



Victorian Default Offer applying from 1 January 2022

Draft decision

Public forum

Thursday 23 September 2021

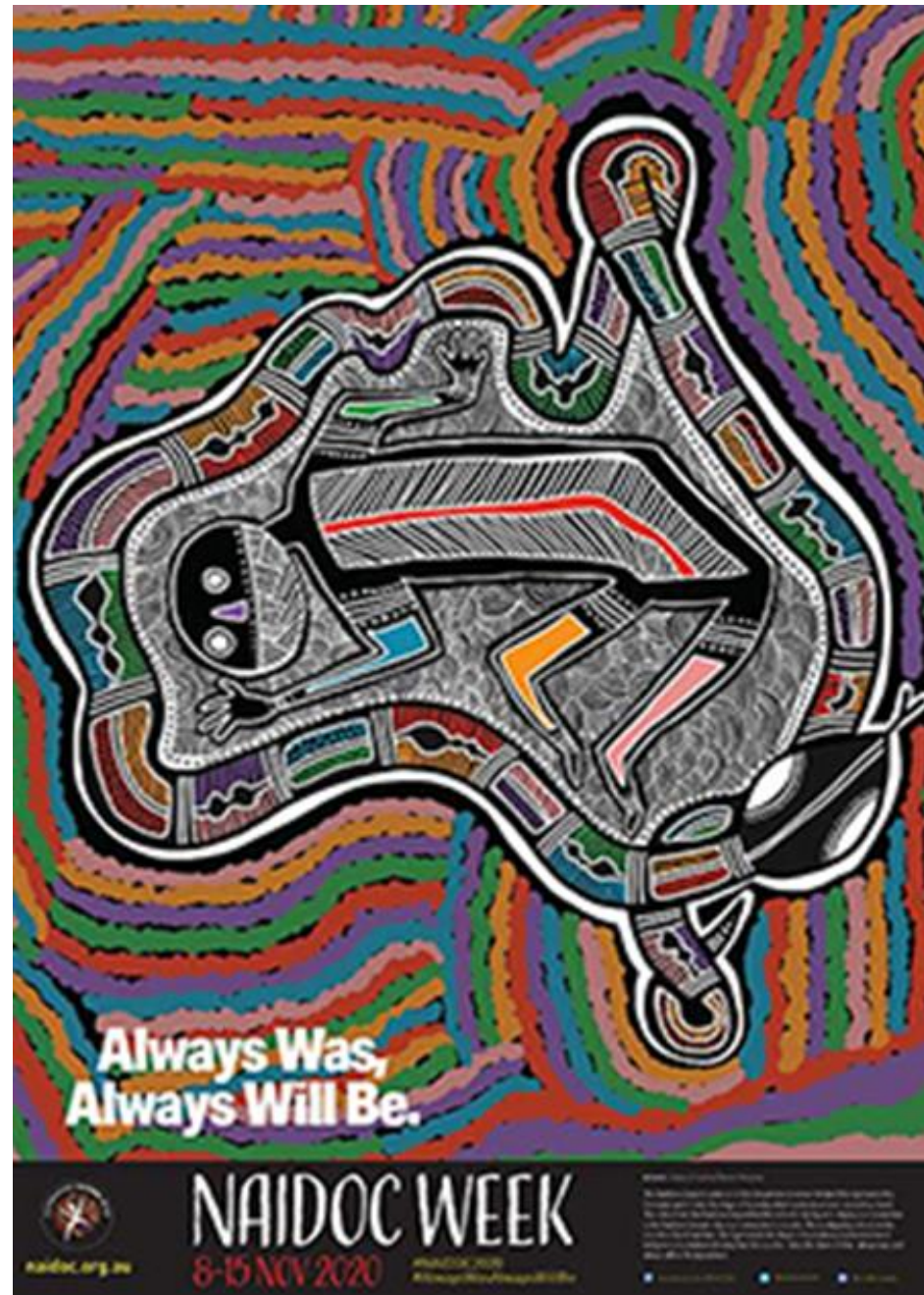


Acknowledgement of country

We acknowledge the Traditional Owners on all of the lands wherever you are today.

We pay our respects to Elders past, present and Aboriginal Elders of other communities who may be with us.

