



Essential Services Commission
Level 8, 570 Bourke Street
Melbourne Victoria 3000

11 April 2023

By electronic lodgment

Victorian Default Offer 2023-24 – Draft Decision

Alinta Energy welcomes the opportunity to comment on the Essential Services Commission draft decision on the Victorian Default Offer for 2023-24.

Alinta Energy is an active investor in energy markets across Australia with an owned and contracted generation portfolio of over 3,300MW and more than one million electricity and gas customers. The final VDO for 2023-24 will impact customers, retailer viability and effective competition in the retail energy market. We support the ESC's approach to consulting widely with stakeholders and the public forum and other opportunities to provide feedback on this process.

General comments

Alinta Energy welcomes the consistent and stable approach the ESC has taken to the method to determine the VDO for 2023-24. We strongly support the ESC's view that retailers need to be able to recover their efficient costs to avoid the potential risk of retailer failure, as occurred in the United Kingdom in 2021-22. The crisis in the UK energy market was exacerbated by a price cap regime that did not account for high volatility in the wholesale energy market, which led to the failure of thirty-one retailers in a short period of time and increased the price cap for electricity by over 54%. The crisis in the UK required costly government intervention ultimately funded by consumers and taxpayers, illustrating the impact of retailers being unable to recover their costs.

External and local factors contributed significantly to wholesale market volatility in 2022, leading to the unprecedented suspension of the National Electricity Market on 15 June of that year. Alinta Energy supports the ESC's decision to include market suspension costs in the VDO as they become known as this will support retailer viability and confidence in the market.

Wholesale electricity costs

Alinta Energy supports the ESC's approach to determining wholesale electricity costs and the stable approach to the method applied. We also support the use of the 12-month book build approach to hedging in calculating the WEC.

Allowing the recovery of efficient wholesale market hedging costs, including an allowance for (or recognition of) market volatility supports the long-term interests of customers, as it supports the continuation of effective competition, promotes confidence to invest in innovation which in turn results in genuine choice for consumers of energy.

As the ESC noted in the December 2022 consultation paper –

“When the Australian Energy Market Operator intervened in the wholesale market, it effectively exposed retailers to higher wholesale costs but capped the revenue retailers could receive through hedging. There is no mechanism for retailers to claim compensation from the market operator for the lost hedging revenue that would have offset the higher wholesale costs.”¹

Alinta Energy supports the ESC's position as expressed in that paper -

“...to include the compensation costs in the 2023–24 Victorian Default Offer. Passing through these costs will allow retailers to recover their efficient costs. It is consistent with the pricing order to base Victorian Default Offer prices on electricity retailers' efficient costs.”²

We note that the ESC has not provided an explanation as to why this should be delayed to 2024-25. A proxy for determining compensation that could be used avoiding delay, would be the difference between the final WEC (half hour intervals) and the market suspension price that applied for the period of market suspension.

Network costs

We support the ESC's approach to passing through network costs and the use of the Victorian distribution network service provider's indicative 2023-24 network tariffs, adjusted for CPI.

Environmental costs

Alinta Energy supports the approach to determining the environmental costs component in the VDO, including the method to calculate large-scale renewable energy target, small-scale renewable energy scheme, Victorian Energy Upgrades costs.

Customer Acquisition and Retention Costs

Alinta Energy supports the ongoing approach to customer acquisition and retention costs as an important benefit to customers that supports retail market competition.

Future reviews

We acknowledge that the ESC intends to seek stakeholder input at the commencement of future reviews through a request for comment notice rather than a full consultation paper. Where material changes to the method for determining the VDO is proposed, it is critical that the ESC undertake a full consultation process.

¹ Essential Services Commission (2022), *Victorian Default Offer 2023-24 – Consultation Paper*, page 12.

² Ibid.

We would welcome further discussion of this response with the ESC, please contact David Calder (David.Calder@alintaenergy.com.au) in the first instance.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'G. Hamilton', is positioned below the text 'Yours sincerely'.

Graeme Hamilton
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