

Dr Annette Weier
Independent Competition and Regulatory Commission
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Sent by email to icrc@act.gov.au

26 November 2020

Dear Dr Weier

Response to Issues Paper on Review of the Retail Electricity Form of Price Control

ActewAGL Retail (ActewAGL) welcomes the opportunity to comment on the Independent Competition and Regulatory Commission (ICRC) Review of the Retail Electricity Form of Price Control Issues Paper.

Please find below responses to each of the questions raised in the ICRC Issues Paper.

1. Do stakeholders have any comments on the trends in the wholesale market discussed above, including whether they are expected to continue?

The ICRC Issues Paper identifies a key trend in the wholesale market, namely a reduction in wholesale electricity prices. The reduction in wholesale prices is passed through to customers in the wholesale energy purchase cost component of the cost index model. The ICRC's methodology for calculating this cost component was recently reviewed and amended to adopt the approach recommended by Frontier Economics¹. This approach was implemented for the first time in 2020-21.

The ICRC's background paper titled: Developments in the electricity market², recognised the considerable degree of uncertainty relevant to the wholesale market. Given the ongoing uncertainty, ActewAGL is not in a position to provide further comment on potential future trends relevant to wholesale electricity prices.

2. Do stakeholders have any comments on the compositional changes in the retail market? In particular, do stakeholders expect to continue seeing consumers move from standing offers to market offers, and from flat rate tariffs to time of use and demand tariffs?

ActewAGL considers competition to be the main driver of compositional changes in the retail market, in particular the number of consumers on standing offers. The structure of retail prices in the ACT is increasingly influenced by the market rather than government regulation, with

¹ ICRC Final Report Electricity Model and Methodology Review 2018-19 page 15

² Developments in the electricity Market, Report 14 of 2020, November 2020.

retailers responding to consumer preferences and competitive pressures. Competition is expected to continue to drive compositional changes in the retail market, as new retailers enter the market and existing retailers continue to evolve their offers.

Retailers in the ACT will continue to be subject to Evoenergy's network tariff assignment policy during the 2019–24 network regulatory period. As outlined by the ICRC, this policy requires assignment to network demand tariffs for new premises or when a Type 5 or Type 6 meter is replaced with a smart meter (i.e., a Type 4 meter). Meters are replaced when they reach end of life, fail meter testing or at the customer's request.

Following the installation of a smart meter, retailers may opt to move customers from a network demand tariff, to a network time-of-use tariff. There is no option to move customers to a flat network tariff. Retailers can either offer customers a retail tariff structure that mirrors the underlying network tariff, or overlay a different retail tariff structure. Tariff assignment policies vary and reflect commercial decisions made by each retailer.

3. Are there any other changes in Australian energy markets that are likely to have implications for the current review?

ActewAGL appreciates the detailed information the ICRC presented in the Issues Paper and subsequent Background Paper, including the summary of network cost calculation methods in other jurisdictions. ActewAGL is not currently aware of other changes in the Australian energy market that are likely to have implications for the current review.

4. Do stakeholders have any comments on the implications of having different calculation methods for network costs compared to the maximum allowable price increase?

Currently the formulae used to calculate the annual change in network cost allowance, and to demonstrate compliance with the overall price constraint, both reference sales volume data from different years. The formula used to calculate network costs references sales volumes from year $t-2$ and year $t-1$, whereas the formula to demonstrate compliance with the overall price constraint, references sales volumes from year $t-1$ only. The implications of this are outlined below:

- **Network costs:** By referencing two years of sales volumes data (year $t-2$ and year $t-1$), the calculation of network costs considers the change in customer composition between year $t-2$ and year $t-1$, as well as the change in network prices between year $t-2$ and year $t-1$.
- **Compliance with price cap:** By referencing only one year of sales volumes data (year $t-1$), the formula to demonstrate compliance with the price constraint considers only the change in prices between year $t-1$ and year t . The same sales volumes are used in both years so that the demonstration of compliance with the price cap is independent of any change in sales volumes.

The distinction between the two methods was highlighted during the 2020–21 price reset. The average increase in Evoenergy's network prices, of around 2 per cent, resulted in a 5.4 per cent increase in network costs in the ICRC's cost index model. Due to a higher proportion of business customers in the pool of standing offer customers, compared to the same time last year, the network cost increase exceeded the pure price increase by 3.4 percentage points. The business network tariffs are more expensive than residential network tariffs and as such, the increase in proportion of business customers in the pool of standing offer customers resulted in a higher overall increase.

ActewAGL notes the ICRC's method for determining the annual change in the network cost allowance can result in the allowance being less than or greater than the change in Evoenergy network prices. This is dependent on the year-on-year change in the composition of the standing offer customer base. As outlined by the ICRC, while the 2020–21 change in the network cost allowance exceeded the increase in Evoenergy prices, the reverse has also occurred in previous years. For example, when the proportion of customers on cheaper tariffs has increased relative to the previous year, the annual change in the network cost allowance has been less than the change in Evoenergy prices.

5. Are there any other comments that stakeholders would like to make?

The energy industry is evolving at a rapid pace, and ActewAGL supports the ICRC's focus on ensuring the cost-index model remains relevant and fit for purpose beyond the current pricing decision.

If you wish to discuss any aspect of ActewAGL's submission, please contact [REDACTED]
on [REDACTED]

Yours sincerely



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