



ICRC

independent competition and regulatory commission

Issues Paper: Framework and Approach

Standing offer prices for the supply of electricity to small customers from 1 July 2017

Report 7 of 2016, October 2016

The Independent Competition and Regulatory Commission is a Territory Authority established under the *Independent Competition and Regulatory Commission Act 1997* (the ICRC Act). The Commission is constituted under the ICRC Act by one or more standing commissioners and any associated commissioners appointed for particular purposes. Commissioners are statutory appointments. Joe Dimasi is the current Senior Commissioner who constitutes the Commission and takes direct responsibility for delivery of the outcomes of the Commission.

The Commission has responsibilities for a broad range of regulatory and utility administrative matters. The Commission has responsibility under the ICRC Act for regulating and advising government about pricing and other matters for monopoly, near-monopoly and ministerially declared regulated industries, and providing advice on competitive neutrality complaints and government-regulated activities. The Commission also has responsibility for arbitrating infrastructure access disputes under the ICRC Act. In discharging its objectives and functions, the Commission provides independent robust analysis and advice.

The Commission's objectives are set out in section 7 of the ICRC Act and section 3 of the *Utilities Act 2000*.

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How to make a submission

This issues paper provides an opportunity for stakeholders to inform the development of the draft report. It will also ensure that relevant information and views are made public and brought to the Commission's attention.

Submissions may be mailed to the Commission at:

Independent Competition and Regulatory Commission
PO Box 161
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Alternatively, submissions may be emailed to the Commission at icrc@act.gov.au. The Commission encourages stakeholders to make submissions in either Microsoft Word format or PDF (OCR readable text format – that is, they should be direct conversions from the word-processing program, rather than scanned copies in which the text cannot be searched).

For submissions received from individuals, all personal details (for example, home and email addresses, and telephone and fax numbers) will be removed for privacy reasons before the submissions are published on the website.

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Submissions on the issues paper close on **30 November 2016**.

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1 Introduction

1.1 Background to the investigation

The Independent Competition and Regulatory Commission (the Commission) is a statutory body set up to regulate prices, access to infrastructure services and other matters in relation to regulated industries. The Commission is the independent regulator of the retail electricity market in the ACT, responsible for setting regulated retail prices for the supply of electricity to small customers on ActewAGL Retail's regulated tariffs.

The Commission undertakes price investigations in accordance with sections 15, 16 and 17 under Part 3 of the *Independent Competition and Regulatory Commission Act 1997* (the ICRC Act), and issues price directions under Part 4 of the ICRC Act. The current price direction requires the Commission to determine the maximum prices that ActewAGL Retail can charge for its regulated retail tariffs from 1 July 2014 to 30 June 2017. Under this price direction, the Commission's most recent decision was to determine a real (inflation- adjusted) increase of 4.46 per cent in regulated retail electricity prices for 2016–17.¹

On 22 June 2016 the Treasurer signed terms of reference under the ICRC Act for a price direction for the supply of electricity by ActewAGL Retail to customers on its regulated retail tariffs for the period commencing 1 July 2017.²

This issues paper begins the consultation process to determine retail electricity prices from 1 July 2017 to 30 June 2020. It sets out the Commission's proposed approach in setting retail electricity prices for the next regulatory period and discusses specific issues relating to this approach.

1.2 Purpose of the issues paper

The purpose of this issues paper is twofold.

The first is to alert stakeholders that the Commission is undertaking an investigation into retail electricity prices for the three year period commencing 1 July 2017, and seeking stakeholder input on any issues they consider relevant.

The second purpose is to inform stakeholders of those issues that the Commission has identified as relevant to this price investigation, including those arising from the terms

¹ ICRC, 2016a: 25-27.

² See Appendix 1 for a full copy of the terms of reference.

of reference and recent developments in the electricity market and regulatory arrangements.

1.3 ICRC Act: legislative requirements

1.3.1 Introduction

In carrying out its functions under the ICRC Act, the Commission has the following objectives set out in section 7 (Box 1.1).

Box 1.1 Section 7: ICRC Objectives

- (a) to promote effective competition in the interests of consumers;
- (b) to facilitate an appropriate balance between efficiency and environmental and social considerations;
- (c) to ensure non-discriminatory access to monopoly and near-monopoly infrastructure.³

When making a price direction, in addition to the terms of reference, the Commission is also required to have regard to the provisions set out in section 20(2) (Box 1.2).

³ ACT Government, 1997: 8.

Box 1.2 Section 20(2): ICRC Functions

- (a) the protection of consumers from abuses of monopoly power in terms of prices, pricing policies (including policies relating to the level or structure of prices for services) and standard of regulated services; and
- (b) standards of quality, reliability and safety of the regulated services; and
- (c) the need for greater efficiency in the provision of regulated services to reduce costs to consumers and taxpayers; and
- (d) an appropriate rate of return on any investment in the regulated industry; and
- (e) the cost of providing the regulated services; and
- (f) the principles of ecologically sustainable development mentioned in subsection (5);
- (g) the social impacts of the decision; and
- (h) considerations of demand management and least cost planning; and
- (i) the borrowing, capital and cash flow requirements of people providing regulated services and the need to renew or increase relevant assets in the regulated industry; and
- (j) the effect on general price inflation over the medium term; and
- (k) any arrangements that a person providing regulated services has entered into for the exercise of its functions by some other person.⁴

1.3.2 Recent amendments

A number of recent amendments to the ICRC Act, effective from 1 July 2016, are relevant to this investigation, as follows.

1. The ICRC Act now includes an overarching efficiency objective specific to the making of a price direction. Section 19L in Part 4 states:

The objective of the commission, when making a price direction in a regulated industry, is to promote the efficient investment in, and efficient operation and use of regulated services for the long term interests of consumers in relation to the price, quality, safety, reliability and security of the service.

2. Section 17(4)(a) requires the Commission, within 1 month after receiving the industry reference, to give each relevant person for the investigation written notice of the information it requires from the person in relation to the investigation, and

⁴ ACT Government, 1997: 26–27.

the date, decided after consultation with the person, when the person must give the Commission the information.

In accordance with this new requirement, on 21 July 2016, the Commission sent ActewAGL Retail an information request requiring the provision of the following:

- (a) estimated Energy Efficiency Improvement Scheme (EEIS) costs for 2017–18 by 23 January 2017, and updated EEIS costs by 8 May 2017;
 - (b) the network cost allowance for the regulated load for 2017–18, following the approval of ActewAGL Distribution’s network charges by the Australian Energy Regulator (AER); and
 - (c) regulated tariff customer numbers and electricity usage for the year to 31 March 2017 by 8 May 2017.
3. Section 18(5)(b) has also been amended to require the Commission, in the draft (as well as in the final) report, to produce a statement outlining the extent to which it has had regard to the key matters listed in section 20(2).

1.4 Scope of the terms of reference

The terms of reference require the Commission to consider the following matters in this investigation (Box 1.3).

Box 1.3 Scope of the terms of reference

1. The Commission must consider:
 - (a) The direct impact on electricity costs of government policies and pass through of costs and savings to regulated prices including, but not restricted to:
 - (i) the ACT retailer obligations under the Energy Efficiency Improvement Scheme (EEIS);
 - (ii) the Commonwealth Government's Large-scale Renewable Energy Target (LRET) and Small-scale Renewable Energy Scheme (SRES); and
 - (iii) any other schemes implemented to address climate change relevant to electricity pricing.
 - (b) The efficient and prudent cost of managing risk in the cost of purchasing electricity for the period of the price direction
2. The Commission must identify and report on the efficient costs of complying with the *Energy Efficiency (Cost of Living) improvement Act 2012* for the period that the determination is being made.
3. The Commission must identify and report on the cost allowance of the ACT Feed-in Tariffs (small and large scale) for the period that the determination is being made.
4. The Commission must release its final report within the period of 1 January 2017 to 7 June 2017, to provide sufficient time to allow ActewAGL Retail to make any necessary changes to its billing system and to provide information on the new tariff to customers for implementation from 1 July 2017.

1.5 Structure of the issues paper

The remainder of this paper is structured as follows:

Chapter 2 briefly sets out the Commission's current regulatory approach and pricing methodology, and discusses specific issues relevant to the next regulatory period.

Chapter 3 discusses recent developments in the electricity market and regulatory issues that may be relevant to this investigation.

Chapter 4 summarises the issues raised in this paper.

Chapter 5 outlines the next steps in the investigation process.

Appendix 1 reproduces the terms of reference.

1.6 Investigation timeline

The Commission proposes to adopt the timeline set out in Table 1.1.

Table 1.1 Indicative timeline for the retail electricity price investigation

Task	Date
Terms of reference signed	22 June 2016
Release of issues paper	24 October 2016
Submissions on issues paper close	30 November 2016
Draft report and proposed price direction	February 2017
Submissions on draft report close	March 2017
Public hearing	March 2017
Release of final report and price direction	June 2017

The closing date for submissions on the issues paper is 30 November 2016. Written submissions received by the closing date will be considered in the development of the draft report and the proposed price direction. The Commission is required under section 17(4)(b) of the ICRC Act to conduct a public hearing for all price regulation investigations. The Commission intends to conduct a hearing after the release of the draft report.

2 Commission's regulatory approach and pricing model

2.1 Introduction

The main elements of the Commission's methodology or form of regulation comprise a price control mechanism, the cost-index model and pass-through arrangements.

The price control mechanism sets out how and when a price change can be applied to ActewAGL Retail's regulated retail electricity tariffs. The cost-index model is used to determine the maximum allowable price change across the basket of regulated tariffs from one year to the next. The pass-through arrangements provide for the treatment of unexpected events, beyond the control of ActewAGL, that occur after the price direction has been made.

