

Mr Joe Dimasi
Senior Commissioner
Independent Competition and Regulatory Commission
PO Box 161
Civic Square ACT 2601

By email icrc@act.gov.au

31 August 2023

Dear Mr Dimasi

Standing offer prices for the supply of electricity to small customers from 1 July 2024 – Issues Paper

ActewAGL Retail (“ActewAGL”) welcomes the opportunity to respond to the Independent Competition and Regulatory Commission’s (“the Commission”) Issues Paper for its investigation into standing offer prices for the supply of electricity to small customers from 1 July 2024 (“the Issues Paper”).

The ACT retail electricity market has changed significantly over the last three years. Almost 80 per cent of customers are on market offers, and switching rates are comparable to markets with 10 times more customers than the ACT. Retail competition in the ACT is intense, despite the limited pool of customers relative to some other jurisdictions.

The Issues Paper comes at a time of both strong retail competition in the ACT and heightened volatility in the wholesale market. It is more important than ever that the standing offer methodology promotes the long run interests of ACT electricity consumers by stimulating competition, while providing a reasonable return for the only price regulated ACT electricity retailer, ActewAGL.

The standing offer also informs the ACT’s Reference Price which provides a point of comparison for customers to evaluate and compare retail offers. The introduction of the ACT’s Retail Electricity (*Transparency and Comparability*) Code (“ACT Code”) has provided customers with additional information so they can make informed decisions when engaging with the retail electricity market.

Customers have benefited from the Better Offer Obligation and Clear Advice Entitlement in the ACT Code. However, some of the benefits of the Reference Price Obligation are yet to be realised due to the timing of the Commission’s final decision and the ACT Government’s Reference Price Determination which make it difficult for ActewAGL to comply with the ACT Code.

If the Commission’s final decision and the making of the Reference Price Determination occur too late it does not provide ActewAGL with sufficient time to process, print and deliver price variation letters and meet both its National Electricity Retail Rules (NERR) and ACT Code

Obligations. ActewAGL supports changes to the timeline outlined in the attached response to Question 11 in the Issues Paper to allow sufficient time for retailers in the ACT to meet Reference Price Obligations from 1 July each year.

ActewAGL also supports the review of key aspects of the cost stack methodology, which have in some respects, deviated from the approaches of other regulators and may be impacting competition in the ACT.

The attached appendix provides ActewAGL's response to each of the questions raised in the Issues Paper.

Should you have any questions or wish to discuss the matters raised in this submission further, please contact ActewAGL's Group Manager Business Intelligence and Transformation, Rohan Richardson on 02 6248 3592 or via email to Rohan.Richardson@actewagl.com.au.

Yours sincerely

A handwritten signature in black ink, appearing to be 'Rachael Turner', written over a light grey circular watermark.

Rachael Turner
General Manager - ActewAGL Retail

Appendix: ActewAGL's response to questions raised in the Commission's Issues Paper

This appendix provides ActewAGL's response to the questions raised by the Commission in its Issues Paper.

1. Do you have any comments on electricity prices and competition in the ACT or on others measures that could improve the balance between them to improve outcomes for ACT consumers?

ActewAGL considers that competition has matured and is now effective in the ACT. A range of measures show the strength of the ACT's retail market, despite it having the lowest regulated prices in the National Electricity Market (NEM).

Customers in the ACT have access to a range of offers and associated products and services from 16 active retailers. Competition for market share has been intense, with retailers designing offers at various price points and featuring a range of attributes, including;

- discounts off the Reference Price;
- premium solar feed-in tariffs;
- fixed pricing over multiple years;
- bundling with gas and/or telecommunication services;
- various payment arrangements;
- discounted appliance upgrades;
- electric vehicle charging options;
- battery orchestration; and
- accredited GreenPower products.

In addition to offering a wide variety of electricity offers and related services, retailers in the ACT are engaging with consumers more proactively to win market share. This includes direct marketing activity through various means including shopping centre kiosks, door knocking and online acquisition campaigns. Most ACT retailers also utilise national sales channel partners to contact ACT electricity consumers (on their behalf) to gain market share.

The significant increase in retail competition has resulted in ActewAGL's market share reducing from 95 per cent in 2014/15¹ to 74 per cent in March 2023² – a reduction of 21 percentage points over 8 years. While the number of active retailers in the ACT is lower than other jurisdictions, it has not prevented customers from having access to a broad range of offers, innovative products and competitive prices.

