



ICRC

independent competition and regulatory commission

██████████
General Manager
ActewAGL Retail
GPO Box 366
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By e-mail: ██████████

Dear ██████████

Electricity Model and Methodology Review 2018–19: Request for Clarification on Information Provided

The Independent Competition and Regulatory Commission (the Commission) is currently undertaking a review of its pricing model and methodology (Review) for the supply of electricity to small customers on ActewAGL Retail (AAR)'s regulated tariffs. Thank you for providing the Commission with retail cost data and supporting information that AAR provided to the Australian Competition and Consumer Commission (ACCC) and for meeting with us on 20 November 2018 to present on the data and answer our questions.

As agreed at the meeting on 20 November, to help us to better understand the nature and magnitude of ActewAGL's retail costs, the Commission requests further clarification on the following. I would appreciate your response by Friday, 1 March 2019.

Table 1: All ActewAGL electricity customers (ACT + NSW residential, SMEs and C&I)

- Please provide an explanation of how cost-to-serve differs across residential, SME and C&I customers and the main drivers of these differences.

Table 2: ActewAGL Retail residential electricity customers (ACT regulated and non-regulated + NSW)

- Does the cost-to-serve differ between regulated and non-regulated ACT customers, or between ACT customers and NSW customers? If so, the Commission requests disaggregated cost information for ACT and NSW customers, as well as for ACT regulated and non-regulated customers.

Table 5: Breakup of retail operating costs

The operating cost categories used for the Commission's electricity pricing model differ from the operating cost categories used by ActewAGL in its presentation of retail operating costs in Table 5. Thank you for providing an explanation of ActewAGL's cost categories at the meeting on 20 November. As agreed at that meeting, the Commission has attempted to map the two sets of cost categories, as set out in the Table below, based on our understanding of ActewAGL's definition of the cost categories.

Table: Proposed mapping of retail costs

Cost components in the Commission’s retail operating cost component	AAR’s retail cost categories provided to the ACCC
Customer care and call centre operations	Customer service costs
Billing and charging	Billing costs and Project related costs
Sales and marketing (being primarily the costs of communicating the transitional regulated tariff arrangements)	Pricing and product development
Collection and default	Debt collection costs and Bad debt costs
Administration (business overheads such as finance, human resource management and regulatory administration)	Finance and administration costs, Executive costs, Retail shopfront costs, Other costs to serve, Depreciation and amortisation costs, Interest costs, Other shared costs and Interest costs
Retail competition activities (such as churn management and advertising for new customers)	Total cost to acquire and retain, which includes: <ul style="list-style-type: none"> • Mass market sales team • Corporate marketing costs • Retail marketing costs • Sponsorship costs • Corporate sales team • Other costs to Acquire and Retain

The Commission seeks ActewAGL’s feedback on this mapping, in particular:

- Does the proposed mapping accurately align ActewAGL’s cost categories with the Commission’s cost categories? If not, please advise of a more accurate mapping and explain the reasons for the change(s).
- To what extent do AAR’s cost categories span more than one category in the Commission’s pricing model? For example, does ActewAGL consider that Retail shopfront costs would more accurately map across the categories relating to Administration and Customer care, rather than just Administration? If so, please advise of a more accurate mapping, explain the reasons and provide a guide as to what proportion of costs would fall within each category.
- What is included in the “Other costs to serve” and “Other shared costs” components in the data provided to the ACCC? Which of the Commission’s cost categories would these costs fall within? If they would align with more than one of the Commission’s cost categories, please advise of the proposed mapping, explain the reasons, and provide a guide as to what proportion of costs would fall within each category.

To better understand the retail operating costs faced by AAR, the Commission is also seeking information related to the administrative costs associated with wholesale energy trading. Specifically:

- Please advise whether administrative costs associated with wholesale energy trading were included in the cost to serve data provided to the ACCC? If so, which of ActewAGL’s cost categories were they included in?

- The Commission requests disaggregated information on the administrative costs associated with wholesale energy trading, including: (a) the cost of operating an energy trading desk, should one exist; and/or (b) contractual costs incurred by AAR that relate to wholesale energy trading – for example, the costs paid by AAR to another organisation that either provides energy trading services to ActewAGL and/or manages all or some of the activities involved in purchasing energy (including hedging) on AAR’s behalf.

I appreciate ActewAGL’s assistance with this information request and ActewAGL’s broader contributions to the Commission’s Review.

Please contact me or [REDACTED] on [REDACTED] or [REDACTED] should you have any queries about this letter.

Yours sincerely

[REDACTED]

Dr Annette Weier
Chief Executive Officer
11 February 2019