2.2 Regulatory approach

The key elements of the Commission's current regulatory approach are described below. The Commission welcomes feedback on our approach.

2.2.1 Length of the regulatory period

As specified in the terms of reference, the price direction will be for the three-year period of 1 July 2017 to 30 June 2020.

2.2.2 Form of price control

The Commission currently applies a weighted average price cap form of regulation to determine the maximum allowable average percentage change that ActewAGL Retail can apply to its suite of regulated tariffs. This approach allows ActewAGL Retail to adjust individual prices, as long as the total adjustment does not exceed the maximum allowable percentage change for the overall price cap, as determined by the Commission.

2.2.3 Annual recalibrations

As specified in the terms of reference, the Commission is required to undertake two annual recalibrations for the regulatory period commencing 1 July 2017. The first will determine regulated retail electricity prices for 2018–19 and the second will determine prices for 2019–20.

The annual recalibration process involves updating the parameters of the retail electricity cost-index model to determine regulated retail prices. This process draws on, for instance, more recent forward price and load data relating to the wholesale cost of

energy, updated network costs and the new estimates of green costs. A number of model components, such as retail operating costs and wholesale energy contract costs, are adjusted by the change in the consumer price index. The recalibration process can also incorporate additional costs from a pass-through event. Pass-through events are set out in the price direction.

2.2.4 Cost pass-through arrangements

Pass-through arrangements typically apply to events that are unplanned, or whose extent is uncertain and that are beyond the control of the regulated entity. The Commission currently allows for pass-through arrangements for a range of regulatory change and tax change events.⁵ Pass-through reviews for these regulatory and tax change events are undertaken as part of the annual recalibration process.

2.3 Pricing model

2.3.1 Introduction

The key elements of the Commission's current pricing model are described below. It details the Commission's proposed approach in setting retail electricity prices for the next regulatory period. The Commission welcomes feedback on our approach.

The Commission's pricing model determines the maximum average percentage change that ActewAGL can apply to its suite of regulated tariffs on an annual basis. It does so by estimating the individual cost components that would be incurred by an efficient incumbent retailer in the same position as ActewAGL Retail when providing electricity supply services to customers on the regulated tariff.

The Commission's current pricing model relies on cost benchmarks for three main cost categories:

- wholesale energy costs, which comprise energy purchase costs, LRET and SRES costs, energy losses, energy contracting costs and National Electricity Market (NEM) fees;
- network costs, which include transmission and distribution costs; and
- retail costs, which comprise retail operating costs and EEIS compliance costs.

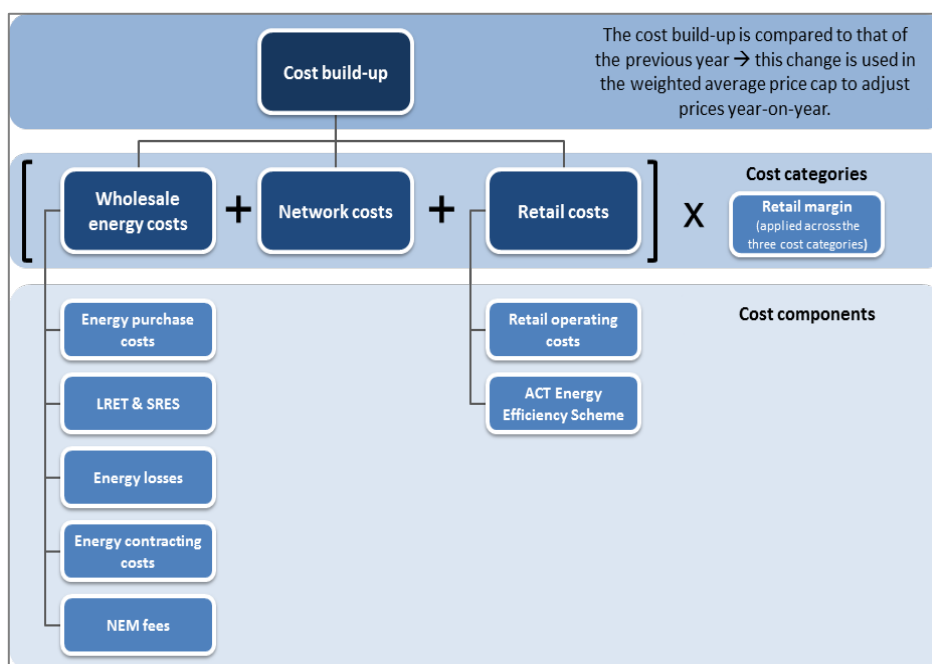
Once these three cost categories are estimated, they are added together and multiplied by a retail margin (to provide a profit allowance) to produce total costs to be recovered in dollars per megawatt hour (\$ per MWh). This cost is then compared to the total costs calculated for the previous year. This produces a maximum allowable percentage

⁵ The details of the current pass-through provisions are contained in ICRC, 2014b: 39-43.

change that ActewAGL Retail can apply under the weighted average price cap to its regulated retail tariffs.⁶

The Commission's current pricing model is illustrated in Figure 2.1.

Figure 2.1 The Commission's current pricing model



⁶ The sum of the proposed new tariffs on ActewAGL Retail's regulated tariffs (i.e; ActewAGL Retail's electricity plans for residential and small business customers) weighted over electricity prices for different price plans and customer groups with the weights based on revenues in the previous period (a Laspeyres price index) should be less than or equal to the maximum allowable percentage change determined by the Commission. The details of the formula can be found in ICRC, 2014b: 8.

Table 2.1 details the cost benchmarks calculated for 2016–17 and their percentage contribution to total costs.

Table 2.1 Composition of regulated retail electricity costs for 2016–17

	2016–17 final decision	% of total cost
Energy purchase cost	50.6	26.8
LRET and SRES costs	13.15	7.0
Energy losses	3.79	2.0
Energy contracting cost	0.87	0.5
NEM fees	0.87	0.5
Total energy purchase cost	69.28	36.7
Retail operating costs	14.56	7.7
Energy Efficiency Improvement Scheme costs	4.93	2.6
Total retail costs	19.49	10.3
Network costs	89.28	47.3
Total energy + retail + network costs	178.05	94.3
Retail margin (6.04%)	10.76	5.7
Total costs	188.81	100.00

Source: Commission's calculations.

2.3.2 Components of the current pricing model

This section briefly describes the cost components of the Commission's pricing model and discusses specific issues relevant to the next regulatory period. To assist stakeholders in understanding the current version of the model, this section also highlights the revisions undertaken by the Commission as part of the 2014 price investigation leading up to the current price direction.⁷

Energy purchase cost

Energy purchase costs are the costs incurred by the incumbent retailer in purchasing electricity from the wholesale electricity market. Due to the high volatility inherent in the wholesale electricity market, retailers hedge their exposure to risk by forward purchasing electricity in the contract market or by taking positions in the futures market. This greatly reduces the risk of price volatility for the retailer, contributing to financial stability.

The energy purchase cost component is a complex and significant part of the Commission's model. As part of the 2014 review, the energy purchase cost model was reviewed, with particular attention paid to its hedging strategy. The Commission reaffirmed its preference for a market-based approach for determining the energy purchase cost component over the long run marginal cost approach. The Commission concluded that it was confident that the current energy purchase cost model accurately

⁷ For detailed information see ICRC, 2014a: 27-94 and ICRC, 2014b: 10-39.

reflects the costs, including hedging costs, that would be incurred by an efficient retailer in providing retail electricity services in the ACT.

The Commission's energy purchase cost model consists of six components: the forward price, the load shape, the load ratio, the forward price margin, the quarterly load weights and the cost of carbon. The forward price represents the cost of pre-purchasing electricity to be delivered at a later date. A retailer is exposed to spot market risk, when its pre-contracted load is less than its demanded load and it sells electricity back into the market when its demanded load is less than the pre-purchased load. The load shape captures this relationship. The load ratio takes account of more extreme effects. The forward price margin captures the market observation that forward prices generally exceed average spot prices in order to cover the cost of reducing risk. The load shape, the load ratio and the forward price margin are used to calculate the uplift factor that is applied to the forward price to reflect the retailer's hedging cost.

Forward price

The forward price in the Commission's model represents the cost of purchasing electricity. The Commission accesses two sources of forward prices: Australian Stock Exchange (ASX) market data and over the counter (OTC) contract data from ICAP.⁸

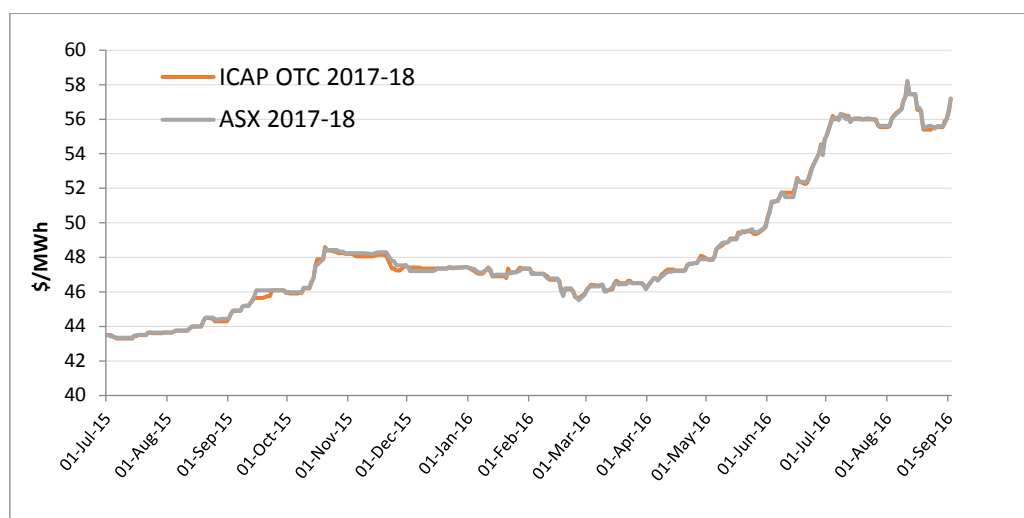
The Commission used ASX data prior to the 2012–14 regulatory period. While recognising that electricity retailers in fact entered into OTC contracts, the Commission relied on ASX futures prices. This was based on the assumption that arbitrage between the ASX futures market and the OTC market ensured that ASX futures prices were reflective of OTC contract prices. The introduction of a price on carbon in 2012 changed the nature of the electricity contracting market, and ASX prices were no longer an accurate representation of OTC contracts. Confronted by these issues, the Commission started using OTC carbon-exclusive contract data as the basis of the forward price of electricity for the 2012–14 price direction. The Commission continued to use ICAP OTC data in the current regulatory period.

