ICRC

independent competition and regulatory commission

PROPOSED Price Direction

Standing offer prices for the supply of electricity to small customers

1 July 2024 to 30 June 2027

Report 2 of 2024

The Independent Competition and Regulatory Commission is a Territory Authority established under the *Independent Competition and Regulatory Commission Act 1997* (the ICRC Act). We are constituted under the ICRC Act by one or more standing commissioners and any associated commissioners appointed for particular purposes. Commissioners are statutory appointments. Joe Dimasi is the current Senior Commissioner who constitutes the commission and takes direct responsibility for delivery of the outcomes of the commission.

We have responsibility for a broad range of regulatory and utility administrative matters. We are responsible under the ICRC Act for regulating and advising government about pricing and other matters for monopoly, near-monopoly and ministerially declared regulated industries, and providing advice on competitive neutrality complaints and government-regulated activities. We also have responsibility for arbitrating infrastructure access disputes under the ICRC Act.

We are responsible for managing the utility licence framework in the ACT, established under the *Utilities Act 2000* (Utilities Act). We are responsible for the licensing determination process, monitoring licensees' compliance with their legislative and licence obligations and determination of utility industry codes.

Our objectives are set out in section 7 and 19L of the ICRC Act and section 3 of the Utilities Act. In discharging our objectives and functions, we provide independent robust analysis and advice.

Correspondence or other inquiries may be directed to the commission at the following address:

Independent Competition and Regulatory Commission
GPO Box 158
Canberra ACT 2601

We may be contacted at the above address, or by telephone on (02) 6205 0799. Our website is at www.icrc.act.gov.au and our email address is icrc@act.gov.au.

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Part A Preliminary

1. The proposed price direction

This price direction is provided in accordance with section 18(5)(a) of the *Independent Competition and Regulatory Commission Act 1997* (the **Act**). The retail electricity price investigation 2024-27 draft report (Report 1 of 2024) forms the basis for the **commission**'s decision as outlined in the proposed price direction.[1] In the event of any inconsistency between the retail electricity price investigation 2024-27 draft report and the proposed price direction, the proposed price direction prevails.

The proposed price direction only applies to **ActewAGL Retail**.[2]

The proposed price direction consists of parts A through C, the clauses, subclauses and tables in those parts.

The parts are set out as follows:

- Part A – Preliminary - sets out the preliminary information to the price direction.
- Part B – Regulated services, prices and charges - sets out the regulated services, associated price controls and the **maximum prices.**
- Part C – Legislative provisions - sets out reset principles and trigger mechanisms for variation of the Price Direction once in force.

[1] This document (Report 2 of 2024) is a **proposed price direction** as required under section 18(5)(a) of the **Act**. The use of finalised terms within this document such as 'price direction' and 'final price direction' are used for drafting simplicity and proposal purposes, and do not make this proposed price direction a final price direction as determined under Part 4 of the **Act**.

[2] *Independent Competition and Regulatory Commission (Price Direction for the Supply of Electricity to Small Customers on Standard Retail Contracts) Terms of Reference Determination 2023,* clause 3.

2. The regulatory period

This price direction regulates **ActewAGL** for the period 1 July 2024 to 30 June 2027

3. Section 20(2) of the Act

In line with section 20(4) of the **Act**, the **commission** must indicate the extent to which it has had regard to the matters referred to in section 20(2) of the **Act**. Attachment 1 of the final price direction will be provided in compliance with the section 20(4) requirement.

4. Definitions

Within this price directions the following words and terms have the following meanings

ACT	a reference to the **ACT** means the Australian Capital Territory
the Act	a reference to the **Act** in the price direction means the *Independent Competition and Regulatory Commission Act 1997*
ActewAGL	a reference to **ActewAGL** means **ActewAGL** retail ABN 46 221 314 841 (the partnership of Icon Retail Investments Ltd ABN 23 074 371 207 and AGL ACT Retail Investments Pty Ltd ABN 53 093 631 586)
AEMC	a reference to the Australian Energy Market Commission
AEMO	a reference to the Australian Energy Market Operator
AER	a reference to the Australian Energy Regulator
business days	**business days** are all days other than • a Saturday or Sunday • an **ACT** public holidays. If an action is required to be undertaken on or by a specific date in the price direction and that day falls on a non-business day, the timeline will be deemed to fall on the first business day following the non-business day.
the commission	a reference to the **commission** means the Independent Competition and Regulatory Commission
CPI	a reference to **CPI** means the All Groups consumer price index (weighted average of 8 capital cities) as published by the Australian Bureau of Statistics
ICRC	a reference to the **ICRC** means the Independent Competition and Regulatory Commission
LRET	Large-scale Renewable Energy Target
maximum allowable price change	refers to the **maximum allowable price change** that **ActewAGL** can apply across its regulated tariffs from one year to the next

