

5 February 2016

Ms Karen Doran
Executive Director
Chief Minister, Treasury and Economic Development Directorate
GPO Box 158
Canberra ACT 2601

Dear Ms Doran

Investigation of the ACT Energy Industry Levy

Thank you for the opportunity to provide a submission on the investigation of the ACT Energy Industry Levy (EIL) by the Chief Minister, Treasury and Economic Development Directorate (the Directorate). We welcome the investigation and provided comments below.

Transparency of costs included in the EIL

There is an opportunity as part of this review process to consider how to achieve improved transparency and understanding of the basis for determining the EIL, and the costs included in the EIL. While the annual EIL determination notices do provide a summary of what is included in the costs, there is no cost breakdown by function or agency and no explanation as to how the costs have been allocated across sectors and fixed and variable costs. ActewAGL Retail also notes that the information is not provided in a form easy for consumers to access and understand.

ActewAGL Retail is also separately charged by the Independent Competition and Regulatory Commission (ICRC) for conduct of specific regulatory price reviews. Reconciliation of these separate 'fee for service' amounts is also necessary as part of a review of the EIL to ensure appropriate treatment of, and accountability for these additional regulatory costs. ActewAGL Retail would appreciate being provided an advance estimate of likely costs, full details of what is actually being charged in the invoice and clear explanation as to why these costs are not better recovered in the EIL.

In summary, there must be full transparency and accountability for recovery of all regulatory costs. Cost recovery processes must be prudent and efficient and there should be no distortion of competitive market outcomes. We encourage the Directorate to have regard to the Australian Government cost recovery guidelines in conducting this investigation, in particular the guidelines about transparency, accountability and five-yearly reviews.

Year on year volatility of the EIL

ActewAGL Retail agrees that the volatility of regulatory costs captured in the EIL is an issue. Volatility in an operator's cost base can lead to volatility in energy prices paid by customers, and so predictability and stability to the extent possible are necessary in providing price stability for customers.

As noted above, ActewAGL Retail does not receive detailed information on the costs included in EIL and so it is difficult to comment on drivers of this volatility and therefore opportunities to address this issue. However, it is understood that some of this volatility is due to the Levy Administrator having to make forecasts.

Table 1.1 Comparison of estimated and actual electricity and gas supply local regulatory costs

Year	Actual	Estimated	Variance
2014/15	995,027	1,023,722	3%
2013/14	1,030,926	1,283,532	25%
2012/13	1,066,363	1,246,176	17%

As the table shows there is a significant variance between the estimated and actual 'local regulatory costs' for the gas and electricity supply sectors over the last three years. While this results in volatility itself, the effect is magnified due to the application of a 'true up'.

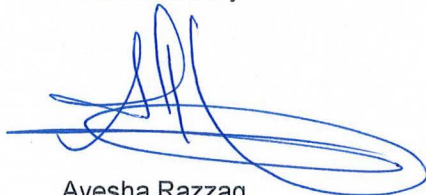
One solution would be to charge the EIL on actual costs (and therefore no need for a 'true up' in following years). This will reduce price volatility and lower administrative costs.

Fair allocation of the EIL and recovery of regulatory review costs

As noted above, an important consideration of the investigation is the allocation of regulatory costs across the industry to ensure these costs are allocated in a fair and competitively neutral manner. It would be timely as part of this review, to consider the fast changing nature of the energy industry to ensure all market participants are contributing their fair share.

Thank you for your consideration of these comments. We would be happy to meet with your officers to discuss our comments in more detail.

Yours sincerely



Ayesha Razzaq
General Manager Retail