The Commission's general preference is to use exchange-traded ASX market data instead of OTC contract data due to the lack of transparency inherent in the OTC market. Figure 2.2 shows that following the removal of the carbon price from 1 July 2014, both data series have moved together with the ASX data being reflective of OTC contract prices.⁹ This implies that the use of ASX data, instead of OTC data, would not make a significant difference in the outcome.

⁸ In an over-the-counter contract, two parties, such as a generator and a retailer, bilaterally agree to trade a future volume of electricity at a given price.

⁹ The ASX data for 2017–18 is New South Wales implied base strip data.

Figure 2.2 ICAP OTC versus ASX forward prices, 2017–18



Source: ASX Energy and ICAP data.

The current price direction prescribes forward prices based on a simple average over a 23-month period. This averaging period was originally adopted on the basis that prudent retailers typically hedge well in advance of the year in which they supply customers. This period was applied in calculating the 2014–15 forward price.

However, due to a lack of liquidity in the contract market in July and August 2013, ICAP only started reporting price data for 2015–16 contracts from 2 September 2013. This had the practical effect of limiting the averaging period to a maximum of 21-months for the 2015–16 price reset. In order to maintain comparability across adjacent years, a 21-month averaging period was also applied in the 2016–17 price reset.

Based on the information presented above, a possible approach that the Commission could adopt for 2017–20 is to return to ASX forward price data averaging over a 23-month period. The Commission welcomes feedback on this approach.

Removal of cost of carbon component

The Commission's current pricing model incorporates an adjustment to the wholesale energy purchase cost to account for the cost of carbon. The national carbon-pricing scheme was abolished effective from 1 July 2014. Since then, the cost of carbon has been treated as zero in the pricing model.

As the carbon pricing scheme is no longer in effect, there are two possible approaches that the Commission could follow for 2017–20. First, the Commission could continue the current approach of setting the carbon cost equal to zero. Second, the carbon cost component could be removed from the pricing model. The outcome in either case would be the same.

Commission's hedging strategy and uplift factor

The Commission's current energy purchase cost model incorporates a conservative hedging strategy in estimating the cost of purchasing wholesale electricity by a prudent incumbent retailer. The current hedging strategy assumes that the incumbent retailer purchases enough forward contracts to reduce to a negligible level the possibility of having insufficient forward cover to meet demand in any trading interval. The Commission's model adjusts the forward price by an uplift factor to ensure that the retailer is adequately compensated for the market risks that it faces in purchasing electricity. The uplift factor takes account of first and higher order variability in the wholesale cost as a result of both standard and more extreme variability in the load profile. The strategy also assumes that excess forward contracts can be sold on the spot market.

As part of its 2014 review, the Commission concluded that its hedging strategy remained appropriate and accurately reflected the hedging costs incurred by an efficient retailer.

LRET and SRES costs

The LRET and the SRES are national environmental obligations imposed by the Australian Government that create financial incentives for investment in renewable energy sources. The schemes require electricity retailers to purchase and surrender Large-scale Generation Certificates (LGC) and Small-scale Technology Certificates (STC) to the Clean Energy Regulator in percentages set by the regulation each year.¹⁰ The renewable power percentage to achieve the LRET target for 2016 is 12.75 per cent. The small-scale technology percentage set to achieve the 2016 SRES target is 9.68 per cent.

The Commission applies a market-based approach for determining efficient LRET and SRES costs. The model determines LGCs and STCs prices based on publicly available spot price data averaged over an 11-month period, and includes an allowance for funding costs. Full details of the Commission's approach can be found in the 2014 draft and final reports.¹¹

Energy losses

Some electricity is lost in transporting from generators to customers via transmission and distribution networks. Retailers purchase additional electricity to allow for these losses. The loss factors are calculated by Australian Energy Market Operator (AEMO), and are used by all regulators to determine the energy loss allowances where regulated tariffs apply. AEMO reports marginal and distribution loss factors for the forthcoming

¹⁰ More information on the LRET and the SRES schemes can be found on the Clean Energy Regulator's website: www.cleanenergyregulator.gov.au/Renewable-Energy-Target/Pages/default.aspx.

¹¹ ICRC, 2014a: 56-65; ICRC, 2014b: 20-21

financial year.¹² The Commission calculates an adjustment factor combining the marginal and distribution loss factors applicable to the ACT.

As part of the 2014 review, two changes were made to the way the Commission estimates the costs of energy losses. The changes comprised the inclusion of NEM fees in the energy loss equation and the application of the distribution loss factor only to the LRET and SRES costs and NEM fees.¹³

Energy contracting costs

Energy contracting costs represent the costs incurred by the incumbent retailer in managing an electricity-trading desk. The Commission estimated the energy contracting costs of the incumbent retailer in 2003, and has adjusted this component each year by the change in the consumer price index (CPI) since then.

NEM fees

The NEM is managed by AEMO, which is funded through user fees that are paid by customers. The Commission estimated the NEM fees of the incumbent retailer in 2003, and has adjusted this component to reflect the annual change in the CPI since then.

Retail operating costs

Retail operating costs are the efficient costs incurred by the retailer in providing retail services to its customers. In 2003, the Commission estimated the retail operating costs allowance based on the cost estimates provided by ActewAGL Retail and benchmark observations of other regulatory decisions.

As part of the 2014 review, two changes were made to the way in which retail operating costs are calculated. The first was to increase the per MWh allowance for 2014–15 to match New South Wales' Independent Pricing and Regulatory Tribunal (IPART) benchmark. The second involved an ongoing adjustment in the per customer allowance each year by the change in the consumer price index.

The Commission's current pricing model does not incorporate a headroom (competition) allowance.

EEIS costs

The ACT Government's EEIS scheme places a mandatory obligation on all active retailers in the ACT to promote energy efficiency measures in households and small businesses. The EEIS Scheme, which was initially legislated to finish on 31 December 2015, has been extended for the period 2016 to 2020.

¹² This data is available from the AEMO website: www.aemo.com.au/Electricity/Market-Operations/Loss-Factors-and-Regional-Boundaries.

¹³ Full details of the Commission's approach can be found in the 2012 final report.

The Commission determines the EEIS cost allowance using the Commission's methodology and cost estimates provided by ActewAGL Retail, subject to a forward-looking prudence and efficiency assessment. Since the Commission's methodology relies on forecast and estimated costs in advance of the actual cost being incurred, provision is made for an ex-post adjustment.

The Commission's final decision on EEIS costs in 2014 was to continue its previous approach, with the addition of a forward-looking assessment of the prudence and efficiency of ActewAGL Retail's forecast abatement costs.

Network costs

The network costs are equal to the sum of transmission and distribution charges paid by ActewAGL Retail. Transmission and distribution charges are determined by the AER and released each year in June. The Commission passes through the AER's final determination to the standard customer contract retail load.

Retail margin

The retail margin represents the return to the investment made by the incumbent retailer in providing retail electricity services. Once the aforementioned cost categories are estimated, they are added together and multiplied by the retail margin to produce the total cost.

Two changes were made to the retail margin calculation in 2014. First, the benchmark retail margin was increased from 5.4 to 5.7 per cent drawing on research undertaken by IPART in New South Wales.¹⁴ Second, the Commission changed the way it calculates the retail margin allowance to be consistent with the approach taken in New South Wales and Queensland. These changes resulted in the application of a retail margin of 6.04 per cent for the 2014–17 regulatory period.

¹⁴ IPART, 2013: 94

3 State of the market and recent regulatory developments

3.1 Introduction

The wholesale electricity spot market, futures market and recent changes in the regulatory environment exert significant influence on electricity prices. To assist stakeholders in understanding underlying factors that impact on electricity prices, this chapter summarizes the current state of the electricity market at the wholesale and retail level, and recent regulatory changes and jurisdictional regulatory decisions.