monetary values	all **monetary values** in the price direction are in Australian dollars. where a monetary value is followed by the term '($2024–25)', the value is to be escalated in accordance with the following formula: EV = V x (1+**CPI**$_t$) Where: EV is the monetary value as escalated V is the monetary value specified in the price direction **CPI**$_t$ is determined in accordance with the following formula $$CPI_t = \left(\frac{CPI_{June(t-2)} + CPI_{Sept(t-1)} + CPI_{Dec(t-1)} + CPI_{March(t-1)}}{CPI_{June(t-3)} + CPI_{Sept(t-2)} + CPI_{Dec(t-2)} + CPI_{March(t-2)}}\right) - 1$$ Where the Australian Bureau of Statistics does not (or ceases to) publish the index, then **CPI** will mean the **commission**'s estimate of the level of consumer prices, and *t* can take on the value of 2024–25, 2025–26, or 2026–27 depending on the year in which the value of EV is required for the purposes of the price direction.
National Energy Retail Law	As defined by section 6(1)(b) of the *National Energy Retail Law (ACT)*
reference to years	unless otherwise stated, a reference to a year in the form 2023–24 (as an example) means the financial year from 1 July 2023 to 30 June 2024.
regulatory period	the period in respect of which the price direction regulates prices and charges, as specified in clause 2.
regulatory year	a reference to a **regulatory year** means a financial year during the **regulatory period**.
relevant tax	**relevant taxes** are any tax, rate, duty, charge or levy or other like or analogous impost that is imposed on or payable directly or indirectly by **ActewAGL** to any authority of the Commonwealth of Australia or the government of the **ACT**, including a goods and services tax but excluding: • income tax (or **ACT** equivalent income tax) or capital gains tax • stamp duty, financial institutions duty, bank account debits tax or similar taxes or duties • **AEMO** fees and fees payable by **ActewAGL** in respect of its retail licence • penalties and interest for late payment relating to any tax, and • any tax which is similar to or replaces the taxes referred to above, where 'tax' includes any rate, duty, charge or levy or other like or analogous impost.

Small customer	is a reference to a customer of **ActewAGL** who pays the **standing offer price** for the supply of electricity and consumes less than 100 MWh of electricity over any consecutive 12-month period.
SRES	Small-scale Renewable Energy Scheme
Standing offer prices	has the same meaning as in the *National Energy Retail Law (ACT)*.
Standard retail contract	Has the same meaning as in the *National Energy Retail Law (ACT)* for **small customers** paying the **standing offer price**.

Part B Price regulation

5. Standing offer prices

ActewAGL must ensure that its **standing offer prices** for each year of the regulatory period comply with the following price control formula.

$$1 + \mathrm{Y}^{\mathrm{t}} \geq \frac{\sum_{\mathrm{i}=1}^{\mathrm{n}} \sum_{\mathrm{j}=1}^{\mathrm{m}} \mathrm{P}_{\mathrm{ij}}^{\mathrm{t}} \mathrm{Q}_{\mathrm{ij}}^{\mathrm{t}-1}}{\sum_{\mathrm{i}=1}^{\mathrm{n}} \sum_{\mathrm{j}=1}^{\mathrm{m}} \mathrm{P}_{\mathrm{ij}}^{\mathrm{t}-1} \mathrm{Q}_{\mathrm{ij}}^{\mathrm{t}-1}}, for\ all\ i\ and\ j; subject\ to\ 1.02 + Y^{t} \geq \frac{\sum_{j=1}^{m} P_{ij}^{t} Q_{ij}^{t-1}}{\sum_{j=1}^{m} P_{ij}^{t-1} Q_{ij}^{t-1}}, for\ each\ i.$$

where:

ActewAGL has n standing offer tariffs that each have up to m price components

t denotes a financial year

i denotes a regulated tariff and j denotes a component of tariff i

Y^{t} is the percentage change in average **standing offer prices** determined in accordance with the cost-index model

$\mathrm{P}_{\mathrm{ij}}^{\mathrm{t}}$ is the price that **ActewAGL** proposes to charge for component j of standing offer tariff i for year t

$\mathrm{P}_{\mathrm{ij}}^{\mathrm{t}-1}$ is the price that **ActewAGL** charges for component j of standing offer tariff i in the year t-1

$\mathrm{Q}_{\mathrm{ij}}^{\mathrm{t}-1}$ is the reference quantity for component j of the standing offer tariff i defined as the actual quantity (in both customer numbers or megawatt hours) as reported by **ActewAGL** for the 12-month period ending 31 March in year t–1 and
the constraint on the right-hand side of the equation is known as the upper bound side constraint.

The formula restricts the weighted average price change, subject to an upper bound side constraint that restricts movement in individual charges to be within 2 percentage points above the weighted average price change.

For the 2024–25 regulatory year, Y^t is set out in clause 6. For the 2025–26 and 2026–27 regulatory years, Y^t is calculated in accordance with clause 7.

6. Determination of Y^t for 2024-25

Y^t for the 2024–25 regulatory year is 17.06per cent. The side constraint means that individual tariff must not increase by more than 19.06per cent.

Approval of the schedule of **standing offer prices** for Y^t will occur as per steps (e) to (g) in clause 7.1.

7. Annual recalibration

For the 2025–26 and 2026–27 regulatory years the **commission** will make annual recalibrations to ascertain the Y^t that will apply in the price control formula for each year. As part of the recalibration of Y^t the **commission** will consider pass-through applications as set out in clause 8 and its sub-clauses.

Table 7.1 Annual recalibration timeline

	Assessment process	Period price change applies
First annual recalibration	10 May 2025 to 7 June 2025	1 July 2025 to 30 June 2026
Second annual recalibration	10 May 2026 to 7 June 2026	1 July 2026 to 30 June 2027

7.1 The assessment process

This clause sets out the assessment process for an annual recalibration. The dates set out relate to the year of the relevant assessment process. The assessment process occurs prior to the relevant regulatory year for which the weighted average price change is set.

The assessment process will occur as follows:

(a) On or before 8 May, **ActewAGL** must provide the **commission** with the following information:

- (i) calculation of costs associated with achieving environmental objectives for the year in question, including **LRET**, **SRES** and **ACT** Energy Efficiency Improvement Scheme costs and any proposed adjustments.
- (ii) calculation of costs associated with smart meters, both the forecast and the actual from the previous year.
- (iii) full accounting of all proposed pass-through event costs that may be claimed under clause 8 and its sub-clauses.

(b) **ActewAGL** must provide the **commission** with the updated network cost allowance for the regulated customer load as soon as Evoenergy's network charges are approved by the **AER**.

If approved network charges are not available by our cut-off date of 21 May, we will use the network pricing proposal submitted by Evoenergy to the AER, and the reasonable costs determination made by the Minister.

If there are material differences between the network charges we use for our decision and the network charges approved by the AER, an adjustment will occur in the following year.

(c) The **commission** will determine the energy purchase cost component based on data available up to 30 April. See clause 7.4.

(d) The **commission** will determine the value of Y^t, which is the percentage by which the weighted average price may change.

(e) **ActewAGL** must provide the **commission** with its proposed schedule(s) of **standing offer prices** including the associated weighted average price change calculations.

(f) **ActewAGL** must satisfy the **commission** that price changes of each component of every standing offer tariff comply with the upper bound side constraint set out in clause 5.

(g) When the requirements set out in clauses 7.1(e) and (f) have occurred, the **commission** will assess whether the proposals are consistent with the price direction. If the proposals are consistent with the price direction, the **commission** will approve the proposed prices within 2 **business days** of receipt of the proposed schedule(s).

7.2 The value of Y^t

For the regulatory years 2025–26 and 2026–27, the **commission** will determine Y^t to be the percentage change in the cost index calculated from the components listed in Table 7.2.

