



Statement of reasons

1. Legislative requirement

This statement of reasons (statement) is set out pursuant to 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 Direction for the standing offer prices for the supply of electricity to small customers of ActewAGL Retail consuming less than 100 MWh of electricity over any consumption period of 12 consecutive months.

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 consuming less than 100 MWh of electricity per year. Under section 16(1) of the ICRC Act, the ACT Treasurer issued the terms of reference for the investigation.¹

In accordance with the terms of reference, the Commission has conducted an investigation under Part 3 of the ICRC Act. The investigation has concluded with the Commission issuing a final report and Price Direction.² 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 three year period from 1 July 2014 to 30 June 2017.

4. Application of the price direction

Pursuant to section 15(4) of the ICRC Act, the terms of reference require that the price direction will apply to the authorised electricity retailer ActewAGL Retail.

¹ DI2014-10: Independent Competition and Regulatory Commission (Price Direction for the Supply of Electricity to Certain Small Customers) Terms of Reference Determination 2014.

² Final Report Standing offer prices for the supply of electricity for small customers 1 July 2014 to 30 June 2017 Report 4 of 2014 and Price Direction Standing offer prices for the supply of electricity to small customers 1 July 2014 to 30 June 2017 Report 5 of 2014.

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:

(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. The Commission has calculated two maximum average percentage changes (or Y factors) in standing offer prices determined in accordance with the cost-index model, one with a price on carbon and the other without. For the 2014–15 regulatory year, the with-carbon-price Y factor is calculated as 4.33 per cent and the without-carbon-price Y factor is calculated as minus 7.30 per cent.

The weighted average price cap formula is discussed in more detail in Chapter 2 of the final report and the cost-index model is further elaborated on in Chapter 3 of the draft report. More detail on the calculation of the Y factors for 2014–15 is contained in Chapter 3 of the final report.

6. Annual recalibration

The Commission has set out in Part B of the Price Direction a formulae and a method by which the Y factor is to be calculated annually for the 2015–16 and the 2016–17 regulatory years. Certain components of the Commission's cost-index model will be recalibrated annually through the methodology set out. The methodology is referred to as an annual recalibration, and is set out in more detail in Chapter 2 of the final report.

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, such as potential changes to the price on carbon arrangements set out in the *Clean Energy Act 2011 (Cth)*. Specifically, the combination of the three 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 2 of the final report.

8. Trigger events

Clause 10 of the Price Direction provides for five trigger events that allow for a potential variation of the Price Direction.

(a) an act of terrorism;

(b) a major natural disaster;

- (c) a significant change to ActewAGL Retail's financial or corporate structure;
- (d) an unforeseen or *force majeure* event that severely restricts ActewAGL Retail's ability to provide services;
- (e) a change or changes made on or after 31 May 2014 and before 30 June 2017 to the price on carbon arrangements set out in the Clean Energy Act or the introduction of any new Australian Government carbon reduction legislation or policies that singly or in concert result in a non-zero price on carbon; or
- (f) the cost-index model, its components or the determination of Y^t under clause 8 becoming unworkable due to a legislative provision, government policy or other cause (or any number or combination of the aforementioned).

Trigger events are events that would demand changes to the Price Direction that cannot be made within the flexibility provisions in the body of the Price Direction. In order to allow the Commission to initiate a process to vary the Price Direction if a trigger event should occur, that event must be identified as a trigger event in the Price Direction. They are, therefore, contingencies on which the Commission may rely to initiate a variation in the event that any one or more of them should occur. Under section 24F of the ICRC Act, the Commission may only initiate a reference for variation of a price direction if a trigger event identified in the Price Direction has occurred. Section 20A(3)(c) also outlines that price regulation provisions of a Price Direction may include such trigger events to provide for initiation of a variation.

9. Reset principle

The Price Direction provides for a reset principle that requires the Commission to seek a reference from the relevant Minister 18 months prior to the expiry of the regulatory period. The reset principle is set out in Part C of the Price Direction.