3.2 State of the electricity market

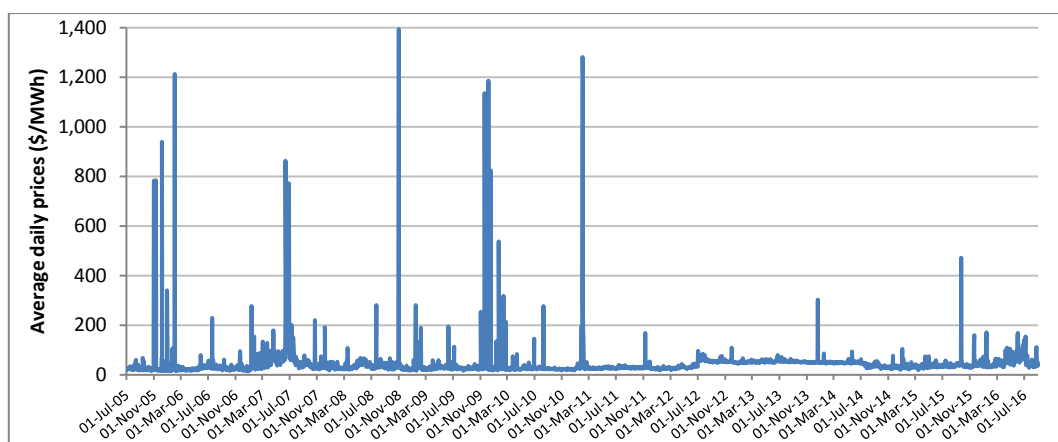
3.2.1 Wholesale electricity spot market

The ACT is included in the New South Wales region of the NEM and therefore faces wholesale prices that are determined in New South Wales. This implies that many of the factors affecting the New South Wales market also affect the wholesale price of electricity in the ACT.

An examination of the market over the last 10 years indicates that the spot market price for electricity in New South Wales has remained relatively stable since 2011 (Figure 3.1). Since 2011, except on two occasions, once in 2014 and the other in 2015, the average daily spot price has not exceeded \$200 per MWh.¹⁵ While spot price volatility remains low in comparison to the pre-2011 period, it has increased since around October 2015.

¹⁵ The average daily price is equal to the average price for the 48 half-hour periods in each day. There is intraday variation in price that is not captured in the average daily price.

Figure 3.1 New South Wales average daily electricity spot prices, July 2005 to August 2016

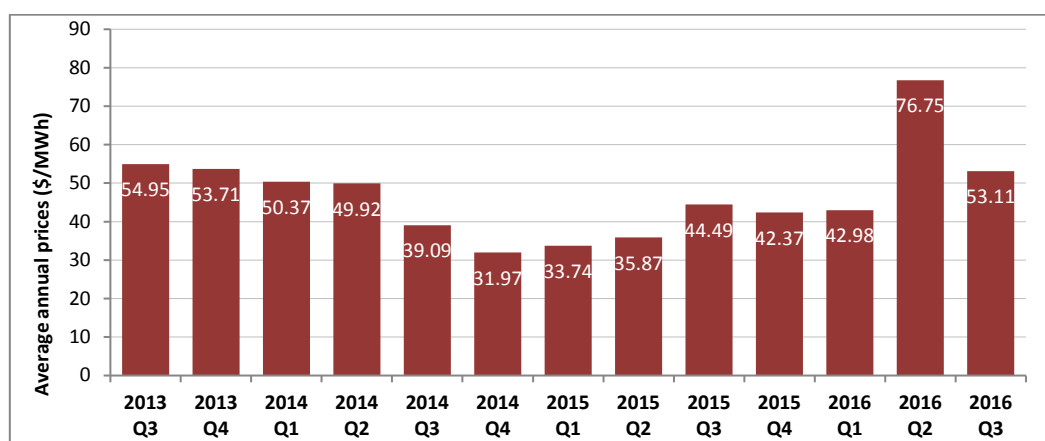


Source: AEMO data

The AER recently published a report on winter energy prices, which noted that the average monthly wholesale electricity prices in eastern Australia, including New South Wales, were unusually high in June and July 2016, well above the long-term monthly averages.¹⁶ According to the AER's report, the primary driver of the high winter prices was reduced coal power capacity coupled with high fuel costs for gas plants that were required to meet demand.

A review of quarterly average spot prices shows the impact of the high spot prices in the second quarter of 2016, with an average spot price of \$76.75 per MWh, more than double the average price for the same quarter the previous year (Figure 3.2).

Figure 3.2 New South Wales average quarterly electricity spot prices, 2014 to 2016

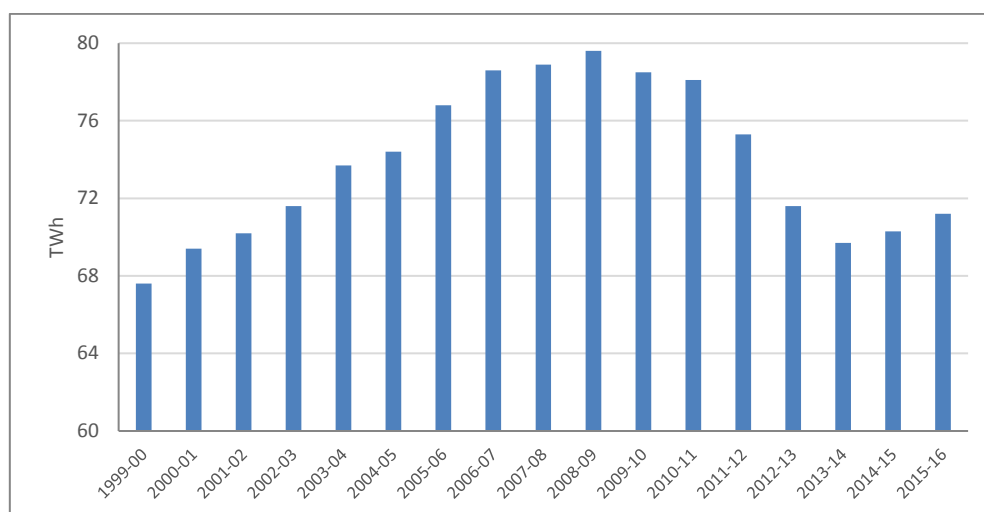


Source: AEMO data

¹⁶ AER, 2016d: 1

The quarterly data also show that the decline in average quarterly prices in 2014–15, primarily due to falling electricity demand, has been reversed.¹⁷ Figure 3.3 shows total New South Wales electricity demand. The declining trend in evidence since 2008–09 was arrested in 2014–15, with 2015–16 showing a rise in demand.

Figure 3.3 Total annual energy consumption by New South Wales, 1999–00 to 2015–16



Source: AER data.

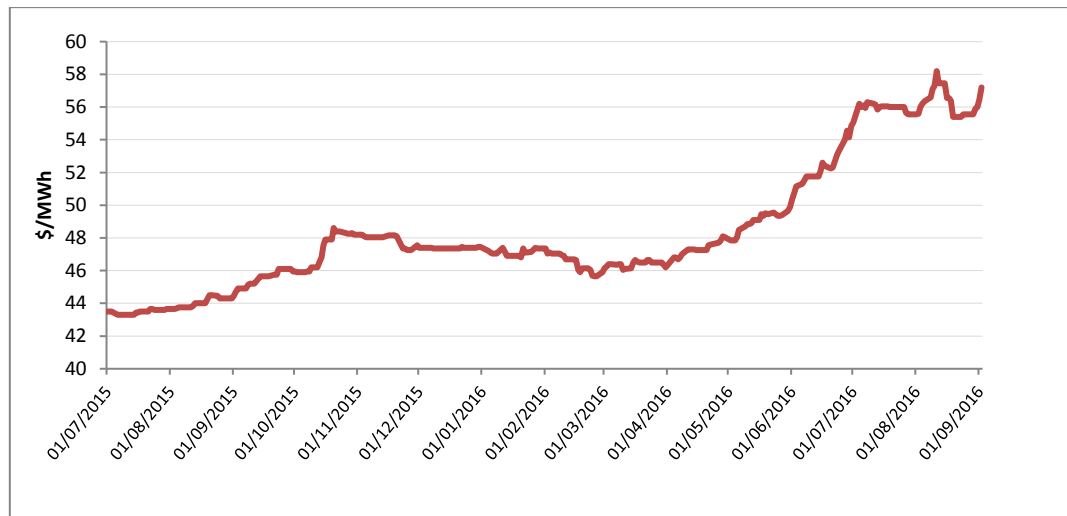
3.2.2 Wholesale electricity futures market

The Commission relies on futures market data for its forward price calculation. Figure 3.4 shows the daily forward price data for the upcoming 2017–18 regulatory year.¹⁸ Since about April this year, the forward price has shown a significant upward trend. This may exert significant influence on electricity prices.

¹⁷ AER, 2016c: 6.

¹⁸ The daily forward price is sourced from ICAP over-the-counter contract data.

Figure 3.4 ICAP over-the-counter contract forward prices, 2017–18



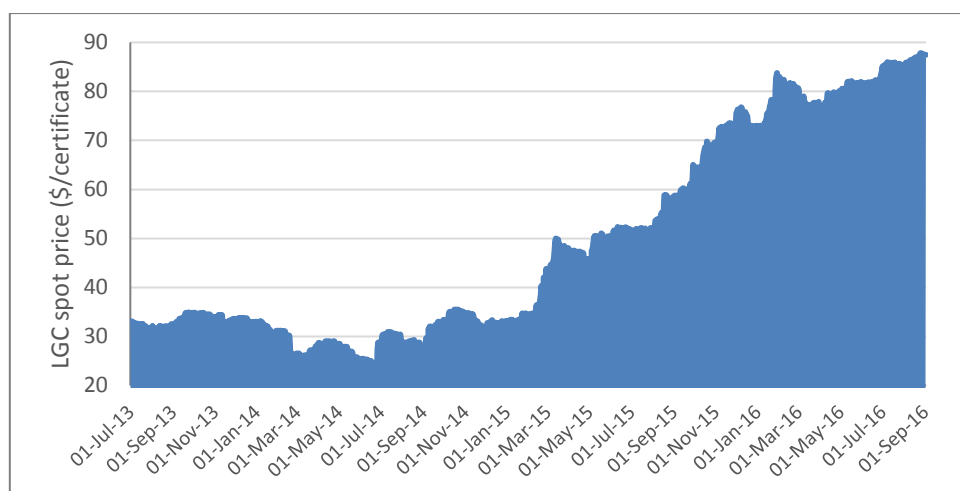
Source: ICAP data.