The recent small decline in the number of retailers in the ACT has been due only to multi-jurisdictional retailers, including Elysian and Powerclub, exiting the industry in general rather

¹ AER 2015, *Annual report on the performance of the retail energy market 2014-15*, 2015, p. 57.

² ICRC 2023, *Issues Paper: Standing offer prices for the supply of electricity to small customers from 1 July 2024, Report 5 of 2023*, August 2023, p. 6.

than specifically choosing to exit the ACT market.

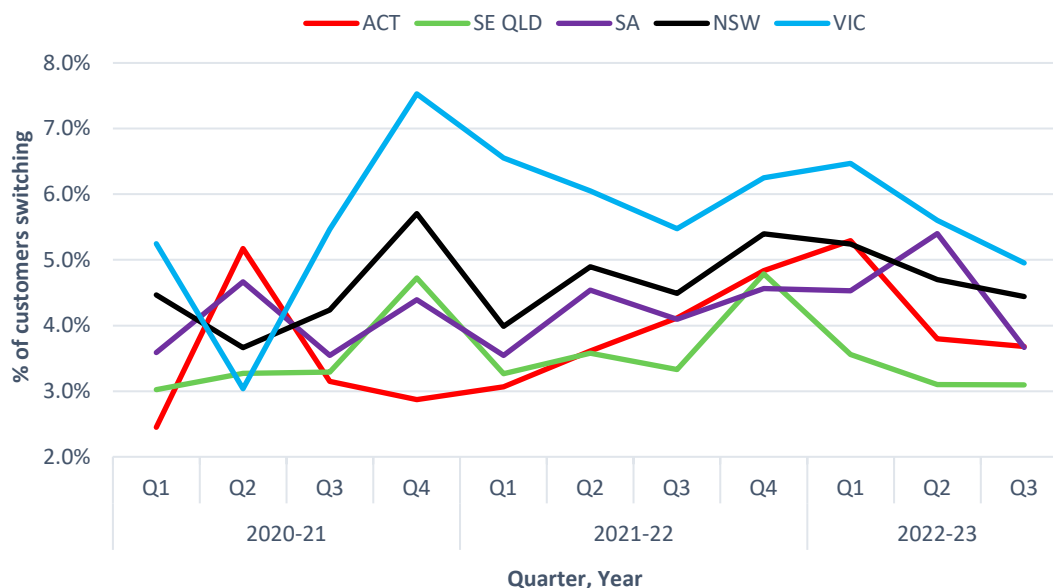
Another key measure of market competition is the proportion of customers on market offers. Over the current regulatory period (2020–2024), the proportion of customers on market contracts in the ACT has increased from approximately 68 per cent³ to almost 80 per cent.⁴ Amongst ActewAGL’s ACT customer base, the share of customers on market offers has increased by 12.5 percentage points to 72.2 per cent over the same time period.⁵

The increase in the number of customers on market offers demonstrates the strength of retail competition in the ACT. Comparison to other jurisdictions shows the ACT electricity market is more similar to the New South Wales (NSW), South Australia (SA) and Victorian markets where full competition occurs, than other highly regulated markets like South-East Queensland and Tasmania.

The rate of customer switching between retailers in the ACT is also reflective of a competitive market and comparable to other jurisdictions. In Q1 2022/23 the proportion of customers that changed retailers was the second highest in the NEM – behind only Victoria (Figure 1).⁶

The temporary reduction in the customer switching rate during Q3 and Q4 of 2020/21 can be explained by COVID-19 restrictions impacting some of the direct, in-person sales channels.

Figure 1. Customer switching rates 2020–21 to 2022–23



Sources: AER data, Schedule 2 - Retail energy market performance update for Quarter 3, 2022-23
Notes: Is the percentage of electricity residential and small business customer switching rates

³ AER 2020, *Retail Energy Market Performance Update for Quarter 1, 2020-21, Schedule 2*, December 2020.

⁴ AER 2023, *Retail Energy Market Performance Update for Quarter 3, 2022-23, Schedule 2*, June 2023.

⁵ Ibid.

⁶ Victoria’s switching rate is higher than other jurisdictions due to state government incentive payments, which have been as high as \$250 per customer, under the Power Saving Bonus Program.

Figure 1 also only accounts for switching between retailers. Early anecdotal evidence regarding the Commission's focus on improving transparency and comparability through the ACT Code indicates the vast majority of ACT electricity customers are highly engaged. ActewAGL's data shows customers actively switching between market offers, including between time-of-use and flat tariffs, as well as accessing other market offers and discounts.

