



Proposed statement of reasons

1. Legislative requirement

This proposed statement of reasons (statement) is set out pursuant to section 18(5)(b) of the *Independent Competition and Regulatory Commission Act 1997* (ICRC Act or the Act). The statement sets out the reasons for the proposed price direction¹ for the standing offer prices for the supply of electricity to small customers of ActewAGL Retail consuming less than 100MWh of electricity over any consumption period of 12 consecutive months.

2. Authority for the investigation and price direction

The Commission was issued an industry reference by the ACT Treasurer under section 15(1) of the ICRC Act to undertake an investigation for the provisions of a price direction for the standing offer prices for the supply of electricity to small customers consuming less than 100MWh of electricity per year. Under section 16(1) of the ICRC Act, the ACT Treasurer also issued the terms of reference for the investigation.

In accordance with the terms of reference, the Commission is conducting an investigation under Part 3 of the ICRC Act. At the conclusion of the investigation, the Commission will issue a final price direction. The proposed price direction has been set out in accordance with Part 4 of the ICRC Act as if set out as the final price direction. The following sections set out the Commission's reasoning behind the key elements of the proposed price direction.

3. Regulatory period

The terms of reference require the price direction to apply over a three year period from 1 July 2014 to 30 June 2017.

4. Application of the price direction

The terms of reference require the price direction to apply only to the authorised electricity retailer ActewAGL Retail.

¹ ICRC Report 2 of 2014.

5. Standing offer prices

Under section 20A of the ICRC Act, the Commission must include in a price direction a direction about the pricing of regulated services in the form of either or both of the following:

- (a) a price, a maximum price or both a minimum and maximum price for each regulated service;
- (b) a maximum total amount (revenue cap) that may be earned by a person providing regulated services from the provision of those services.

The Commission has set out in Part B of the proposed price direction a maximum price in the form of a weighted average price cap. The Commission calculates Y^t , which is the maximum percentage change in average standing offer prices determined in accordance with the cost-index model. For the 2014–15 regulatory year, Y^t is calculated as 1.18 per cent. The Commission has set out formulae and a method by which Y^t is to be calculated annually for the remainder of the regulatory period. Discretion to apply a formula is outlined in section 20A(3)(a) and discretion for a method is outlined in section 20A(3)(b). Therefore, while the subsections are discretionary - as per section 146(1) of the *Legislation Act 2001* - the Commission has exercised its functions under Part 4 in reliance of their application to the proposed price direction.

The weighted average price cap formula is discussed in more detail in Chapter 2 and the cost-index model is further elaborated in Chapter 3 of the draft report. More detail on the calculation of the Y^t for 2014–15 is contained in Chapter 5 of the draft report.

6. Annual recalibration

The Commission has set out a form of regulation whereby certain components of the Commission's cost-index model are recalibrated annually through the methodology set out in the proposed price direction. The methodology is referred to as an annual recalibration, and is set out in more detail in Chapter 6 of the draft report and Part B of the proposed price direction.

The form of regulation set out in the proposed price direction is designed to build on the current form of regulation while ensuring that the regulatory model will cope with unforeseen circumstances, such as potential changes to the price on carbon arrangements set out in the *Clean Energy Act 2011 (Cth)*. Specifically, the combination of the three year regulatory period and the annual recalibration of the components of the cost-index model are considered an appropriate means of ensuring sufficient flexibility to take account of updated cost information.

7. Pass-through events

Part B of the proposed price direction provides for pass-through arrangements to deal with costs that have not been incorporated into cost-index model at the time of making the price direction. The proposed price direction includes pass-through arrangements for regulatory and tax change events. It also includes a mechanism to deal with changes in the price on carbon legislation subsequent to the making of the price direction. These arrangements ensure that electricity prices remain reflective of underlying costs throughout the term of the regulatory period. A detailed discussion of the proposed pass-through arrangements is contained in Chapter 6 of the draft report.

8. Price direction trigger events

The proposed price direction provides for the usual set of trigger events that the current price direction contains, such as acts of terrorism and major natural disasters. The Commission is proposing an additional trigger event for

the 2014 to 2017 regulatory period that will allow the Commission to vary the price direction, should the complexities of the new price on carbon arrangements overwhelm the proposed pass-through mechanism. These triggers are set out in Part C of the proposed price direction.

9. Reset principles

The proposed price direction provides for one reset principle that requires the Commission to seek a reference from the relevant Minister 18 months prior to the expiry of the regulatory period. The reset principle is set out in Part C of the proposed price direction.