3.2.3 National environmental schemes spot market

Clause 3(1)(a) of the Terms of Reference requires the Commission to consider the direct impact on electricity costs of the Commonwealth Government's LRET and SRES schemes. In order to calculate the cost of complying with these national environmental schemes, the Commission utilises spot market data for LGCs and STCs.

Figure 3.5 shows daily LGC spot prices since July 2013. Prices remain at historically high levels with current prices at about \$87.50 per certificate.

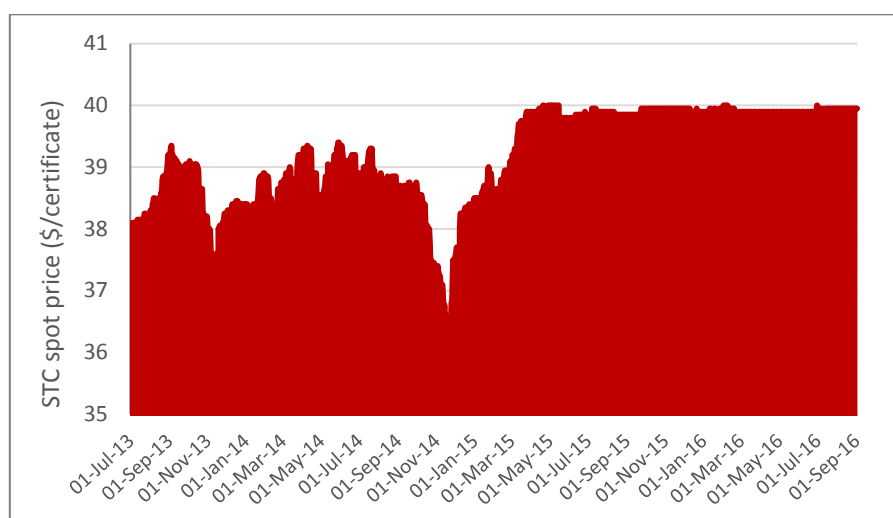
Figure 3.5 LGC spot prices, July 2013 to September 2016



Source: ICAP data.

As shown in Figure 3.6, the STC spot price has also remained high since about April 2015 exerting significant influence on the electricity prices.¹⁹

Figure 3.6 STC spot prices, July 2013 to September 2016



Source: ICAP data.

3.2.4 ACT retail market

Introduction

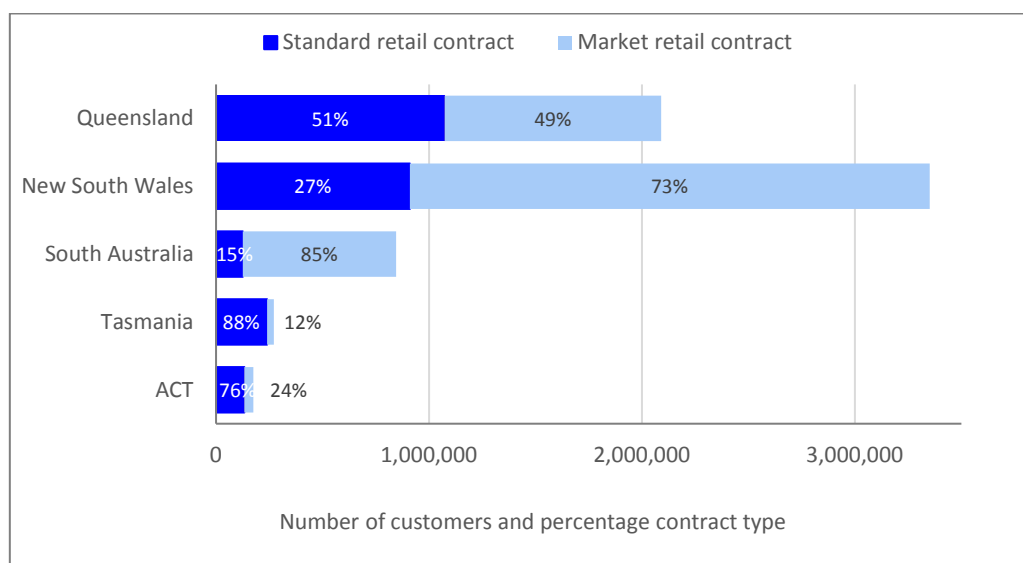
Unlike other states and territories, the ACT relies almost entirely on electricity generated outside its border. Electricity is transported to the ACT by the New South Wales transmission network operator TransGrid. Within the ACT, electricity is

¹⁹ The STC spot price remains very close to the \$40 clearing price.

distributed by ActewAGL Distribution, which holds the territory's only electricity distribution network licence. Like other distributors in the NEM, ActewAGL Distribution's charges are regulated by the AER.

The ACT retail market is small relative to other retail markets in the NEM, with about 176,000 small customers as at 31 March 2016 (see Figure 3.7).

Figure 3.7 Electricity customer numbers and contract type by jurisdiction, 31 March 2016



Source: AER data.

Note: The AER does not report comparable data for Victoria.

EEIS scheme and the feed-in-tariff scheme

There are jurisdictional requirements that are specific to operating in the retail electricity market in the ACT. Two ACT government policy schemes are particularly worth noting in this regard. These are the EEIS scheme and the feed-in tariff scheme. The EEIS scheme, under the *Energy Efficiency (Cost of Living) Improvement Act 2012*, places a mandatory obligation on all active retailers in the ACT to promote energy efficiency measures in households and small businesses. It requires energy retailers to either undertake energy efficiency programs on behalf of their customers or pay a fee per tonne of carbon emitted for electricity sold in the ACT. Under the *Electricity Feed-in (Renewable Energy Premium) Act 2008*, households and businesses can install solar rooftop panels to generate renewable energy, which is fed into the distribution network. The feed-in tariff scheme determines the rates at which these consumers are compensated for the electricity generated.

Small customer contract type

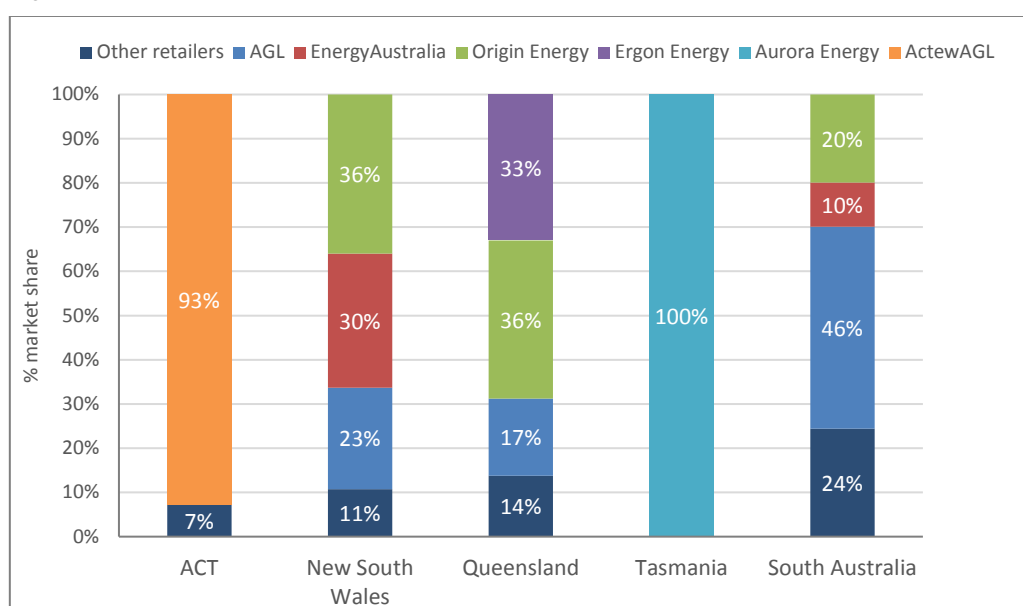
Figure 3.7 also shows the proportion of residential and small business customers on standard and market retail contracts in Queensland, New South Wales, South Australia, Tasmania and the ACT as at 31 March 2016. About 76 per cent of small customers in

the ACT were on standard contracts. The ACT has a lower percentage of customers on market contracts than all other jurisdictions except Tasmania.

Small customer market share

Figure 3.8 shows the retail market share of small customers in the ACT, New South Wales, Queensland, Tasmania and South Australia as of March 2016. In South Australia, Queensland and New South Wales, three energy retailers account for more than 75 per cent of the market. ActewAGL Retail is the dominant retailer in the ACT, with around 163,150 or 93 per cent of total small customers in the ACT.

Figure 3.8 Retail market share for small customers, residential and business, 31 March 2016



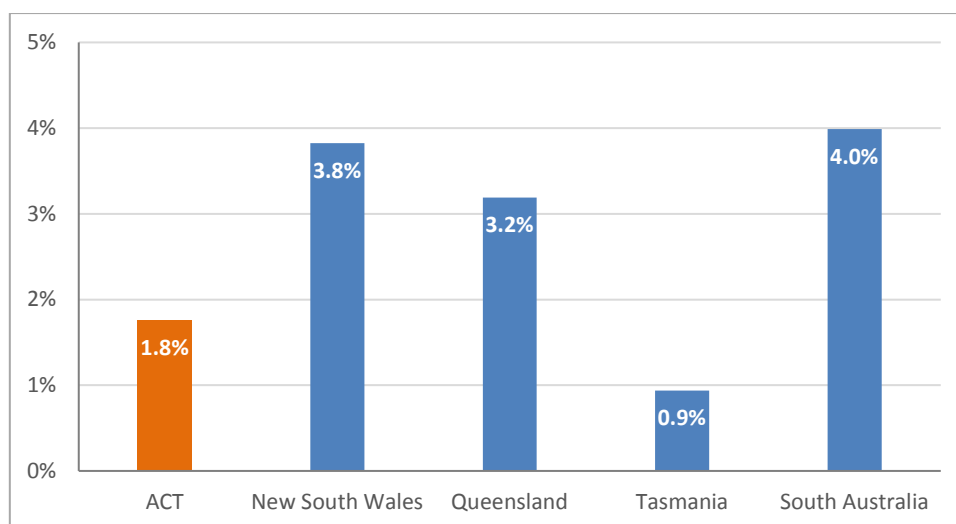
Source: AER data.