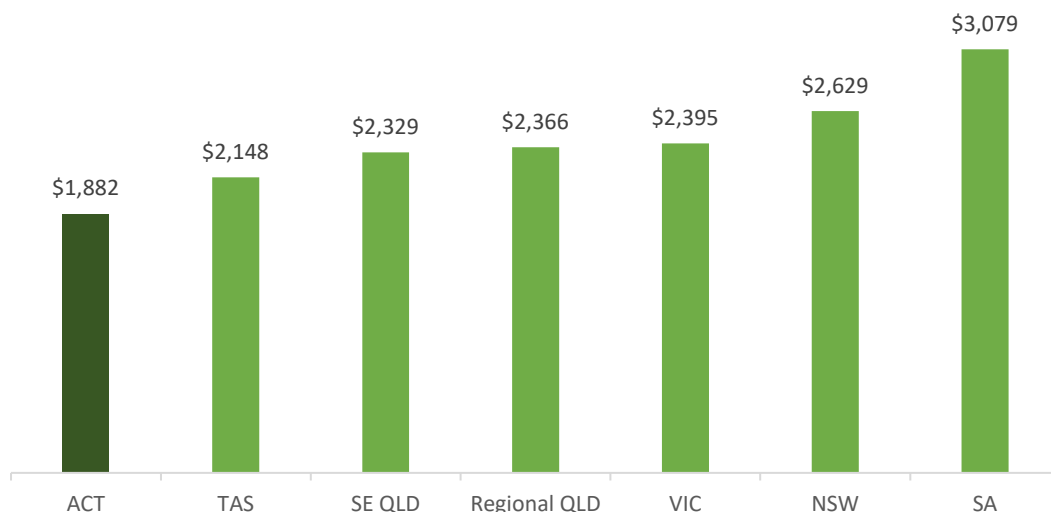
Some components of the cost stack are too low and do not encourage further competition

Setting the standing offer at an appropriate level is important to ensure it balances a reasonable pricing offer for small customers, while promoting competition in the retail electricity market. ActewAGL considers the standing offer is largely still fit for purpose and most components of the methodology provide a reasonable balance between the objectives the Commission seeks to achieve.

However, there are some components of the standing offer cost stack that ActewAGL considers do not currently reflect the underlying intent of the standing offer – to provide a cost reflective benchmark return for an efficient electricity retailer.

The Issues Paper shows the ACT's regulated electricity prices are lower than other jurisdictions (Figure 1).

Figure 2. Maximum annual residential standing offer electricity bills as at 1 July 2023



Sources: ICRC 2023, ESC 2023a, OTTER 2023, QCA 2023 and AER 2023a.
Notes: Bill estimates are based on an annual usage of 6,500 kWh and exclude GST.

Standing offer prices in the ACT have historically been less volatile than other NEM jurisdictions. Lower and more stable prices benefit all electricity customers in the ACT.

While the level of prices in the ACT compared to other jurisdictions, by itself, does not necessarily suggest they are too low, the treatment of some individual components in the cost

stack is not consistent with the approach taken by other regulators that set regulated electricity prices.

For example, the allowance for retail operating costs is considerably lower than the Default Market Offer (DMO) and Victorian Default Offer (VDO).

ActewAGL considers it timely to review the methodology of several cost stack components to ensure they continue to meet the intended purpose of the ACT standing offer price.

2. Do you consider that the implementation of the ACT Reference Price and requirements in the Code have been useful in keeping consumers informed and more confident in choosing a retail electricity plan?

ActewAGL considers the Reference Price and other requirements outlined in the ACT Code have provided helpful information for customers to make informed decisions regarding their electricity plans.

The Reference Price obligation was implemented to make it simpler and faster for customers to compare offers from different electricity retailers.⁷

ActewAGL remains supportive of the Code. The implementation of a Reference Price has meant customers can compare offers with ease and make informed decisions with greater confidence when choosing an electricity plan. Customers can also compare offers on a like-for-like basis between retailers, which promotes further competition in the ACT market.

The obligation on retailers to provide better offer notifications on bills, undertake better offer checks and provide customers with clear, timely and reliable information are all measures which are helping customers make informed decisions and choose an electricity offer that best suits their circumstances.

Customer switching data is demonstrating the ACT Code has proven to be effective and is delivering on intent.

ActewAGL also considers that impending changes to bill design and messaging through the Australian Energy Regulator's (AER's) Better Bills Guideline will further strengthen the information and advice provided to customers regarding their electricity purchasing decisions.

3. Do you have any comments on how we regulate retail electricity prices?

In general terms, ActewAGL is supportive of the Commission's current approach to regulating retail electricity prices in the ACT. The weighted average price cap form of regulation has generally performed well at balancing protection for customers, while promoting competition in the ACT.