Table 7.2 Components of the cost-index model

Component	Method
Wholesale energy purchase cost ($/MWh)	As determined by the **commission** using the **commission's** energy purchase cost model discussed in section 7.4
Volatility allowance ($/MWh)	The volatility allowance is $0.50/MWh in each year of the regulatory period.
National green scheme costs ($/MWh)	As determined by the **commission** using the method described in section 7.5
Energy losses ($/MWh)	As determined by the **commission** at the time of the recalibration using the **commission's** energy loss formula and information from the **AEMO**. The method is described in section 7.6.
NEM fees ($/MWh)	Determined by the **commission** for each year of the regulatory period, using AEMO's draft budget and ancillary services reports.
Network costs ($/MWh)	As determined and approved by the **AER and ACT Government** and applied by **ActewAGL** to the **standard retail contract** customer load, and subsequently verified by the **commission**. (see 7.1(b))
Retail operating costs ($/MWh)	Adjust the previous year's value by the change in **CPI** and convert this to a per MWh allowance based on customer numbers and energy usage at each annual price recalibration exercise.
ACT Energy Efficiency Improvement Scheme costs ($/MWh)	Estimates from **ActewAGL** for the 2025–26 and 2026–27 years as required, subject to verification and a prudence and efficiency assessment by the **commission**.
Smart meters costs ($/MWh)	Estimates from ActewAGL for the 2025-26 and 2026-2027 years as relevant, with any adjustment required to account for the difference between forecast and actual costs in the previous year.
Cost pass-through ($/MWh)	Cost pass-through verified by the **commission** in current dollars as adjusted by the change in **CPI**.
Retail margin (%)	Set the retail margin at 5.5 per cent of cost components (equivalent to 5.2% of the total cost stack) for the 2024-27

	regulatory period. Implement half as a dollar amount and half as a percentage.

Note: Change in the **CPI** is calculated as per clause 7.3.

7.3 Calculation of the change in CPI

The **commission** will calculate the percentage change in the **CPI** for any relevant year t using the following formula, populated with the Australian Bureau of Statistics all groups index for the weighted average of eight capital cities.

$$\Delta\mathrm{CPI}_t = \frac{\mathrm{CPI}_{\mathrm{June}(t-2)} + \mathrm{CPI}_{\mathrm{Sept}(t-1)} + \mathrm{CPI}_{\mathrm{Dec}(t-1)} + \mathrm{CPI}_{\mathrm{March}(t-1)}}{\mathrm{CPI}_{\mathrm{June}(t-3)} + \mathrm{CPI}_{\mathrm{Sept}(t-2)} + \mathrm{CPI}_{\mathrm{Dec}(t-2)} + \mathrm{CPI}_{\mathrm{March}(t-2)}} - 1$$

7.4 Calculation of energy purchase costs

The **commission's** approach to estimating energy purchase costs in any given year of the regulatory period involves 4 steps:

Step 1: Determine the appropriate contract position.

Step 2: Determine contract prices.

Step 3: Develop a half-hourly profile of load and spot prices.

Step 4: Calculate settlement payments and difference payments.

The contract position is the number of base swap and base cap contracts which is determined using following method:

- The base swap contract volume is set to equal a percentile of load for all the half-hourly intervals in the quarter calculated using data from the **AEMO**.
- The base cap contract volume is set to equal a percentage of load in the highest demand half-hourly interval in the quarter calculated using **AEMO** data, less the base contract volumes.

The hedging strategy used to determine base swap and swap contract volumes are as shown in Table 7.3.

Table 7.3 Contract level percentiles

Quarter	Base swap contracts, percentile of total load	Cap contracts, percentage of the maximum load, less base swap volumes
September	70th	100%
December	20th	100%
March	20th	100%
June	10th	100%

The **commission** uses a 23-month averaging period ending 30 April and Australian Stock Exchange market data to calculate the volume-weighted average of forward prices for each contract type.

The **commission** uses **AEMO** data for the half-hourly profile of load and spot prices for the latest complete 3 calendar years. Spot prices are scaled using 40-day volume-weighted average base swap prices to 30 April less 5% contract premium.