Note: 'Other retailers' are those with less than 10 per cent market share in each customer market.

Customer complaints

The AER also tracks small customer complaints about the service provided by electricity retailers. Figure 3.9 shows the percentage of small customer complaints to electricity retailers in the ACT, New South Wales, Queensland, Tasmania and South Australia in the third quarter of 2015–16. This data indicates that a smaller percentage of ACT electricity customers make complaints about their service than in any other NEM jurisdiction, except Tasmania.

Figure 3.9 Small customer complaints as percentage of total customers, 31 March 2016



Source: AER data.

Electricity offers and bills

Table 3.1 shows the number of single rate and time of use offers available to residential electricity consumers in the ACT, Sydney, Brisbane, Adelaide and Hobart, sourced from the Energy Made Easy website. These offers are a mix of standard and market contracts. Single rate offers in Melbourne are also included, sourced from the Victorian Energy Compare website.²⁰ Table 3.1 indicates that ACT residential electricity users have fewer offerings to choose from compared to consumers in Sydney, Brisbane, Adelaide and Melbourne, but more than customers in Hobart.

Table 3.1 Retail electricity offers, September 2016

	Single rate	Time of use	Total
ACT	23	15	38
Sydney	74	72	146
Brisbane	43	39	82
Adelaide	60	8	68
Melbourne	216	N/A	216
Hobart	1	1	2

Source: www.energymadeeasy.gov.au and <https://compare.switchon.vic.gov.au/>. Accessed mid-September 2016.

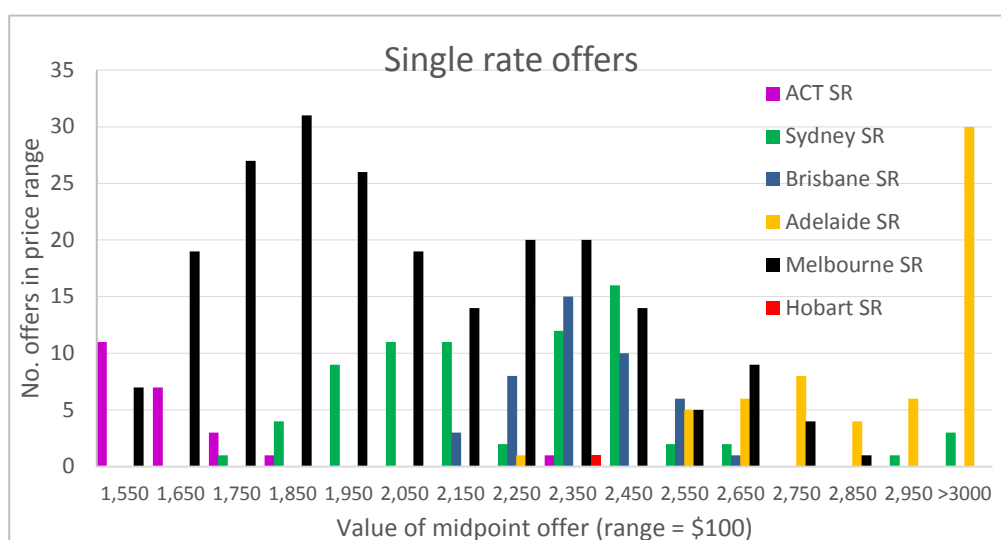
Figure 3.10 shows the estimated annual bill (including discounts) for the current range of single rate and time of use offers available to residential electricity consumers in the ACT, Sydney, Brisbane and Adelaide, as reported on the Energy Made Easy website. It also includes single rate offers available to Melbourne residents, as reported on the

²⁰ Price comparisons on the Energy Made Easy website are only available for jurisdictions where the National Energy Retail Law has commenced, which is not the case in Victoria.

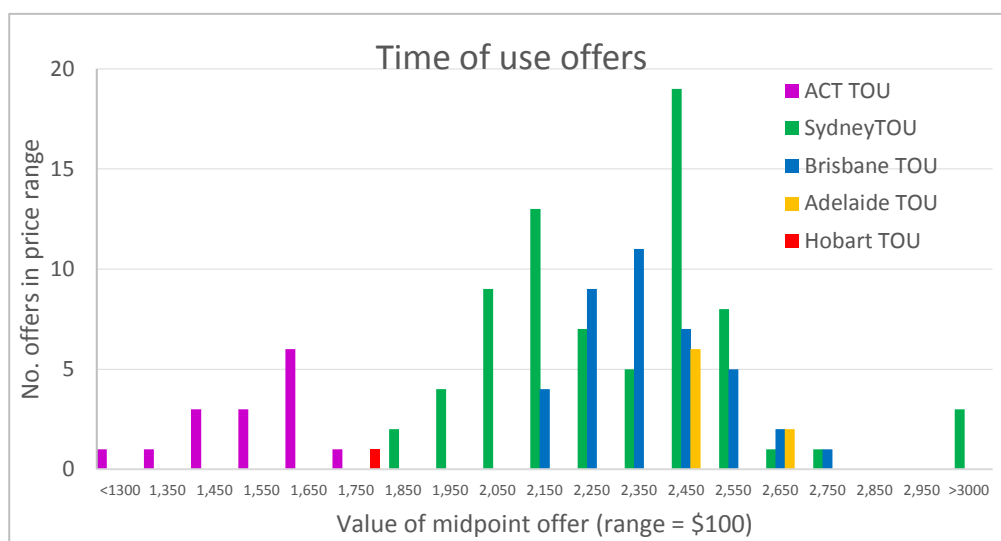
Victoria Energy Compare website. To ensure comparability, all offers are based on an annual electricity load of about 7,700 kWh.

Figure 3.10 Number of offers by estimated annual bill (including discounts), September 2016

(a) Single rate offers



(b) Time of use offers



Source: www.energymadeeasy.gov.au and <https://compare.switchon.vic.gov.au/>. Accessed mid-September 2016.

Note: Assumes annual energy use of 7,700 kWh.

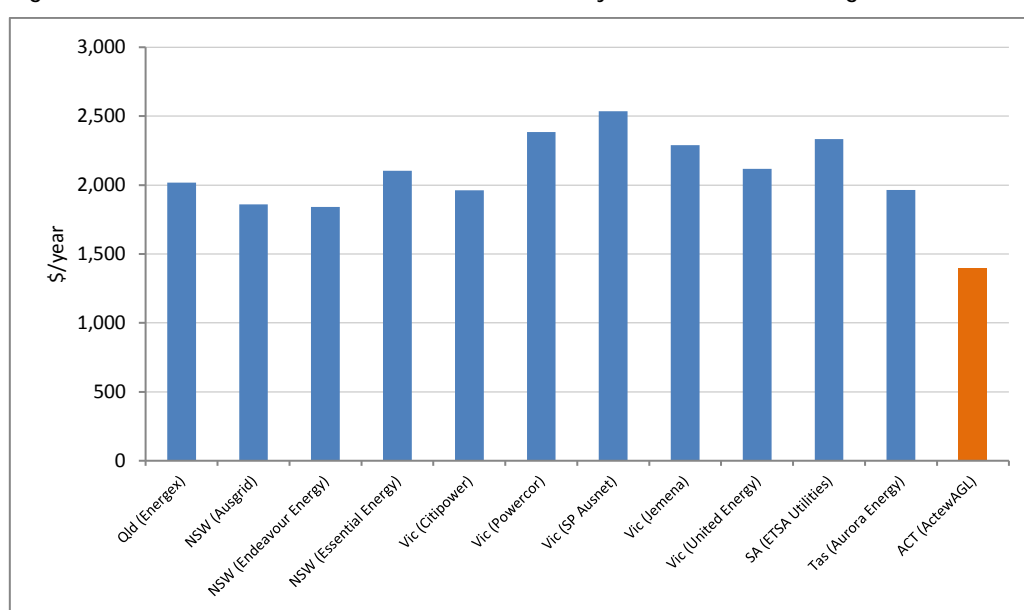
Figure 3.10(a) suggests that the price that ACT residential electricity consumers pay for their electricity is considerably less than that paid by consumers in Sydney, Brisbane, Adelaide and Hobart. There are comparable offers available to Melbourne residents but most of the single rate offers in Melbourne are in materially higher price

ranges.²¹ This result is consistent with the AER’s most recent State of the Energy Market report, for 2014–15, and a more recent report published in August 2016 on the retail electricity market in the NEM prepared for the GetUp! Group.

The AER report found that electricity bills for customers on standing offers in the ACT are among the lowest in Australia (see Figure 3.11). The report noted:

Despite high electricity consumption in the ACT, that region’s electricity bills are among the lowest in Australia because its usage charges are substantially lower than elsewhere.²²

Figure 3.11 Estimated annual small customer electricity bills based on standing offers, 2014–15



Source: AER (2016c): 133.