ActewAGL continues to find the side constraint restriction problematic, whereby an increase in

⁷ ICRC 2021, Final Report – *Improving the transparency and comparability of retail electricity offers*, July 2021.

any individual charge for a regulated standing offer tariff must not exceed two percentage points above the regulated weighted average price change.

ActewAGL faces different cost drivers for different tariff components and a side constraint can prevent recovery of efficient costs where the composition of a tariff differs from the cost stack.

The rationale to implement a side constraint in 2020 was based on a view that it would provide protection for customers in instances where individual tariffs would otherwise exceed the threshold.

The side constraint restricts ActewAGL's ability to pass-through legitimate changes in costs, particularly with respect to tariffs that are significantly different in composition to the cost stack. For example, year-on-year changes in controlled load energy charges reflect changes in energy purchase costs, and the network component of these tariffs is very low. However, the side constraint is based on the composition of the cost stack, of which network charges have historically been the largest cost and energy purchase costs the second largest.

As a result, changes in controlled load energy charges in the current regulatory period do not reflect the increased wholesale costs attributable to them, and this revenue has instead been recovered from other tariffs (so that the annual percentage change in prices across the tariff basket is achieved). That is, year-on-year changes in prices of other tariffs have been higher than they otherwise would have been because of the side constraint restricting efficient cost recovery from controlled load tariffs.

The ACT standing offer price is the only jurisdictional Reference Price that requires a regulated retail electricity business to comply with a side constraint. For example, under the DMO, retailers have discretion to structure their individual supply and usage charges for single rate, time-of-use and controlled load tariff types so long as the annual bill for an indicative usage customer meets the overall price constraint.

ActewAGL considers having the standing offer price approved at a particular level for individual customer groups does not directly align with the objectives the standing offer price seeks to achieve.

ActewAGL suggests the side constraint be removed from the Commission's control formula going forward.

4. Should we reinstate a materiality threshold for pass-through applications? If so, what threshold level is appropriate?

ActewAGL does not support reinstating a materiality threshold for cost pass through applications. A materiality threshold would add additional regulatory complexity and may prevent legitimate costs from being passed through and reflected in the standing offer price.

Pass through adjustments provide an efficient means of reflecting costs associated with previously unforeseen events. For electricity retailers these primarily relate to additional regulatory changes imposed by jurisdictional and Commonwealth governments, however could

also involve changes to taxes or duties.

Since 2014/15 ActewAGL has made applications to pass through costs related to three regulatory change events which are detailed in Table 1.

Table 1 ActewAGL application for regulatory change events⁸

Regulatory change event	Pass through period	Total amount
Power of Choice	Opex (1 year); Capex (5 years)	\$5.0m
Various regulatory change events ⁹	Opex (1 year); Capex (5 years)	\$2.1m
Market suspension payments	Opex (1 year); Capex (5 years)	\$1.1m

All three events outlined in Table 1 were accepted by the Commission and represented legitimate and efficient regulatory costs imposed on ActewAGL and passed through to customers.¹⁰

While imposing a materiality threshold may provide stability in the standing offer price, it is likely to reduce competition in the ACT retail electricity market. If prudent and efficient costs are not passed on to customers, it will impact all retailers and could reduce competition in the ACT.

Regulatory changes imposed on the retail electricity industry continue to be significant. Over the past few years ActewAGL has incurred costs to comply with a range of new rules and regulations, which have not been passed through to standing offer customers, including:

- Introduction of protections for customers affected by family violence¹¹
- Introduction of metering coordinator planned interruptions¹²
- Maintaining life support customer registrations¹³
- Regulating conditional discounts¹⁴
- Strengthening protections for customers in hardship¹⁵
- Changes to metering installation timeframes;¹⁶ and

⁸ The Power of Choice pass through amount of \$5.04m (\$2018/19) was recovered from customers from 2018/19 to 2022/23. Other figures in this table are in \$2023/24.

⁹ ICRC 2023, *Retail electricity price recalibration 2023-24: standing offer prices for the supply of electricity to small customers, Report 4 of 2023*, June 2023, p. 9.

¹⁰ With the exception of part of the various regulatory change events pass through related to changes to the electricity B2B framework.

¹¹ AEMC, *National Energy Retail Amendment (Protecting Customers Affected by Family Violence Rule 2022*, 15 September 2022.

