPI+2% each year from this time.

Prior to the introduction of gas FRC in Western Australia in 2004, the Tariff Regulations were amended by the Government (under the Amendment Regulations) to reinstate protection for small business, and to make the annual tariff cap adjustments move in line with inflation. The Amendment Regulations commenced on 18 October 2002. In their current form, the Tariff Regulations allow retailers to set their tariffs for new small use customers as they wish, so long as they offer at least one form of tariff under the tariff cap arrangements.

In a report issued in October 2007, entitled *'Gas tariff regulations review report: review of the energy coordination (gas tariffs) regulations 2000',* the Office of Energy concluded that tariff regulations are still required in WA. Due to a lack of new entry, and the Gas Market Moratorium applied to Synergy, there are no active retailers other than Alinta in the small customer segment in all three of the areas covered by the Tariff Regulations.

In light of these points, it appears to WAGN that it is possible ongoing restrictions on electricity retail competition are affecting regulatory arrangements in retail gas markets and contributing to a requirement for ongoing regulation of gas retail caps. This is notwithstanding the existence of gas FRC and an effective Retail Market Scheme.

The 2007 report also notes there are upward pressures on the cost of gas for small use customers in the areas covered by the Tariff Regulations. These cost pressures may act as a barrier to entry in the gas retail market if the tariff cap levels are maintained at their (then) current level.

4.5 2008 Interim Gas Tariff Review

In response to rising supply costs, an Interim Gas Tariff review was completed by the WA Minister in mid 2008 that adjusted gas retail tariffs for the period to 30 June 2009. This decision was made pending a more detailed review to be undertaken in relation to gas retail tariffs to apply from 2009-10 onwards.

It seems possible that, at the time of the Interim Gas Tariff Review, the level of gas tariffs had already fallen below cost reflective levels. If so, this would highlight the possibility that the current process for setting of gas retail caps might be insufficiently flexible to respond to CPRS/ERET.

WAGN observes that information submitted as part of the 2008 Interim Gas Review indicates that, historically, movements in gas retail tariffs in Perth appear to lag movements in other capital cities.[1] This finding contrasts with the AEMC's observation in its First Interim Report, informed by its expert advisors, that wholesale gas is more expensive in WA, reflecting the internationalisation of gas prices and the greater distances between gas producing and major domestic consumption areas.[2]

In a similar vein, Synergy, in its submission to the Interim Gas Tariff Review, stated that Synergy has considered the residential market from the perspective of a new market entrant. It concluded that at (then) current tariff levels, this segment is not profitable.[3] Synergy is the major electricity and gas retailer in WA. However, under a Gas Market Moratorium issued by the WA government, Synergy, which is government owned, is prevented from entering into gas markets serving customers whose less than 0.18 terajoules (TJ) per annum. In the absence of the Moratorium, it otherwise appears well placed to enter gas markets for small customers.

The conclusion that in 2008 gas tariffs were at levels that prevent new entry reinforces WAGN's concerns regarding the potential risk that the ERA is obliged to constrain the reference tariff level. While a gas tariff review process was initiated following the publication of the 2007 report, there was an interregnum before completion of an interim gas tariff review in 2008. If a reference price authorisation had been required during the interregnum, the requirement for the regulator to set reference price levels so as to extend retail competition might have been activated.

A further point is the possibility that, historically, the setting of retail gas caps could, in combination with the Gas Market Moratorium and the absence of electricity FRC, contribute to the absence of gas retail market competition. If so, then in the absence of further market reform, it is possible that regulation, rather than competition, will continue to be needed for the setting of gas retail prices in WA.

4.6 2009 Electricity Tariff Review

In January 2009 the Office of Energy released it Electricity Tariff Review Recommendations. WAGN suggests that the findings of that Tariff review appear to be relevant to the identification of areas where the existing framework for gas retail regulation could usefully be developed and converged.

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[1] See the graph on page 20 of the OOE Gas Tariff Review Interim Recommendations Paper which shows that Perth is consistently at the lower end of regulated gas retail prices in capital cities.

[2] See page 63 of the First Interim Report.

[3] See Synergy's Response to Review of the Energy Co-ordination (Gas Tariffs) Regulations 2000 Issues Paper, dated 2 October 2007

Suggestions on significant improvements required to the retail gas framework did not appear to be addressed in recent 2007 and 2008 reports on gas tariff setting. It is, however, possible that following the Electricity Tariff Review Recommendations the Office of Energy already intends to extend its findings on improvements required of the retail electricity framework to gas.

The 2009 Office of Electricity Tariff Review report foreshadowed an expectation that retail price caps would continue in place for some time and included recommendations on future retail price cap setting, including:[4]

1. Regulated electricity tariff resets should be undertaken by the ERA;
2. The first retail tariff determination should take effect from 1 July 2012 and timing for subsequent retail tariff determinations should coincide with the timing of the network Access Arrangement reset to the greatest extent possible;
3. Retail electricity tariffs should be subject to annual adjustments between resets;
4. Glide path arrangements to fully cost reflective tariffs should be funded transparently via Community Service Obligations (making up any difference between cost reflective prices as determined by the ERA and government views as to the appropriate tariff price path);
5. Network tariffs should be automatically passed through to all classes of regulated retail electricity tariffs and should be separately itemised on retail bills;
6. Costs from greenhouse gas emissions measures should be automatically passed through to all classes of regulated retail electricity tariffs, and should be separately itemised on retail bills.