The GetUp! report compared the regulated ACT retail market to the deregulated markets in Victoria, New South Wales, South Australia and south-east Queensland, with a particular focus on the retail component of electricity charges. This report found that the total annual bill in the ACT is the lowest of all NEM jurisdictions.²³ It further found that regulated retail component in the ACT is much lower than the estimated retail component on the best offers from the big three energy retailers (AGL Energy, Energy Australia and Origin Energy) in any other regions of the NEM.

²¹ The Queensland government deregulated the retail electricity market in July 2016. When analysing the impacts of deregulation, it should be noted that the expected benefits of deregulation are likely to take longer to affect the market.

²² AER, 2016c: 136.

²³ CME, 2016: 18.

3.3 Recent regulatory developments

3.3.1 Power of choice reforms: provision of smart metering

On 26 November 2015, the Australian Energy Market Commission (AEMC) announced a final rule change that will allow competition in the provision of metering and related services. The rule change was made in response to a request from the Council of Australian Governments' (COAG) Energy Council.²⁴ The new metering reforms, which will commence on 1 December 2017, are part of the AEMC's Power of Choice Reforms package to promote the efficient use of energy networks. The new arrangements are intended to promote innovation and lead to investment in advanced meters that deliver services valued by consumers.²⁵

A key issue is to what extent the cost of installing 'smart' meters and associated support costs should be recovered in the regulated price. In its submission to the Commission's 2016–17 price adjustment process, ActewAGL Retail indicated that the new arrangements would require significant system changes and investment by ActewAGL Retail.²⁶ In response, the Commission noted in its final decision report that it would consider this matter as part of the 2017 price investigation.²⁷

Smart meters (also known as time of use or advanced meters) record consumption of electricity in intervals of an hour or less and communicate that information to the utility for monitoring and billing. The consumption information is also available to consumers. Smart meters can also enable two-way communication between the meter and the central system. Smart meters provide consumers with information to help them decide how and when they use electricity and manage the costs of their decisions. To the extent that peak demand usage is reduced, as a result of the effective use of smart meters, there can be material reductions in the need for network expenditure, which may in turn help to reduce network costs and charges from what they otherwise would be.

The AEMC final rule change of 26 November 2015 does not specify that the installation of 'smart' meters is a regulatory requirement. The rule change enables competition in the provision of certain metering services and provides for consumers to opt out of having their existing working meter replaced with a smart meter. It is understood from the rule change that retailers need to engage with customers to determine if they want smart meters and recover the costs separately through contractual arrangements. This interpretation is consistent with outcomes in a competitive market and means that the costs of installing and supporting smart meters

²⁴ AEMC, 2016b: 1.

²⁵ AEMC, 2016b: 2.

²⁶ ActewAGL Retail, 2016: 8.

²⁷ ICRC, 2016b: 5.

should not be automatically included in standard regulated tariffs without a formal policy direction from Government.

3.3.2 Network cost uncertainty

On 26 February 2016, the Australian Competition Tribunal (the Tribunal) made a decision to set aside the AER's 2015 distribution determinations for the New South Wales and ACT Distribution Network Service Providers (DNSPs). The AER subsequently lodged a formal appeal against the Tribunal's decision, which was listed for hearing in the Federal Court on 17 October 2016.²⁸

As a result of the Tribunal's decision, the AER's network pricing arrangements for 2016–17 did not follow the normal submission and approval process. A new process was agreed in May 2016 between the AER and ActewAGL Distribution, which involved network charges for 2016–17 remaining constant in real terms.

Subsequently, on 18 July 2016, the New South Wales DNSPs (Ausgrid, Endeavour Energy and Essential Energy) submitted a rule change request to the AEMC to amend the National Electricity Rules. The proposed rule change seeks, should the judicial review decision go against the AER, to minimise price shocks associated with any revenue adjustments having to be made in the remaining one or two years of the 2014–19 determinations.²⁹ On 23 September 2016, ActewAGL requested the AEMC to make a similar participant derogation relating to them.³⁰

There remains uncertainty regarding the process for determining network costs for the 2017–18 regulatory year. If the judicial decision supports the AER's review application, the AER's original 2015 determinations will be restored. If the AER is required to remake the 2015 determinations, the revenue impacts are unclear. As noted by the New South Wales DNSPs in their formal rule change request to the AEMC, the proposed amendment, if accepted, would:

enable a specific portion of the adjustment amount to be recovered over two regulatory control periods, with a specified default allocation of the adjustment amount being recovered in the subsequent regulatory control period commencing 1 July 2019.³¹

²⁸ Details can be found at: <https://www.comcourts.gov.au/file/Federal/P/NSD419/2016/3751779/event/28506914/document/769012>.

²⁹ The request is available on the AEMC's website at: <http://www.aemc.gov.au/Rule-Changes/Participant-derogation-NSW-DNSPs-Revenue-Smoothing>.

³⁰ The request is available on the AEMC's website at <http://www.aemc.gov.au/Rule-Changes/Participant-derogation-ACT-DNSP-Revenue-Smoothing>

³¹ New South Wales DNSPs, 2016: 2.

3.4 Recent regulatory decisions in other jurisdictions

3.4.1 Introduction

This section briefly discusses recent regulatory decisions in other jurisdictions. The following section focuses more on competition issues.

While the retail electricity markets in the ACT and Tasmania remain regulated, most other Australian states have proceeded with the deregulation of retail electricity prices over time at different rates. Victoria was the first state to remove all price controls in 2009. The New South Wales retail electricity market was deregulated in July 2014. The South Australian Government deregulated the retail electricity market in South Australia in 2013. South East Queensland followed the same regulatory path in July 2016.

3.4.2 Queensland

In May 2016, the Queensland Competition Authority (QCA) released its final determination on the regulated retail electricity prices for 2016–17. As the Queensland Government deregulated the retail electricity market in South East Queensland in July 2016, the 2016–17 regulated prices only applied to small customers in Ergon Distribution’s distribution area in regional Queensland.

QCA’s final determination resulted in the annual bills for typical residential customers on the main retail tariff (tariff 11) in Ergon Distribution’s distribution area, increasing by 2.8 per cent from \$1,457 to \$ 1,498 in 2016–17.³² In the case of non-residential customers on the main small business tariff (tariff 20), the impact was an increase of \$236 or 11.2 per cent in their annual bill. As reported by the QCA, the primary driver of the price increase was a rise in energy purchase costs, largely driven by increasing demand from liquefied natural gas plants, as well as higher renewable energy target costs.

Consistent with the approaches in previous price determinations, QCA adopted a network plus retail cost build-up approach for its 2016–17 determination. A retail margin of 5.7 per cent was applied along with an additional headroom (competition) allowance of 5 per cent of total costs to support competition in the Queensland retail market.

3.4.3 Tasmania

In Tasmania, the Office of the Tasmanian Economic Regulator (OTTER) is responsible for regulating the supply of electricity to small customers on Aurora Energy’s regulated tariffs.

³² QCA, 2016: iii.

On 16 June 2016, OTTER approved Aurora Energy's standing offer electricity prices to apply from 1 July 2016 to 30 June 2017.³³ The approved prices represented an increase of 3.4 per cent in regulated standing offer prices for 2016–17, primarily due to an increase in the wholesale electricity allowance, increased renewable energy certificate costs and market charge allowances and an increase in loss factor and load schedule adjustments.³⁴ OTTER estimated the bill impact due to this price increase at about \$60 per year for typical residential and small business standing offer customers.

OTTER also approved Aurora Energy's proposal to introduce two new standing offer time of use tariffs for small customers commencing from 1 July 2016.

3.5 Competition issues

3.5.1 Retail competition in the ACT

Retail competition was introduced in the ACT, for small businesses and households, on 1 July 2003. As a result, other retailers were allowed access to the ActewAGL network so that they could compete with ActewAGL Retail in the provision of retail services. The other retailers are Energy Australia and Origin Energy. However, as noted in the following section, a recent report by the AEMC found that retail competition has not emerged in the ACT to an extent that further deregulation is warranted.

ActewAGL Retail continues to be the dominant retailer in the ACT with around 93 per cent of small customers. As of March 2016, the ACT market had 175,874 total small customers, with ActewAGL Retail serving 163,150 of them.³⁵ ActewAGL is required to offer a regulated default contract but the other retailers are not regulated with respect to price. The dominant position of ActewAGL reflects its incumbency status, supported by the existence of brand loyalty and switching costs and the requirement to offer a default regulated contract. In some other jurisdictions, a competition allowance has been specified for inclusion in regulated retail electricity prices in order to facilitate competition. The Commission's current pricing model does not incorporate a 'headroom' (competition) allowance to reflect customer acquisition and retention costs. The Commission evaluated the benefits of introducing a competition allowance in its cost-index model. The rationale for a 'headroom allowance' is to provide some provision for start-up costs for new entrants with the expectation that over time competitive pressures would reduce prices. However, another perspective is that competitive markets are not characterised by 'headroom allowances' and in competitive markets new entrants need to recover their investment costs with market prices. In addition, ActewAGL Retail is not a start-up entity and unless competition was highly effective in a short period of time, a competition allowance is likely to

³³ OTTER, 2016: 1

³⁴ Aurora Energy, 2016: 3

³⁵ AER, 2016b: AER data

result in higher prices. In its 2014 review, the Commission concluded that the introduction of such an allowance in the ACT was not warranted because there is a reasonable probability that any benefits it may produce will be small relative to costs or long delayed, and therefore of little value.³⁶

3.5.2 Retail competition outcomes in various jurisdictions

The introduction of competition in regulated sectors offers the opportunity to reduce the extent and cost of regulation and achieve better outcomes for consumers. The Commonwealth, State and Territory governments in Australia have agreed on a number of initiatives to facilitate competition in the energy sector including for the retailing of electricity. Other countries, such as Great Britain have pursued similar objectives.