¹² AEMC, *National Electricity Amendment (Introduction of Metering Coordinator Planned Interruptions) Rule*, 21 May 2020

¹³ AEMC, *National Energy Retail Amendment (Maintaining life support customer registration when switching) Rule 2021*, 25 February 2021

¹⁴ AEMC, *National Energy Retail Amendment (Regulating Conditional Discounting) Rule*, 27 February 2020.

¹⁵ AEMC, *National Energy Retail Amendment (Strengthening Protections for Customers in Hardship) Rule 2018*, 15 November 2018.

¹⁶ AEMC, *National Energy Retail Amendment (Metering Installation Timeframes) Rule 2018*, 6 December 2018.

- Notification of end of fixed benefit period.¹⁷

The above list is not exhaustive, however demonstrates the extent of regulatory change and costs imposed on the retail electricity industry.

ActewAGL consistently exercises prudence when considering whether to make an application to pass costs through to customers on a Reference Price. The application process imposes costs including resourcing to draft and lodge a cost pass through, the provision of external audit and assurance advice regarding costs, responding to follow up questions and any further substantiations required regarding the prudence and efficiency of costs incurred.

ActewAGL considers these costs already act as the equivalent of a materiality threshold.

A materiality threshold is already in effect

ActewAGL notes that an implied materiality threshold is currently imposed on cost pass through amounts. The Commission rejected ActewAGL's application to pass through regulatory costs in 2023/24 to comply with changes to the electricity B2B framework. The Commission considered that the changes did not impact the nature, scope, standard, risk and manner of providing services to small customers despite requiring a total cost of \$373,395 to implement.

In its assessment, the Commission noted the retail operating cost component of the cost stack included some allowance for compliance with regulatory obligations. ActewAGL considers the component of the retail operating cost allowance that reflects cost to comply with regulatory obligations is too low, if it is expected to compensate an efficient retailer for both new and ongoing compliance obligations. ActewAGL's response to Question 12 below provides further information on this matter.

If a materiality threshold is defined through this review, ActewAGL suggests it be set using the following principles:

- The threshold should be clearly defined and not impose restrictions on how costs are recovered or on the categorisation of costs (i.e., opex vs capex); and
- The threshold should be proportional and reflect an amount that balances risks between the regulated business and customers.

If it were to be defined in quantitative terms through this review, ActewAGL considers an appropriate materiality threshold would be approximately \$400,000 for the total cost of the regulatory change event.

Costs should be passed through based on an appropriate impactor

ActewAGL notes that price signals should reflect efficient costs attributable to identifiable beneficiaries or impactors. ActewAGL's cost pass through applications as part of the 2023/24 recalibration sought to recover costs associated with some regulatory change events based on

¹⁷ AEMC, *National Energy Retail Amendment (Notification of the end of a fixed benefit period) Rule 2017*, 7 November 2017.

customer numbers rather than energy volumes.

The Commission disagreed with this cost allocation approach, citing consistency with its past regulatory decisions (amongst other reasons). Allocating costs based on energy volumes results in larger energy users, including commercial customers and large families paying a higher share of regulatory costs.

ActewAGL considers flexibility should be maintained when considering an appropriate impactor to allocate costs. For some cost pass through events, it may be appropriate to allocate costs based on energy volumes, while for others it may be appropriate to allocate costs based on customer numbers.

For example, ActewAGL considers implementation costs to comply with the AEMC's *Reducing customers' switching times* Rule Change should be predominantly recovered from small customers (based on an allocation method that assigns costs using customer numbers), rather than energy volumes. This is because small customers are the primary benefactors of the rule change.

5. Do you have any comments on our assumption that prudent retailers will hedge their exposure to risk by purchasing hedging contracts on the ASX?

ActewAGL considers the assumption that a prudent retailer will hedge their exposure to risk by purchasing hedging contracts on the ASX remains appropriate because the ASX futures market is transparent and highly liquid.

6. Do you have any comments on the approach to determining an appropriate contract position, and specifically on the treatment of peak swap contracts?

ActewAGL supports the current energy purchase cost methodology, noting other regulators use a different approach to determine an appropriate contract position. ActewAGL proposes this question should be approached in an evidence-based way and consider whether change is warranted within the context of considering an optimal portfolio approach as a whole.

To this end, ActewAGL supports the engagement of an independent third party to re-examine the optimal hedge portfolio strategy.

7. Do you have any comments on the length of the averaging period or the proposed dates for the averaging period?

ActewAGL considers the 30 April end date of the averaging period is appropriate. The end date supports the Commission making its final decision before June each year.