We also acknowledge the connection Indigenous Australians hold to country and culture.



Welcome



Please mute your microphone



This public forum is being recorded (including questions, comments and chats)



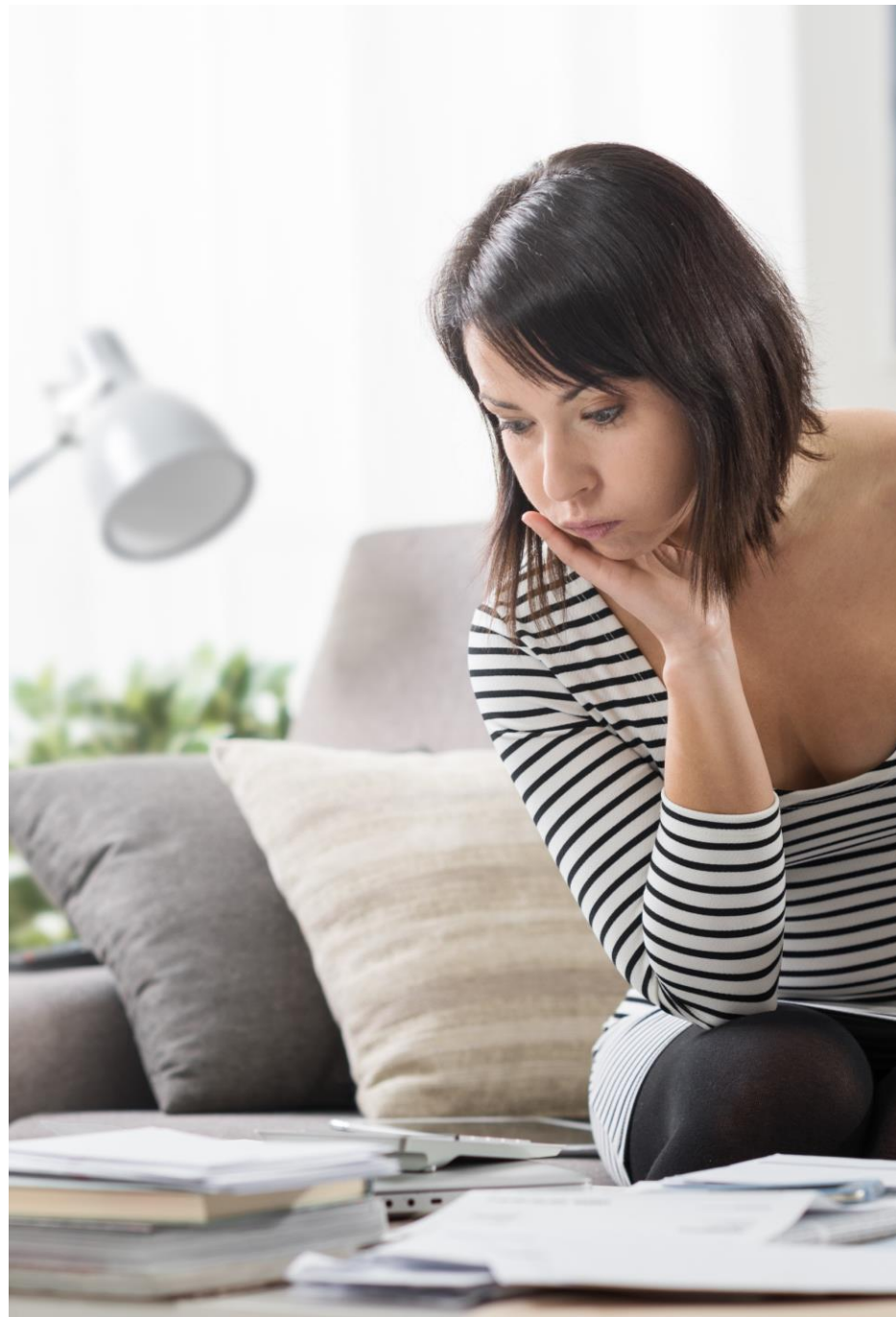
Use the zoom chat for questions

Our approach today

We're keen to hear from you

We will engage on matters you'd like to explore further

Please make submissions via Engage Victoria:
due date - 8 October



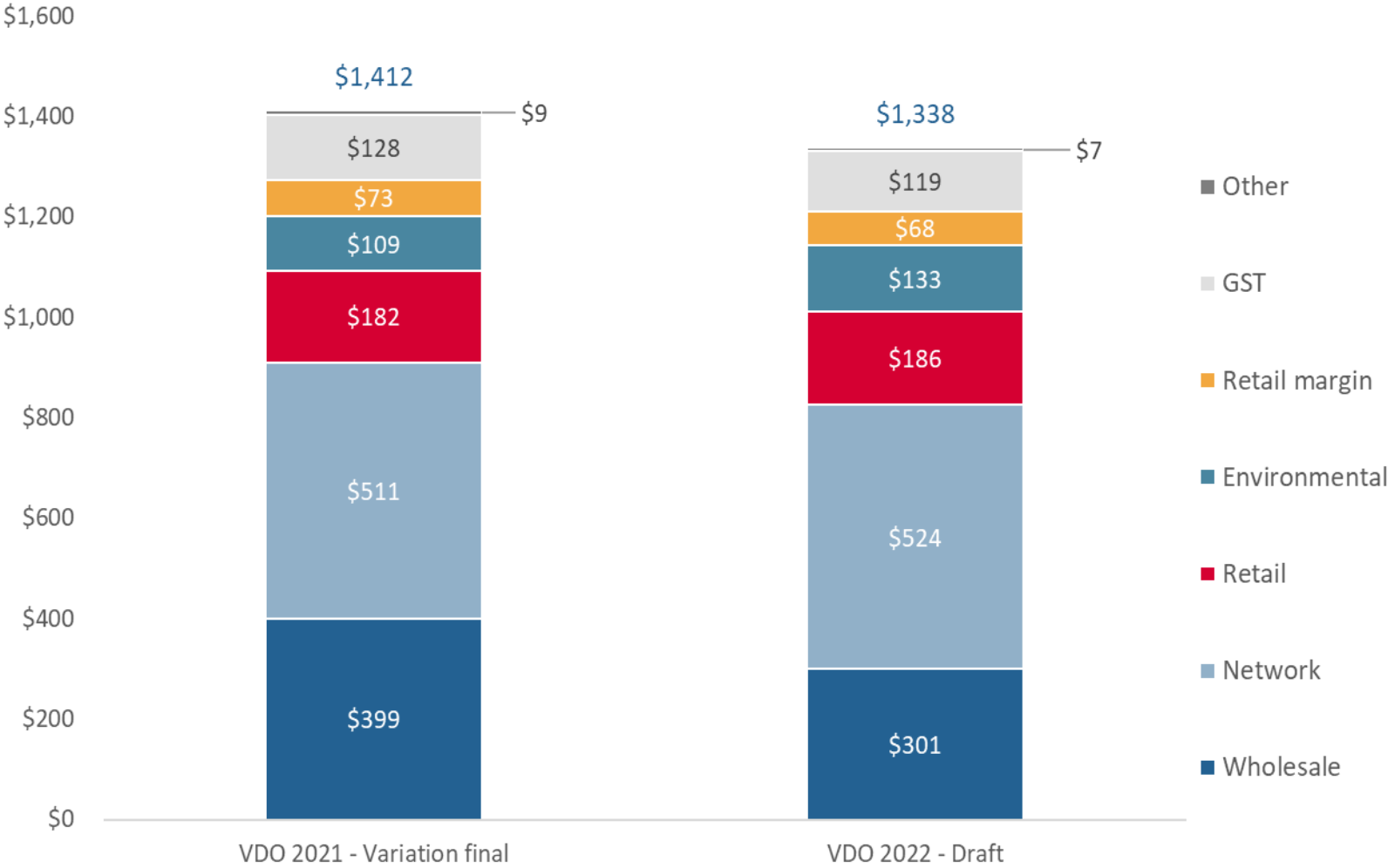
Today's agenda

11:00 am	Introductions and agenda – Kate Symons, commission chair
11:10 am	Our draft decision – Jonathan Roberts, project manager
11:20 am	Ben Barnes, Australian Energy Council Meng Goh, AGL Selena Liu, EnergyAustralia Sean Greenup, Origin Energy
11:40 am	Gerard Brody, Consumer Action Law Centre
12:00 pm	Questions