It is important, however, to recognise that competition is a means to achieving the objective of realising benefits in the long-term interests of consumers and not an ultimate objective in itself. It is not always economically beneficial to introduce competition in some markets and hence it is of interest to consider how retail competition has evolved in various jurisdictions of interest.

The AEMC reports annually on the state of competition in retail electricity markets in the various Australian jurisdictions. The AER also reports annually on the performance of retail energy markets in Australia. IPART in New South Wales and the Essential Services Commission (ESC) in Victoria have also reviewed retail competition and retail margins respectively in their jurisdictions. In addition, the Competition and Markets Authority (CMA) in the United Kingdom has recently completed a major energy market investigation including retail market competition issues. This section summarises and comments on some key findings from these reports.

The key findings from these reports are as follows:

- AEMC (2016a): Competition in retail electricity markets in 2015-16 was found to be effective in most jurisdictions but less or not effective in the ACT, Tasmania and regional Queensland. The key indicators used were customer activity (the extent of switching); customer satisfaction; barriers to entry and exit; the degree of independent rivalry; and whether retail energy prices are consistent with a competitive market (range of offers and effective discounts were key measures).
- AER (2016a): Key findings for the 2014-15 period were: a declining rate of customer switching but increasing use of market contracts with lower prices; an increase in complaints with billing the leading concern but fewer energy ombudsmen concerns; and improvements in energy affordability reflecting the removal of the carbon tax. The share of the electricity bill in disposable income was also found to be the smallest in the ACT.

³⁶ ICRC 2014a: 97-142.

- IPART (2015): Competition for residential and small business customers was found to be working effectively and it was concluded that a detailed review of retail prices and margins was not necessary. Key considerations related to: barriers to entry; customer outcomes; price developments; and rivalry, price and product diversity. However, it was also concluded that there are opportunities to make the market work better. In particular, IPART has recommended that the existing barriers to market entry need to be further reduced to improve the performance and competitiveness of the market.
- ESC (2013): Data for the period 2006 to 2012 indicated that the overall picture was one of decreasing retailer margins in the last few years prior to deregulation in 2009 and increasing margins, particularly in 2011-12. These outcomes were broadly true for gross (retailer price less wholesale cost) and net (retailer price less retail and wholesale costs) margins and for standing offer and market prices.
- CMA (2016) for Great Britain: The review examined competition issues in various energy markets including the retail supply of households and microbusinesses. The CMA found a number of adverse effects in relation to competition in the retail supply of gas and electricity to households and microbusinesses, including weak customer response leading to unilateral market power; and pricing of standard tariffs materially above relevant costs. The key finding was summarised as follows:

We have identified a combination of features of the markets for the domestic retail supply of gas and electricity in Great Britain that give rise to an AEC through an overarching feature of weak customer response.³⁷

The investigation found that 70% of domestic customers of the six largest energy firms were still on an expensive “default” standard variable tariff and made a number of recommendations to address the problem.

³⁷ CMA, 2016: 37

4 Issues for consultation: Summary

The Commission welcomes feedback on the various issues relating to its pricing model. Some of these issues have been explored in the Commission's previous investigations. The issues for the pricing model are summarised below along with other issues.

Energy purchase cost model:

Australian Securities Exchange (ASX) vs ICAP over the counter (OTC) contract data

The Commission's general preference is to use the exchange-traded ASX market data averaging over a 23-month period instead of OTC contract data due to the lack of transparency inherent in the OTC market. Before 2012, the Commission used the ASX forward price data. Confronted by the issues associated with the carbon price uncertainty and other data limitations, the Commission relied on OTC contract data averaging over a 21-month period, as a fall-back option, from 2012 to 2016.

Issue 1: Is it appropriate for the Commission to return to using exchange traded ASX forward price data averaged over a 23-month period in calculating energy purchase costs?

Commission's hedging strategy

The Commission considers that its current energy purchase cost model accurately reflects the costs, including a conservative estimate of hedging costs that would be incurred by a retailer of electricity to minimise wholesale price variability risk, in providing retail electricity services in the ACT.

Issue 2: The Commission welcomes comments on its current approach to estimating hedging costs.

Retail operating costs component

A competition allowance in the ACT

The Commission's current pricing model does not incorporate a 'headroom' (competition) allowance to reflect customer acquisition and retention costs. As part of its 2014 price investigation, the Commission evaluated the benefits of introducing a competition allowance in its cost-index model. The rationale for a 'headroom allowance' is to provide some provision for start-up costs for new entrants with the expectation that over time competitive pressures would reduce prices. However, in 2014, the Commission concluded that the introduction of such an allowance in the ACT was not warranted because there is a reasonable probability that any benefits will be small or long delayed or non-existent, and therefore of little current value.

Issue 3: The Commission welcomes comments on its position that a competition allowance is not justified in the ACT.

Other components of the model:

Chapter 2 of this issues paper details the Commission’s current methodology in estimating three main cost categories of its pricing model including:

- wholesale energy costs, which comprise energy purchase costs, LRET and SRES costs, energy losses, energy contracting costs and NEM fees;
- network costs, which include transmission and distribution costs; and
- retail costs, which comprise retail operating costs, EEIS compliance costs and a retail profit margin.

The specific issues relating to the energy purchase cost component and the retail operating cost component are highlighted above. The Commission welcomes feedback on other components of the model.

Issue 4: The Commission welcomes feedback on its current approach in estimating the cost categories in its pricing model.

Other issues

Issue 5: Are there any other issues that the Commission should consider?

5 Next steps

This issues paper is the first step in the Commission's consultation for the 2017 price investigation. Stakeholders will have further opportunities to participate in the consultation process. The proposed timing of the next steps in the investigation process is set out in Table 5.1.

Table 5.1 Next steps in the retail electricity price investigation

Task	Date
Terms of reference signed	22 June 2016
Release of issues paper	24 October 2016
Submissions on issues paper close	30 November 2016
Release of draft report and proposed price direction	February 2017
Submissions on draft report close	March 2017
Public hearing	March 2017
Release of final report and price direction	June 2017

Appendix 1 Terms of reference

Australian Capital Territory

Independent Competition and Regulatory Commission (Price Direction for the Supply of Electricity to Small Customers on Standard Retail Contracts) Terms of Reference Determination 2016

Disallowable instrument DI2016–138

made under the

Independent Competition and Regulatory Commission Act 1997 ('the Act'), Section 15 (Nature of industry references) and Section 16 (Terms of industry references).

1. Interpretation

In this instrument:

"National Energy Retail Law (ACT)" has the same meaning as in the *National Energy Retail Law (ACT) Act 2012*.

"small customer" has the same meaning as in the *National Energy Retail Law (ACT)*.

"standing offer prices" has the same meaning as in the *National Energy Retail Law (ACT)*.

"ActewAGL Retail" means the partnership of Icon Retail Investments Limited (ACN 074 371 207) and AGL ACT Retail Investments Pty Ltd (ACN 093 631 586).

2. Reference for investigation under Section 15

Under section 15(1) of the Act, I provide a reference to the Independent Competition and Regulatory Commission (the 'Commission') to determine a price direction for the *standing offer prices* for the supply of electricity to *small customers* who consume less than 100MWh of electricity over any period of 12 consecutive months.

The price direction will be for the period of 1 July 2017 to 30 June 2020.

The price direction must make provision for annual recalibrations to be undertaken by 30 June 2018 and 30 June 2019.

Under section 15(4) of the Act, the price direction determined by the Commission under this reference is to only apply to the electricity retailer **ActewAGL Retail**.

3. Terms of reference for investigation under section 16

Under section 16(1) of the Act, I require that the Commission consider the following matters in relation to the conduct of the investigation:

1. The Commission must consider:
 - a. The direct impact on electricity costs of government policies and pass through of costs and savings to regulated prices including, but not restricted to:
 - i. the ACT retailer obligations under the Energy Efficiency Improvement Scheme;
 - ii. the Commonwealth Government's Large-scale Renewable Energy Target and Small-scale Renewable Energy Scheme; and
 - iii. any other schemes implemented to address climate change relevant to electricity pricing.
 - b. The efficient and prudent cost of managing risk in the cost of purchasing electricity for the period of the price direction.
2. The Commission must identify and report on the efficient costs of complying with the *Energy Efficiency (Cost of Living) Improvement Act 2012* for the period that the determination is being made.
3. The Commission must identify and report on the cost allowance of the ACT Feed-in Tariffs (small and large scale) for the period that the determination is being made.
4. The Commission must release its final report within the period of 1 January 2017 to 7 June 2017, to provide sufficient time to allow **ActewAGL Retail** to make any necessary changes to its billing system and to provide information on the new tariff to customers for implementation effective 1 July 2017.

Andrew Barr MLA

Treasurer

22 June 2016

Abbreviations and acronyms

AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
ASX	Australian Securities Exchange
CMA	Competition and Markets Authority
Commission	Independent Competition and Regulatory Commission
COAG	Council of Australian Governments
CPI	Consumer Price Index
DNSPs	Distribution Network Service Providers
EEIS	Energy Efficiency Improvement Scheme
ESC	Essential Services Commission
ICRC	Independent Competition and Regulatory Commission
IPART	Independent Pricing and Regulatory Tribunal
LRET	Large-scale Renewable Energy Target
MWh	Megawatt hour
NECF	National Electricity Customer Framework
NEM	National Electricity Market
NSW	New South Wales
OTC	Over-the-counter
OTTER	Office of the Tasmanian Economic Regulator
QCA	Queensland Competition Authority
SRES	Small-scale Renewable Energy Scheme
TWh	Terawatt hours

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