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Senior Commissioner Joe Dimasi
Independent Competition and Regulatory Commission
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7 March 2023

Dear Commissioner Dimasi

RETAIL ELECTRICITY PRICE INVESTIGATION 2024-27: DRAFT REPORT AND PRICE DIRECTION

The ACT Council of Social Service (ACTCOSS) welcomes the opportunity to make a submission in response to the Independent Competition and Regulatory Commission's (ICRC's) Retail Electricity Price Investigation 2024-26 Draft Report and Proposed Price Direction (the draft decision).

We seek to support ACT low-income households, non-government organisations and small business consumers to participate in decision making on energy issues to achieve better consumer outcomes in terms of affordable, reliable, safe, and clean energy as an essential service.

We have developed our submission based on the following principles and policy objectives:

- Energy is an essential service – it is not a discretionary purchase
- The promised benefits of privatisation and market competition in energy services have not been realised
- Retailers should not make excessive profit margins off the provision of essential energy services
- All households must have access to energy at a fair price
- It should be easy for consumers to determine the best energy offer for their circumstances.

The regulated standing offer price (standing offer) is the price cap placed on the default contract that ActewAGL consumers are entered into if they do not select a market offer. The ICRC regulates the prices of these offers, and minimum terms and conditions for these offers are set by the ACT Government. These offers are intended to provide a safety net for those consumers who do not or cannot shop around for better offers.[1]

[1] Independent Competition and Regulatory Commission (ICRC), *Review of the Retail Electricity Form of Price Control*, 2021.

The standing offer is a crucial safeguard for household consumers who are unable to engage in detailed comparisons of market offers for an essential service. In the current cost-of-living crisis the importance of this consumer protection is paramount. ACTCOSS wishes to highlight that the proposed increase will have a disproportionately damaging impact on low-income and marginalised Canberrans. ACTCOSS is not convinced an increase of the magnitude proposed by the ICRC is justified. Our submission identifies standing offer cost-stack components where ACTCOSS believes the key assumptions or proposed regulatory choices should be subject to additional stress testing by the ICRC.

Rising electricity bills fuel the cost-of-living crisis

ACTCOSS represents community sector organisations that are on the frontline of the cost of living crisis. These organisations tell us that they are experiencing unprecedented demand from ACT households that are struggling to absorb mounting costs,

Over the past five years, Canberra's CPI has increased at a rate above the national CPI – 17.5% compared to 16.6%. Between December 2017 and December 2022, Canberra has experienced significant increases in prices for automotive fuel (37%), transport (23%), electricity (25%), medical and hospital services (19%), housing (21%), education (20%) and food (18%), which all rose at a rate above the overall CPI.[2] These are key essential goods and services where price increases have a disproportionate impact on low-income households in the ACT. Findings from our latest Cost of Living Report show that:

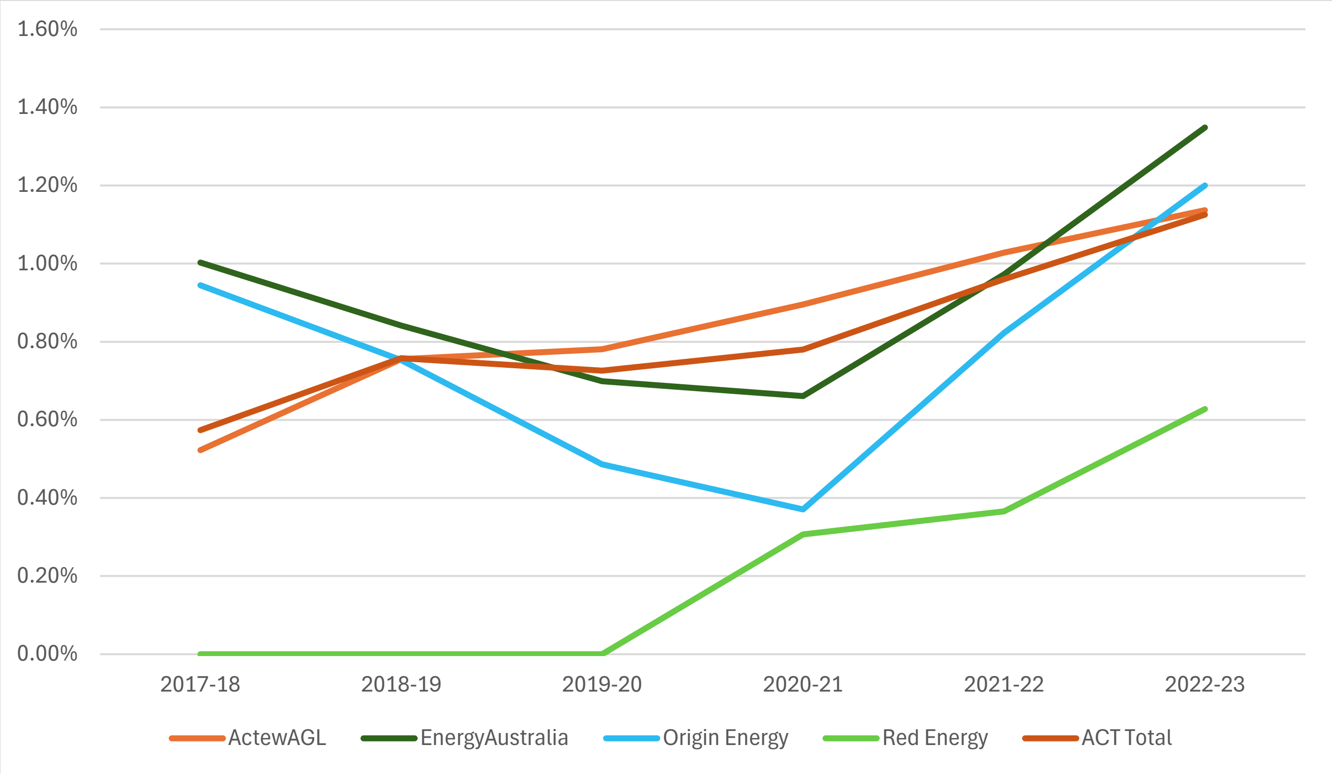
- Living costs in the ACT have reached their highest levels in 20 years and low-income households disproportionately face the effects of these increases
- Canberra's electricity prices rose well above the national rate
- Other essential service prices in the ACT rose above the national rate, and
- Government income support payments remain inadequate to meet essential living costs in Canberra.

Wider cost of living stresses are also reflected in the latest AER retail performance data, which shows:

- An increasing share of customers seeking help with the percentage of customers on hardship programs in the ACT increasing across all four of the biggest retailers, from 0.6% in 2017 to 1.1% in 2023 (Figure 1).
- Most customers enter hardship programs with a debt between $500 and $1,500.
- A steady decrease in the percentage of ACT hardship customers receiving energy concessions, from almost 70% in 2017 to just 54% in 2023.

[2] ACT Council of Social Service (ACTCOSS), *2023 ACT Cost of Living Report* , 2023, p.10.

Figure 1: Percentage (%) of customers on hardship programs in the ACT



Source: Australian Energy Regulator (AER), [Retail energy market performance update for Quarter 1, 2023–24](), Retail energy market update, December 2023.

The rising price of energy has a devastating and compounding impact on low-income households. Electricity bills represent a much higher share of the ongoing living expenses of these households, and limited financial resources often leave them with few options to reduce their energy use safely and sustainably. The shocking and unacceptable consequences of higher energy bills and associated heating and cooling costs include poor sleep, ill-health, heat stress and energy debt [3] – all of which can be prevented by making the right policy choices. ACTCOSS considers that the ICRC has not adequately acknowledged or recognised this wider context in relation to the preparation of the draft decision. However, it is not enough to simply recognise this context. These household impacts are not just wider background issues. In ACTCOSS' view they must be critical considerations when applying the standing offer methodology.