The current methodology uses a 23-month averaging period from 1 June and ending 30 April each year that prices are recalibrated. ActewAGL supports increasing the averaging period by 1 month to a 24-month period, from 1 May to 30 April. The change would not impact the timing of the Commission's final decision.

8. Do you consider that the current approach of using actual load data for 5 calendar years remains appropriate?

ActewAGL supports the current approach of using actual load data for 5 calendar years. 5 years provides a sound balance between responsiveness and stability of model outcomes.

9. Do you have any comments on the approach to calculating spot prices?

ActewAGL supports the current approach used to calculate the 30 minute spot prices from 5 minute data.

ActewAGL would support this position being revisited in the next methodology review when more smart meter data will be available. Regardless of the approach taken, ActewAGL considers it critical that the energy purchase cost model remains replicable.

10. Are changes required to the estimation of the volatility allowance? If so, how should we determine the volatility allowance?

ActewAGL supports inclusion of the volatility allowance in the Reference Price methodology. ActewAGL considers the current estimate is low, and a review of the methodology is timely. The 2023/24 VDO volatility allowance is on average 2.2 times higher than the methodology adopted by the Commission.¹⁸

Considering the potential for increased volatility in wholesale electricity prices as the energy transition continues across the NEM, it would be prudent and timely to review and update the methodology now and make it consistent with other jurisdictions where retailers are facing similar volatility risks.

11. Do you have any comments on our proposed changes to the timing of LRET and SRES cost estimates?

ActewAGL supports using a 12 month averaging period but proposes bringing forward the spot price period by one month to 30 April, to align with the date other data in the energy purchase cost model is available.

The current timing of Large-scale Renewable Energy Target (LRET) and Small-scale Renewable Energy Target (SRES) costs, which are provided to 31 May each year, unnecessarily delays the final output of the cost-index model that informs the Commission's final decision on the standing offer.

The delay has a cascading effect that impacts the timing of the final decision, the Commission approving ActewAGL's tariffs compliance with the standing offer and the ACT Government publishing its Reference Price Determination.

To comply with the NERR, ActewAGL must inform customers in writing through a price variation letter of new prices with at least 5 business days' notice. To meet the obligations in the ACT

¹⁸ ESC 2023, *Victorian Default Offer 2023-24, Final Decision Paper*, May 2023, p.82

Code, ActewAGL must compare new prices from 1 July with the new Reference Price outlined in the ACT Government's Reference Price Determination. To ensure compliance, ActewAGL must update data in its billing system, print and send letters no later than mid-June. In some years the ACT Government's Reference Price Determination has been published later than this date.

Figure 3 illustrates the current timeline and identifies how leaving the LRET and SRES costs to 31 May creates a very narrow window to implement the annual price recalibration. Last year the Commission published its Final Decision on 7 June followed by the ACT Government publishing the Reference Price Determination on 14 June. For comparison, the DMO Final Determination was released on 25 May.

Figure 4 shows ActewAGL's proposed timeline for setting the standing offer and reference price each year. Moving the 12 month LRET and SRES cost data collection period forward to 1 May - 30 April would enable the ACT Government to publish the Reference Price Determination by 1 June, and ActewAGL to comply with both its NERR and ACT Code requirements by 1 July.

In the event actual network costs are unavailable by 30 April, ActewAGL would support using estimates based on publicly available data from the AER.