Overview of our draft decision

- Approach is largely unchanged
- Including approach to calculating wholesale costs
- In the absence of strong new evidence, intend to remove temporary allowance for bad debts
- Retains approach to calculating Victorian Energy Upgrade costs (using historic 12-month average price for Victorian energy efficiency certificates)
- Regulatory period of six months from 1 January 2022 to 30 June 2022

Our draft decision would lead to lower annual bills - residential



Timeframes for the 1 January 2022 Victorian Default Offer review

Key milestone	Date
Draft decision – release	7 September 2021
Draft decision – public forum	23 September 2021
Draft decision – submissions close	8 October 2021
Final decision and determination – release	By 25 November 2021
1 January 2022 Victorian Default Offer takes effect	1 January 2022



AUSTRALIAN
ENERGY
COUNCIL

Retailer perspective

VDO 2022 – Draft Decision

Ben Barnes

General Manager, Retail Policy

Key issues

- Impacts of 2021
- Passthrough of 2021 Network Cost under-recovery
- Determination period
- Wholesale cost methodology
- Cost of Victorian Energy Upgrades scheme
- Bad debts
- Benchmarking retail operating costs

2020 vs 2021 – Customers



receiving support

	Oct-20	Jul-21
Number and proportion of Victorian customers receiving tailored assistance – who can pay on-going usage	36,657 (1.4%)	36,054 (1.4%)
Number and proportion of Victorian customers receiving tailored assistance – who cannot pay on-going usage	18,368 (0.7%)	18,469 (0.7%)
Average arrears and change from previous month (%) – customers receiving payment assistance, and can pay on-going usage	\$703	\$734
Average arrears and change from previous month (%) – customers receiving payment assistance, and cannot pay on-going usage	\$1,603	\$1,922

Other key decisions

- AEC supports approach to passthrough 2021 network costs in 2022 VDO
- AEC supports draft decision to set a 6 month VDO.

Retailer perspectives

- Wholesale electricity costs – Selena Liu, Energy Australia
- Victorian Energy Upgrades costs – Sean Greenup, Origin Energy
- Retail Operating Costs – Meng Goh, AGL

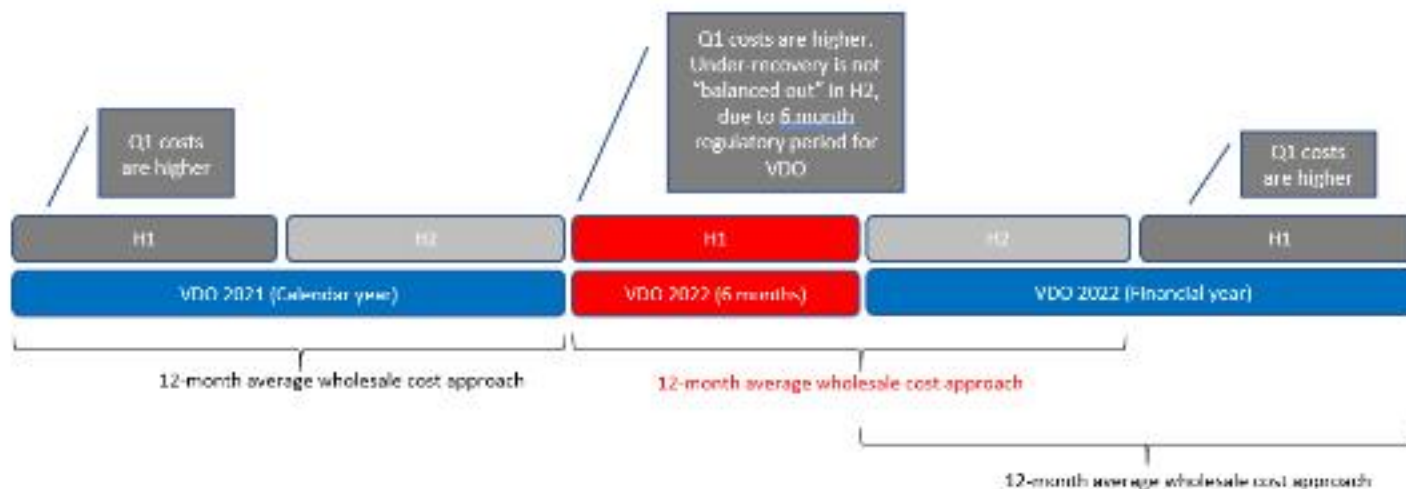
Draft VDO – Wholesale electricity cost approach