4.7 Direct implications of CPRS and ERET obligations for WAGN

WAGN is a gas reticulator and is therefore not expecting that it will have a substantial direct liability for meeting Carbon Pollution Reduction Scheme (CPRS) and Extended Renewable Energy Target (ERET) obligations. Further, as its prices are set under Access Arrangements, its tariff levels are not subject to retail price caps and associated arrangements.

Nevertheless WAGN is sensitive to restrictions on retail gas competition and retail gas price caps, and other regulation associated with climate change policies. As noted elsewhere, WAGN's principal concern is that retail price caps impinge directly on the setting of reference tariffs for WAGN's gas haulage services.

In addition, retail market restrictions and climate change policies, together influence demand for gas. This in turn affects demand for WAGN's gas haulage services. CPRS/ERET arrangements might introduce higher levels of uncertainty into WAGN's business operating environment. This might include increased uncertainty and/or volatility in future demand for gas haulage services. This will depend on a range of variables, including the impact of the CPRS/ERET on future wholesale gas and electricity price relativities.

An increase in demand uncertainty/volatility would have implications for future revenue and operating capital expenditure levels. Increased uncertainty over revenue and capital requirements raises the level of risk faced by the business.

WAGN notes that, depending on the detailed provisions of the CPRS, it is possible WAGN could be directly liable for CPRS liabilities associated with system-use gas. If so, this could introduce additional levels of uncertainty over the extent the cost of meeting such liabilities can be fully recovered under existing arrangements for varying reference (regulated) gas haulage tariffs.

WAGN notes that other climate change policy measures could potentially affect demand for WAGN services. An example is subsidies for the installation of solar water heaters. In a typical household, gas

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[4] See page 4 of the Office of Energy 2009 Report, which refers to a first retail tariff determination to take effect from 1 July 2012 and timing for subsequent retail tariffs should coincide with the timing of network access arrangement resets.

water heating accounts for around 65% of household gas consumption, so solar water heater penetration has significant implications for gas consumption.[5]

If WAGN's business risk increases, WAGN's funding costs could rise. Given capital is WAGN's most significant input, an increase in business risk and capital costs could, other things being equal, require an offsetting increase in reference tariffs. In the absence of an increase, there would be adverse implications for WAGN's capital adequacy, ongoing investment and service availability and reliability.

5. AMENDMENT TO THE AUSTRALIAN ENERGY MARKET AGREEMENT

WAGN welcomes the MCE decision announced on 6 February 2008 to ask that Council of Australian Governments (COAG) amend the 2006 Australian Energy market Agreement to specify that, where retail prices are regulated, energy cost increases associated with the CPRS shall be passed through to end-use customers.

WAGN suggests that the proposal to change the AEMA provides an opportunity to address inflexibility in existing retail market frameworks in WA. In addition, the ongoing energy reform process led by the WA Office of Energy provides a further opportunity to address current inflexibilities in WA retail markets and this could usefully be informed by further consideration in the Review.

WAGN notes that, in some energy retail markets, including WA, it seems likely that retail price caps will continue for some time due to delays in the development of effective retail competition. This contrasts with the apparent expectation, in the 2006 AEMA, that retail price caps would be phased out subject to reviews of retail competition.

The expectation that retail price cap arrangements have a limited life is possibly the underlying reason existing frameworks are not sufficiently flexible to respond to the CPRS/ERT. Accordingly, if retail price caps are to be sustained in at least some markets, then in WAGN's view there is a case for designing and implementing flexible, nationally consistent and well codified frameworks for retail price regulation.

6. FRAMEWORK PROPOSALS SUGGESTED FOR CONSIDERATION IN AEMC REVIEW

WAGN suggests the Review consider the following proposals for creating more appropriate and flexible frameworks for the economic regulation of gas and electricity retail markets.

a. Reference gas network tariffs should be automatically passed through to all classes of regulated retail gas tariffs;

b. Any prudent costs from compliance with greenhouse gas emissions measures in related markets should be automatically passed through to all classes of regulated retail gas tariffs, and should be separately itemised on retail bills;

c. A transparent, consistent and flexible framework for the setting of retail caps should be implemented. This would encompass:

    a. Establishment of a transparent method for setting retail caps, including the treatment of reference gas network tariffs;

    b. Decision making on retail caps would be made by an independent regulator, rather than by jurisdictional Ministers on advice from officials;

    c. Retail gas tariffs should be subject to annual adjustments between resets;

d. Any differences between cost reflective prices as determined by the ERA and government views as to the appropriate gas retail tariff glide path would be funded from the State budget.

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[5] See page 16 of the Office of Energy's Interim Gas Tariff Review report

The proposed framework for gas draws heavily on a framework proposed by the WA Office of Energy in its 2009 Review of Electricity Tariffs. Among other things, this reflects the objective of regulatory convergence between gas and electricity retail markets. This will facilitate competition in both markets as the current absence of convergence appears to be a contributing factor in the absence of competition so far in small customer retail gas markets. It could also enhance efficiency in related markets, including the gas haulage market within which WAGN operates.

Informed by AEMC consideration as part of the present Review, more developed and detailed proposals to address current market inflexibilities could be implemented via a range of measures, possibly including:

- Changes to the AEMA;
- Extension of the national gas rules to codify retail price cap setting; and
- Changes to jurisdictional instruments, including regulations made under the National Gas Law.