Figure 3. Current Timeline

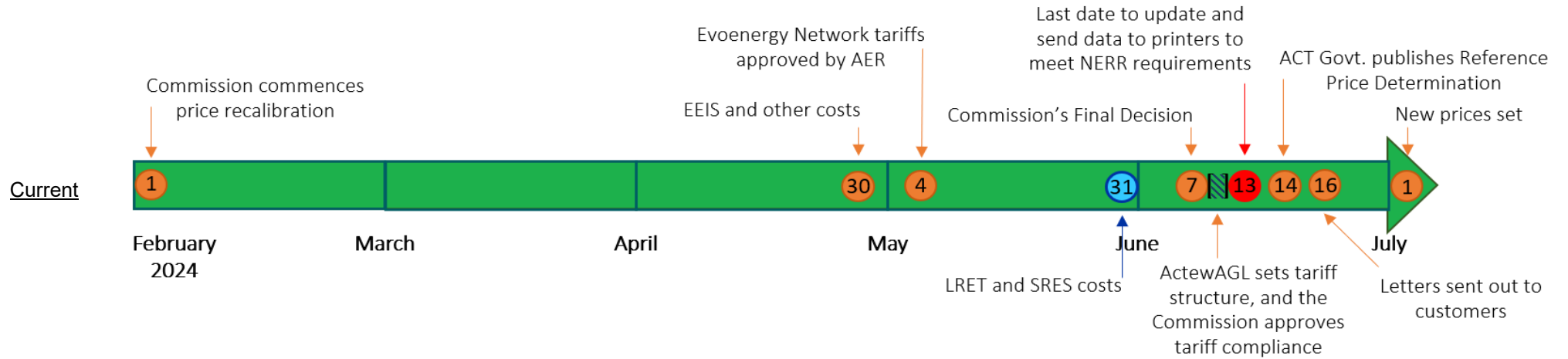
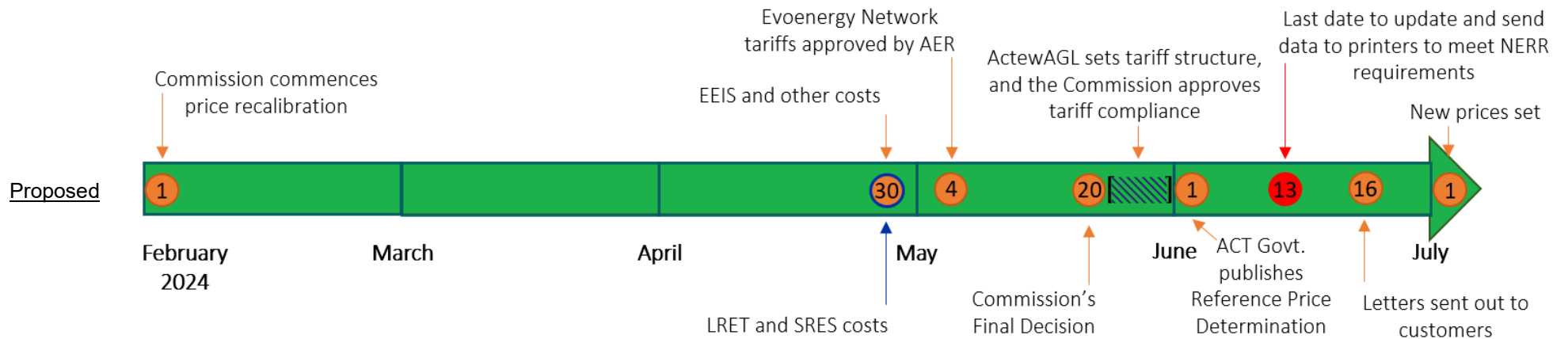


Figure 4. Proposed Timeline



12. Do you have any comments on the approach we should use for determining NEM fees?

ActewAGL considers NEM fees should be treated similarly to network costs and passed through and reflected directly in the cost stack, rather than indexed by the Consumer Price Index (CPI) each year.

ActewAGL notes that several other regulators including the AER, Essential Services Commission (ESC), Queensland Competition Authority (QCA) and the Office of the Tasmanian Economic Regulator (OTTER), all pass AEMO’s budgeted NEM fees and charges through in regulated retail electricity prices.

13. What benchmarks should the commission consider in determining the retail operating cost allowance?

ActewAGL supports a review of the benchmarks used to determine the retail operating cost allowance. The issues paper shows a comparison of retail operating costs between jurisdictions, which has been reproduced below in Table 4.

Table 4 Retail Operating Costs Per Customer by jurisdiction (\$2023/24)¹⁹

Jurisdiction	Retail Operating Costs
ACT	\$143
VDO (Vic)	\$184
DMO (NSW, SA, Qld)	\$164–\$172

The ESC reviewed and updated its approach for the 2023/24 VDO using actual costs provided by Victorian retailers. It provides an operating cost allowance that is almost 30 per cent higher than the current allowance for the standing offer in the ACT.

The DMO methodology, which is based on the Australian Competition and Consumer Commission’s (ACCC) 2018 inquiry into retail prices in the NEM also produces a materially higher estimate.

ActewAGL supports reviewing the methodology because it diverges from the approach used by other regulators, and it is set too low given the material increase in some cost categories over the past few years, including regulatory costs.

To provide clarity on costs that are additional and that qualify under the cost pass through provisions, an outline of the allowance for regulatory costs should be provided in the methodology.

¹⁹ ICRC 2023, *Issues Paper: Standing offer prices for the supply of electricity to small customers from 1 July 2024, Report 5 of 2023, August 2023*, p.17

The retail operating cost allowance should account for the increased competition in the ACT

The current approach does not reflect the increase in competition in the ACT electricity market in recent years or that some efficient cost categories such as customer acquisition and retention costs (CARC) should be higher and separately estimated in the cost stack.