23 September 2021

V0.3



EnergyAustralia
LIGHT THE WAY



VEU Costs



Sean Greenup

Group Manager, Regulatory Policy



Objective

1. Provide a retailer perspective on the current operation of the Victorian Energy Upgrade scheme.
2. Highlight unintended consequences of the current operation of the Scheme and the impact on retailers and customers.
3. Propose responses to address these deficiencies.

VEU Scheme

- Scheme was intended to reduce greenhouse gas emissions by giving households and businesses access to discounted energy-efficient services.
- The Govt set a state target and required retailers to surrender certificates to meet this target.
- Retailers acquire certificates from: accredited installers who generate certificates from the installation of prescribed activities; or from the market.
- If retailers do not surrender sufficient certificates they pay a penalty cap price on the shortfall.

The Problem

- As a consequence of COVID, accredited installers have not been able to access premises and therefore install activities. As a result, a number have not been able to generate the number of certificates to fulfil their contracts.
- Due to the shortage of certificates the certificate price has increased dramatically without sufficient market liquidity.
- Supply side shortfalls are expected to persist as a result of the removal of lighting as a prescribed activity (~80% of the scheme). It is not clear how this gap will be filled.
- Retailers now have a greater exposure to penalty cap prices because of these unfulfilled contracts. This exposure does not appear to be covered in the VDO.
- The result is: higher market prices; accredited installers at risk of contract default; retailers exposed to penalty cap prices without regulatory recourse; and customers paying inflated prices for energy efficiency that is not being delivered.

VEEC Prices

Spot Prices



ESC Approach to setting the VEU

- The ESC determines the VEU allowance as the 12-month weighted average price.
- This means in some years there will be an under-recovery and in other years an over-recovery. Over time the costs balance.
- ESC draft allowance is \$49 and the current market price is \$83.
- Accept the ESC method will address the difference between the market price and the VDO – but not if installers default on their contracts leaving retailers exposed to the penalty cap.

Proposed Solution

- ESC to recognise the impact of contract defaults leading to retailers being exposed to the penalty cap – this exposure needs to be in the VDO especially with limited market liquidity.
- Govt/ESC could allow retailers to roll-forward a percentage of their liability to future years.
- Govt to provide greater clarity regarding eligible energy efficiency activities – especially after the removal of lighting.
- Govt to revisit penalty rates and certificate targets to determine if they remain for for purpose.
- ESC ought to provide a view to Govt as the independent economic regulator regarding these deficiencies.



Retail Operating Costs

Meng Goh – Senior Manager Regulatory Strategy

ROC & CARC

Retail operating costs

- benchmark below AGL's costs

AGL FY2022 bad debt forecast

- uncertain, current lockdowns unanticipated

Customer acquisition and retention costs

- benchmark below AGL's costs



consumer
action
law centre

OUR VISION:

a just marketplace,
where people have power
and business plays fair

OUR PURPOSE:

To make life easier for people experiencing vulnerability and disadvantage in Australia



Victorian Default Offer

What is the policy objective?

“The objective of the Victorian default offer is to provide a simple, trusted and reasonably priced electricity option that safeguards consumers unable or unwilling to engage in the electricity retail market.”

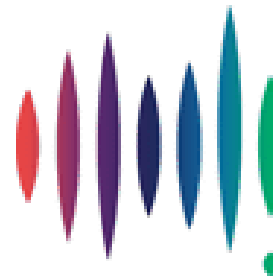
VDO has contributed to consumer trust

2019

- 46% satisfied with value for money
- 30% confident market working in their interests

2021

- 73% satisfied with value for money
- 42% confident market working in their interests