7.5 Calculation of national green scheme costs

The **commission's** approach to estimating costs associated with the **LRET** and **SRES** costs are as follows.

Method to calculate the LRET costs:

LRET costs for financial year 2024–25 (year for example) is calculated using the below formula.

$$\mathrm{LRET\ cost}_{2024-25} = \mathrm{LW}_{2024} \times \mathrm{RPP}_{2024} \times [\mathrm{LGCspot}_{2024} \times (1+\mathrm{HC})] + \mathrm{LW}_{2025}\mathrm{RPP}_{2025} \times [\mathrm{LGCspot}_{2025} \times (1+\mathrm{HC})] + \mathrm{CA}_{2023-24}$$

where the following are defined for each year:

LW denotes the half-yearly load weight for the calendar year.

RPP denotes the renewable power percentage for the calendar year.

LGCspot denotes the average LGC spot price for the calendar year (dollars per LGC), calculated as the 12-month average ending 30 April in the prior year.

HC denotes the holding cost percentage based on half of the cost of debt parameter. The cost of debt is 2.84 per cent per annum for the regulatory period.

CA denotes the **LRET** cost adjustment from the previous financial year.

Method to calculate the SRES costs:
SRES costs for financial year 2024-25 (year for example) are calculated using the below formula.

$$\mathrm{SRES\ cost}_{2024-25} = \mathrm{LW}_{2024} \times STP_{2024} \times [\mathrm{STCspot}_{2024} \times (1+\mathrm{HC})] + \mathrm{LW}_{2025} \times STP_{2025} \times [\mathrm{STCspot}_{2025} \times (1+\mathrm{HC})] + \mathrm{CA}_{2023-24}$$

where the following are defined for each year:

LW denotes the half-yearly load weight for the calendar year.

STP denotes the small-scale technology percentage for the calendar year.

STCspot denotes the average STC spot price for the calendar year (dollars per STC), calculated as the 12-month average ending 30 April in the prior year.

HC denotes the holding cost percentage based on half of the cost of debt parameter. The cost of debt 2.84 per cent per annum for the regulatory period.

CA denotes the **SRES** cost adjustment from the previous financial year.

7.6 Calculation of energy losses

The **commission** determines the energy losses component by applying **AEMO's** transmission and distribution loss factors to the energy purchase cost component, **LRET** and **SRES** costs and the **NEM fees**.

The current energy loss component of the wholesale energy cost category is calculated as follows in dollars per MWh:

$$\text{Energy loss } = \text{EPC}^{\text{t}} \times (\text{MLF}^{\text{t}} \times \text{DLF}^{\text{t}} - 1)$$
$$+(\text{LRET and SRES}^{\text{t}} + \text{NEM fees}^{\text{t}}) \times (\text{DLF}^{\text{t}} - 1)$$

where the following are defined for each financial year t:

EPC denotes the energy purchase cost (in dollars per MWh).

LRET and **SRES** costs denote the total costs to meet **LRET** and **SRES** requirements calculated according to clause 7.5 (in dollars per MWh).

NEM fees denote the National Electricity Market fees (in dollars per MWh).

DLF denotes the distribution loss factor applicable to the **ACT**.

MLF denotes the marginal loss factor applicable to the **ACT.**

8. Pass-through events

8.1 Application for a pass-through event

ActewAGL may make an application to the **commission** for consideration of a pass-through event as part of the annual recalibration process at clause 7. Applications may be made for the following events:

(a) Regulatory change event (clause 8.5); or

(b) Tax change event (clause 8.6).

8.2 The commission may accept, reject or amend the application

When considering an application for a pass-through event, the **commission** may accept, reject or amend the pass-through application. If the **commission** amends a pass-through application, the amended costs are those that are passed through in the annual recalibration. The **commission** will provide a statement of reasons if it rejects or amends a pass-through event.

8.3 The commission may initiate a pass-through event

The **commission** may initiate one or more pass-through events set out under clauses 8.5 and 8.6 without an application from **ActewAGL**. The following steps will be taken in relation to a pass-through event initiated by the **commission**:

(a) The **commission** will advise **ActewAGL** that it is intending to initiate a pass-through review as part of an annual recalibration process.