The ACCC's 2018 inquiry into retail prices in the NEM stated that the level of a retailer's CARC was closely correlated to the level of switching in the market. Specifically, it states that the level of CARC is lower in jurisdictions with low switching rates compared to those with higher switching rates.²⁰

Customer switching rates in the ACT are as high or higher than other jurisdictions the ACCC concludes experience full competition.²¹ Customer switching rates have also been trending upwards in the ACT over a number of years now. Further, the methodology currently used was set in 2003 when competition in the ACT was limited and has not been revisited since.

The ACT retail electricity market has changed significantly over the last three years. Almost 80 per cent of customers are on market offers, with a switching rate that is comparable to markets with 10 times more customers than the ACT. Retail competition in the ACT is intense despite the limited pool of customers relative to other jurisdictions.

CARC should be separately estimated in the cost-stack model

In its final report for its 2020 Price Investigation the Commission stated its retail cost allowance included the cost to service as well as the reasonable costs of customer acquisition and retention. Specifically, the Commission noted that its retail operating cost allowance included the following components:

- Customer care and all call centre operations;
- Billing and charging;
- Sales and marketing, being primarily the costs of communicating the transitional regulated tariff arrangements;
- Collection and default;
- Administration (business overheads such as finance, human resource management, energy contracting and regulatory administration); and
- Retail competition activities, such as churn management and advertising for new customers.²²

The final decision states:

...The Commission includes only the reasonable costs of CARC in its retail operating allowance. These reasonable costs may be lower in the ACT

²⁰ ACCC 2018, *Restoring electricity affordability and Australia's competitive advantage: Retail electricity price inquiry – final report*, 11 July 2018.

²¹ ACCC 2022, *Inquiry into the National Electricity Market: May 2022 report*, May 2022, p. 12.

²² ICRC 2020, *Retail electricity price investigation 2020-24 – Final Report*, June 2020, p.36.

compared to other jurisdictions, such as Victoria, because of lower switching rates in the ACT.

As outlined in ActewAGL's previous submissions, it considers CARC should be separately estimated in the cost-stack model. This will ensure the model only includes efficient costs that are transparent for all interested stakeholders.

ActewAGL supports maintaining the current approach of adjusting the retail operating cost allowance each year by CPI, after it has been rebased

ActewAGL supports maintaining the approach of adjusting the operating cost allowance each year by CPI. The CPI remains an appropriate index that closely tracks a Retailer's costs to service over time.

ActewAGL supports this approach subject to a review and rebasing of the current retail cost allowance.

Recovering the costs of the Commission's review of the ACT standing offer

The costs of the Commission's review of the ACT standing offer are likely to be material.

With the introduction of the Retail Electricity (Transparency and Comparability) Code in 2021, the standing offer now informs a Reference Price which all retailers in the ACT are required to use. Given the broader function of the review, it is appropriate that all of the costs of the Commission's current review are recovered from all retailers through an industry levy. The costs of the review should also be transparently itemised in the cost stack methodology.

14. Do you have any comments on the approach we should adopt for determining the retail margin?

The standing offer price should reflect the operating costs of an efficient retailer, including a reasonable retail margin. ActewAGL supports a retail margin that is consistent with and balances the broader principles of the ACT standing offer price.

The current retail margin of 5.3 per cent of the cost stack (equivalent to a retail margin of 5.6 per cent) is lower than some other jurisdictions and does not provide a reasonable or efficient return.

The methodology also sets a lower retail margin than that recommended by independent consultants, including SFG Consulting, which recommended a range from 5.3 to 6.1 per cent in a 2013 study for the Independent Pricing and Regulatory Tribunal (IPART).²³

The Commission's Final Decision for the 2020–24 regulatory period was to increase the retail margin by 0.3 percentage points to 5.6 per cent. The decision reflected a value within a range using the SFG Consulting methodology, updated to use wholesale costs and interest rates in

²³ SFG Consulting, *Estimation of the regulated profit margin for electricity retailers in New South Wales*, June 2013, p. 30

2020.

The risks of retailing electricity in the ACT have increased since the last time the Commission reviewed the retail margin. In 2022/23 there were 7 Retailer of Last Resort (ROLR) events in the NEM and for a period there was a significant reduction in available offers in the ACT. Key inputs, including wholesale costs and interest rates have changed markedly since 2020.

ActewAGL supports updating the methodology to provide a reasonable retail margin within the standing offer price methodology. This could include updating the SFG Consulting study using the latest available information or undertaking an additional independent study that takes into account current risks facing electricity retailers in the ACT.