



ICRC

independent competition and regulatory commission

Statement of reasons

1. Legislative requirement

This statement of reasons (statement) is required under section 21(1)(c)(ii) of the *Independent Competition and Regulatory Commission Act 1997* (ICRC Act or the Act). The statement sets out the reasons for the price direction¹ for the standing offer prices for the supply of electricity to small customers on ActewAGL's² regulated tariffs.

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 on ActewAGL's regulated tariffs. Under section 16(1) of the ICRC Act, the ACT Treasurer issued the terms of reference for the investigation.

In accordance with the terms of reference, the Commission conducted an investigation under Part 3 of the ICRC Act. At the conclusion of the investigation, the Commission has issued a price direction. The price direction has been set out in accordance with Part 4 of the ICRC Act. The following sections set out the Commission's reasoning behind the key elements of the price direction.

3. Regulatory period

The terms of reference require the price direction to apply over a four-year period from 1 July 2020 to 30 June 2024.

4. Application of the price direction

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

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:

¹ ICRC Report 10 of 2020.

² ActewAGL' means the partnership of Icon Retail Investments Limited (ABN 23 074 371 207) and AGL ACT Retail Investments Pty Ltd (ABN 53 093 631 586).

- (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 price direction a maximum price in the form of a weighted average price cap, subject to an upper bound side constraint. The side constraint restricts movement in regulated tariffs to be within two percentage points above the weighted average price change. 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 2020–21 regulatory year, Y^t is calculated as -2.56 per cent. The Commission has set out in Part B formulae and a method by which Y^t is to be calculated annually for the remainder of the regulatory period.

The Commission’s regulatory approach and the pricing model are discussed in more detail in Chapters 2 and 3 of the final report. More detail on the calculation of the Y^t for 2020–21 is contained in Chapter 4 of the final 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 price direction. The methodology is referred to as an annual recalibration and is set out in more detail in Chapter 6 of the final report and Part B of the price direction.

The form of regulation set out in the price direction is designed to build on the current form of regulation while ensuring that the regulatory model will cope with unforeseen circumstances. Specifically, the combination of the four-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 price direction provides for pass-through arrangements to deal with costs that have not been incorporated into the cost-index model at the time of making the price direction. The price direction includes pass-through arrangements for regulatory and tax change events. These arrangements ensure that electricity prices remain reflective of underlying costs throughout the term of the regulatory period. A detailed discussion of the pass-through arrangements is contained in Chapter 6 of the final report.

8. Reset principles

The price direction provides for three reset principles. The reset principles are set out in Part C of the price direction.