[3] Australian Council of Social Service (ACOSS), *ACOSS Summer Heat Survey 2024*, 2024.

Proposed approach to setting retail electricity prices for the 2024-27 regulatory period

Projected wholesale costs

Energy purchase costs account for 55% of the total estimated costs of providing retail electricity services in the ACT.[4] Because they are such a significant component of the cost stack, estimating these costs using data from publicly listed financial products on energy futures provides important transparency. However, it is important these inputs are fully stress-tested. A great deal hinges on the details of both the design of this methodology, and the timing and quality of key inputs and assumptions. As noted in Frontier Economics' Retail electricity price investigation 2024-27 report to the ICRC:

> *"In practice, some retailers in the NEM do adopt a mix of hedging strategies, … therefore, regulators will, if anything, tend to overstate the costs that these retailers with a broader range of options will face, or understate the risk management that retailers can achieve."*[5]

For the ACT community sector, and ordinary Canberran households who rely on the regulator to set a fair reference price, is it vital the ICRC is fully satisfied that this dominant wholesale cost component is as lean as possible.

Retail operating costs

Frontier Economics found that the commission's retail operating cost allowance lies at the bottom end of the regulator range and is lower than the weighted average cost for the largest retailers operating in the ACT.[6] The retail operating costs per customer across competitive NEM regions is between $163 in Queensland and $176 in Victoria with a customer-weighted average value of $173.[7] In the ACT the current benchmark is $143 per customer and the proposed methodology would see the retail operating cost allowance increase significantly to $173 per customer per year.[8]

Due to the marked differences in the ACT compared to other NEM jurisdictions, the ICRC should consider whether they find it appropriate to set the ACT benchmark based on retail operating cost allowances set by other regulators in other jurisdictions. Consideration should be given to the fact that retailers actual operating costs have been decreasing for the last decade.[9] ACTCOSS believes that the

[4] ICRC, *Draft Report Retail electricity price investigation 2024-27*, 2024, p.32.
[5] Frontier Economics, *Final Report to the ICRC: Retail electricity price investigation 2024-27*, 2024, p.9.
[6] Frontier Economics, *Final Report to the ICRC*, p.32; ICRC, *Draft Report*, p.42.
[7] ICRC, *Draft Report*, p.43.
[8] ICRC, *Draft Report*, p.44.
[9] Australian Competition and Consumer Commission (ACCC), *Cost of supplying electricity to households at an eight-year low*, 2021.

proposed retail operating cost allowances should be based on an ACT-specific benchmark and require further justification.

Reduce the profit margin

From 2020 – 2024, the ICRC applied a retail margin of 5.6% throughout the regulatory period.[10] According to Frontier Economics' analysis based on recent decisions by other NEM regulators, a retail margin ranging from 4.5% to 5.9% would be appropriate.[11] The ICRC needs to balance providing a return to retailers and affordable and stable prices for consumers in the context of the cost of living crisis. Larger energy sector profits that rely on price increases also contribute to inflation, as all sectors of the economy rely on energy. Increasing the profits of this sector can hinder overall economic circumstances for the ACT economy.

The current standing offer framework does not require the ICRC to use the lowest cost estimate available in every situation, but ACTCOSS' view is that the ICRC should work from that basis. Subsequently, where there is ambiguity about a cost component or a reasonable data range, ACTCOSS believes the ICRC should use the lower estimate, or justify any decision to use a higher figure.

For the major energy retailers these current margins already result in annual profits in the hundreds of millions of dollars. In setting a fair reference price for electricity – a household essential service – it is vital that the standing offer puts the needs of people, over the excessive profit of energy retailers. ACTCOSS calls on the ICRC to revisit the proposed profit margin it allows in the standing offer cost-stack and adopt a significantly lower and more justifiable figure.

To discuss this submission further please contact Lyndsay Bassett, Senior Policy Advisor on lyndsay.bassett@actcoss.org.au.

Yours sincerely

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[10] ICRC, *Draft Report*, p.44.
[11] Frontier Economics, *Final Report to the ICRC*, p.64.