(b) The **commission** will provide **ActewAGL** with a document outlining the **commission's** proposed decision, including any relevant material on which the decision is based.

(c) **ActewAGL** will be provided with the opportunity to respond to the **commission's** proposed pass-through decision before the **commission** determines and provides the value of Yt to **ActewAGL** under clause 7.1.

8.4 Further information

The **commission** may seek further information from **ActewAGL** in relation to an application for a pass-through event or a **commission** initiated pass-through event.

8.5 Regulatory change event

A regulatory change event is a change in a regulatory obligation or requirement that:

- effect of varying the nature, scope, standard or risk of providing services to **small customers**, or the manner in which those services are provided
- may result from a decision, or passing of legislation or regulation

A regulatory change event may include obligations in respect of:

- any customer hardship program
- retailer of last resort events
- environmental schemes including the **LRET** and **SRES** schemes and the Energy Efficiency Improvement Scheme; or
- changes in distribution or transmission charges.

A pass-through will only be allowed where an event results in **ActewAGL** incurring materially higher or lower costs in providing services covered by this price direction, such that the impact on costs ActewAGL has incurred, as a result of this event, exceeds $200,000.

8.6 Tax change event

A tax change event means the imposition of or a change in a **relevant tax**, the removal of a **relevant tax**, or a change in the way a **relevant tax** is interpreted or calculated where the outcome of the change affecting **ActewAGL** occurs on or after 31 May 2024 and before 30 June 2027. A **relevant tax** is any tax, levy, impost, deduction, charge, rate, duty or withholding tax that is levied on **ActewAGL** by any authority and is payable by **ActewAGL**, other than:

- income tax and capital gains tax
- stamp duty
- **AEMO** fees
- fees payable by **ActewAGL** in respect of its retail licence
- penalties, charges, fees and interest on late payments, or deficiencies in payments, relating to any tax; or
- any tax that replaces or is equivalent or similar to any of the taxes referred to above (including any state or territory-equivalent tax).

8.7 Calculation of a regulatory change or tax change event

8.7.1 General matters

The **commission** will calculate the pass-through amount when considering a pass-through event as part of an annual recalibration process having regard to the following matters:

- the implications for the efficient costs of **ActewAGL's** actions, including whether **ActewAGL** has taken or omitted to take any action where such action or omission has increased the magnitude of the costs incurred
- the need to ensure that **ActewAGL** does not recover costs to the extent that provisions have already been made or otherwise taken into account
- the need to ensure that **ActewAGL** only recovers any actual or likely increment in efficient costs to the extent that such an increment is solely as a consequence of a pass-through event from the date the event occurred
- in the case of a regulatory change event, any costs that **ActewAGL** has incurred prior to, but in preparation for, the occurrence of that regulatory change event
- in the case of a tax change event, any change in the way another tax is calculated, or the removal or imposition of another tax which in the **commission's** opinion is complementary to the tax change event concerned. In addition, in considering any pass-through event, the **commission** may consult with affected stakeholders to the extent the **commission** considers appropriate.

8.7.2 Regulatory change or tax change event pass-through mechanism

If approved as outlined in clause 8, the **commission** will include the value of a regulatory change or tax change pass-through event that occurs on or after 1 July 2024 and before 30 June 2027, when determining the maximum average price change, in the cost-index model.

Part C Legislative provisions

Nothing in part C limits the provisions of the **Act**.

9. Price direction variation trigger events

In accordance with sections 20A(3)(c) and 24F(2) of the **Act**, the following events are price variation trigger events which allows the **commission** to initiate, at its discretion, a reference for the variation of the price direction:

(a) an act of terrorism

(b) a major natural disaster

(c) a significant change to **ActewAGL's** financial or corporate structure

(d) an unforeseen or force majeure event that severely restricts **ActewAGL's** ability to provide services; or

(e) the cost-index model, its components or the determination of Y^t under clause 7 becoming unworkable due to a legislative provision, government policy or other cause (or any number or combination of the aforementioned).

10. Reset principles

Pursuant to section 20B of the **Act**, the future reset principles are:

(a) the **commission** will seek a reference from the relevant minister regarding services covered by this Price Direction 14 months prior to the expiry of the regulatory period set out in clause 2 of this Price Direction

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