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25 March 2021

Dear Dr Weier

### **Draft Report: Review of the Retail Electricity Form of Price Control**

ActewAGL Retail (“ActewAGL”) welcomes the opportunity to respond to the Independent Competition and Regulatory Commission’s (ICRC’s) Review of the Retail Electricity Form of Price Control - Draft Report, released on 26 February 2021.

This response follows ActewAGL’s submissions to the ICRC’s October 2020 Issues Paper and November 2020 Background Paper. ActewAGL also attended the related ICRC workshops held during November 2020 and March 2021.

This letter sets out the key issue of the review, a description of the ICRC’s draft decision and ActewAGL’s response.

### **Key Issue for the Form of Control Review**

The key issue for the Form of Control Review is the derivation of the network cost component that is used in the ICRC’s pricing model, to determine regulated prices for standing offer customers.

As described in ActewAGL’s submission to the Issues Paper, the formula used to calculate the annual change in the 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 distinction between the two methods was highlighted during the 2020–21 price reset. The average increase in Evoenergy’s network prices of ~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. ActewAGL notes the ICRC’s current 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.

## ICRC's draft decisions

The ICRC has outlined two draft decisions in the Draft Report.

The first draft decision is to change the derivation of the network cost component in the cost model for standing offers. The proposal is to exclude the weighting caused by changes in the mix of residential and business customers. This would mean the network cost pass-through component in the regulated cost allowance, is calculated in a manner consistent with the ICRC's weighted average price change formula.

The second draft decision is to implement the change from 1 July 2021, rather than from the next price investigation which commences from 1 July 2024.

## ActewAGL's Response

ActewAGL agrees with both draft decisions - to change the derivation of the network cost component and to commence the change from 1 July 2021.

Volatility in the percentage change in the network cost component from year to year creates uncertainty for ActewAGL's standing offer customers, and for ActewAGL. The proposed approach lessens the impact of volatility in network costs arising from changes in volumes from year to year. The original issue is technical in nature and ActewAGL believes the ICRC's solution is easy to implement, simple to understand and transparent for customers.

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

Yours sincerely



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