**ENERGY
CONSUMERS
AUSTRALIA**



Fair outcomes

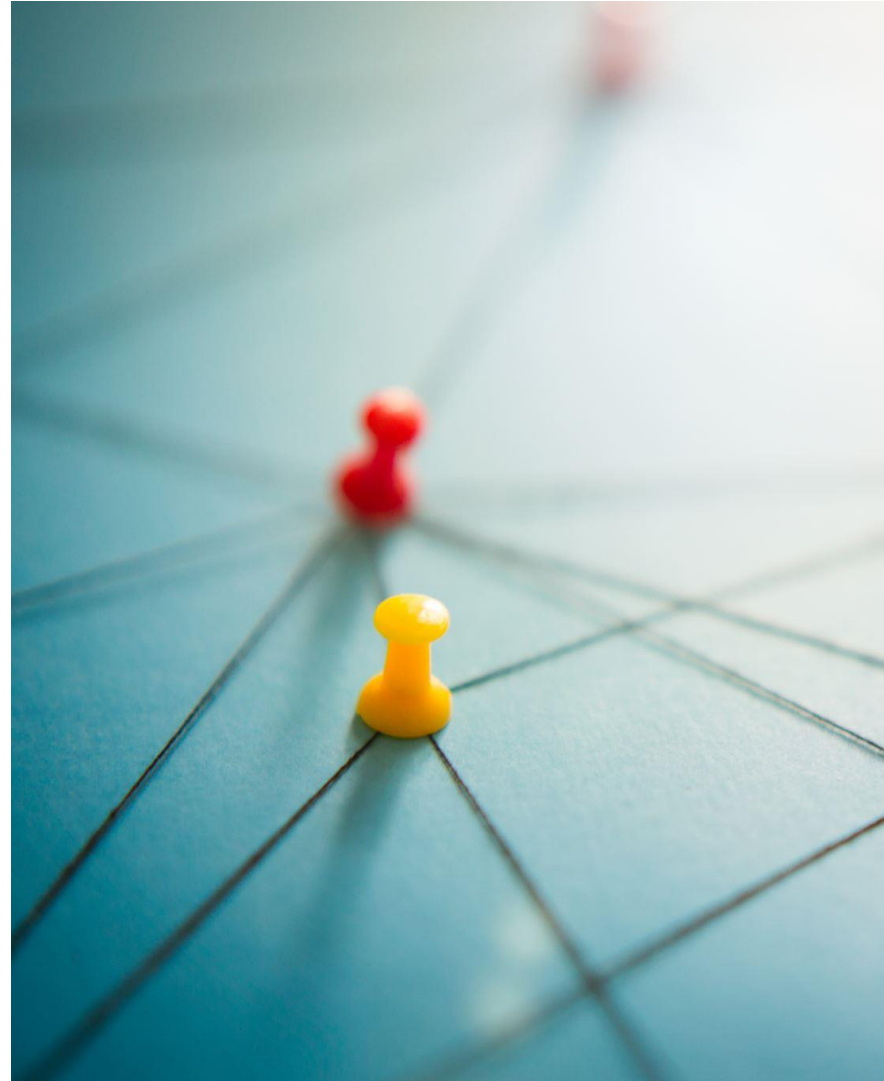
Our thoughts on the draft decision

1. Falling wholesale prices must flow through to customers
2. Removal of bad debt provision is good
3. Retail margin
4. Productivity factor

Other issues

Getting fair prices for all households

- Ensuring customers are accessing best offers
- Our recent *Energy Assistance Report*



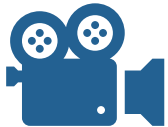
Questions



Use the zoom chat for questions



Mute your microphone (when not speaking)



The recording (including questions, comments and chats) + slides + questions will be published online

Questions raised by stakeholders

1. If the cost of procuring electricity is higher in quarter 1 and quarter 2 how can using an annual average for the underlying wholesale electricity prices in this default offer be justified?’
2. The accuracy of the past forecasted wholesale electricity prices compared to the actual spot market outcome, was the result in the expected range?’
3. How will government policy take into account industry concerns/issues?’
4. How is our view going to influence the Victorian default offer decision?’

Next steps

- Make submissions or comments via Engage Victoria – www.engage.vic.gov.au.

Key dates

- Submissions on draft decision paper – 8 October 2021
- Final decision and determination – 25 November 2021
- Victorian Default Offer takes effect – 1 January 2022