

Victorian Default Offer applying from 1 July 2022

Draft decision

Public forum

Thursday 31 March 2022

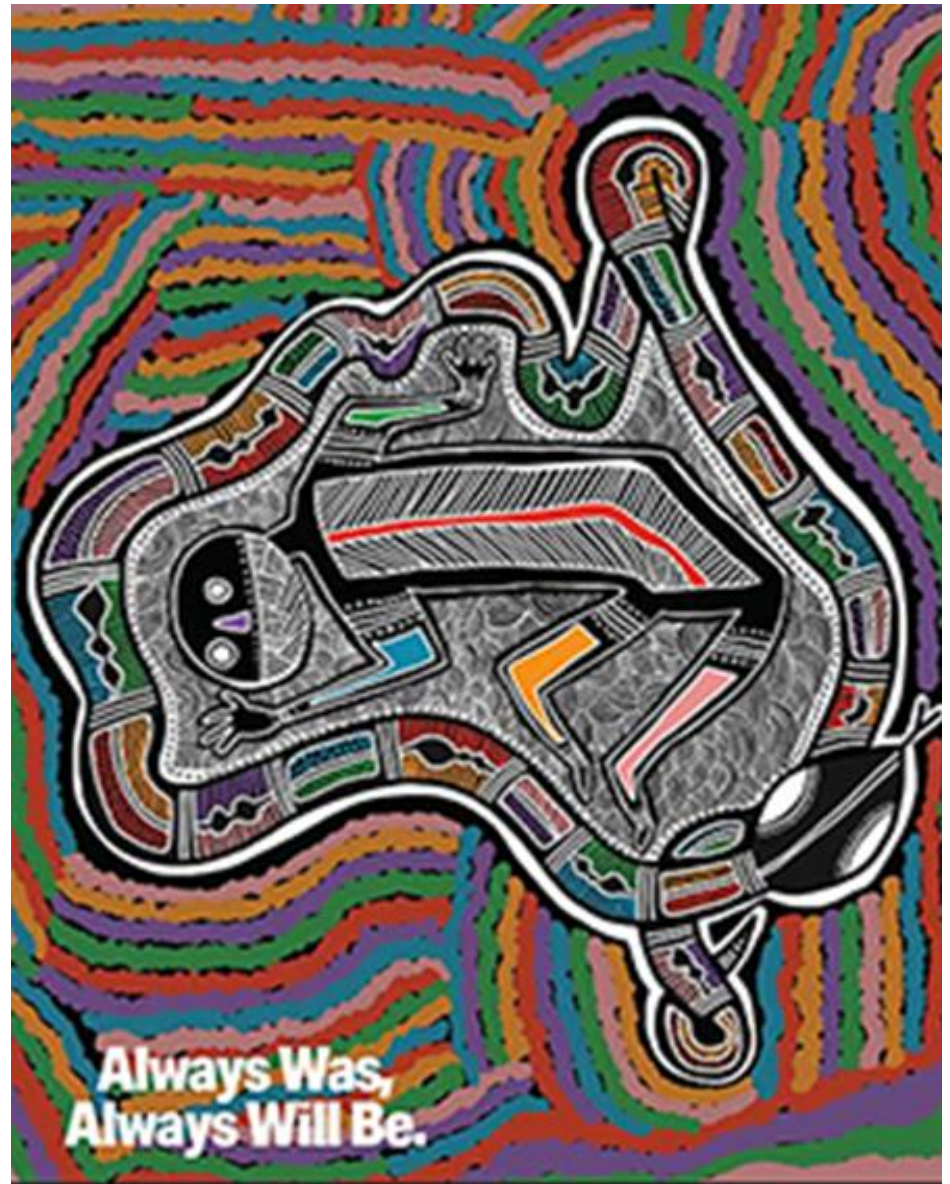


Acknowledgement of country

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

Today's agenda

2:00 pm	Introductions – Kate Symons, commission chair
2.10 pm	Agenda – Marcus Crudden, director
2.10 pm	Our draft decision – Mayank Grover, acting project manager
2:20 pm	Geoff Hargreaves, Red and Lumo Energy
2:30 pm	Jarrold Lenne, Victorian Council of Social Services
2.40 pm	Questions
3.25 pm	Closing – Marcus Crudden, director

Our approach today

We're keen to hear from you

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

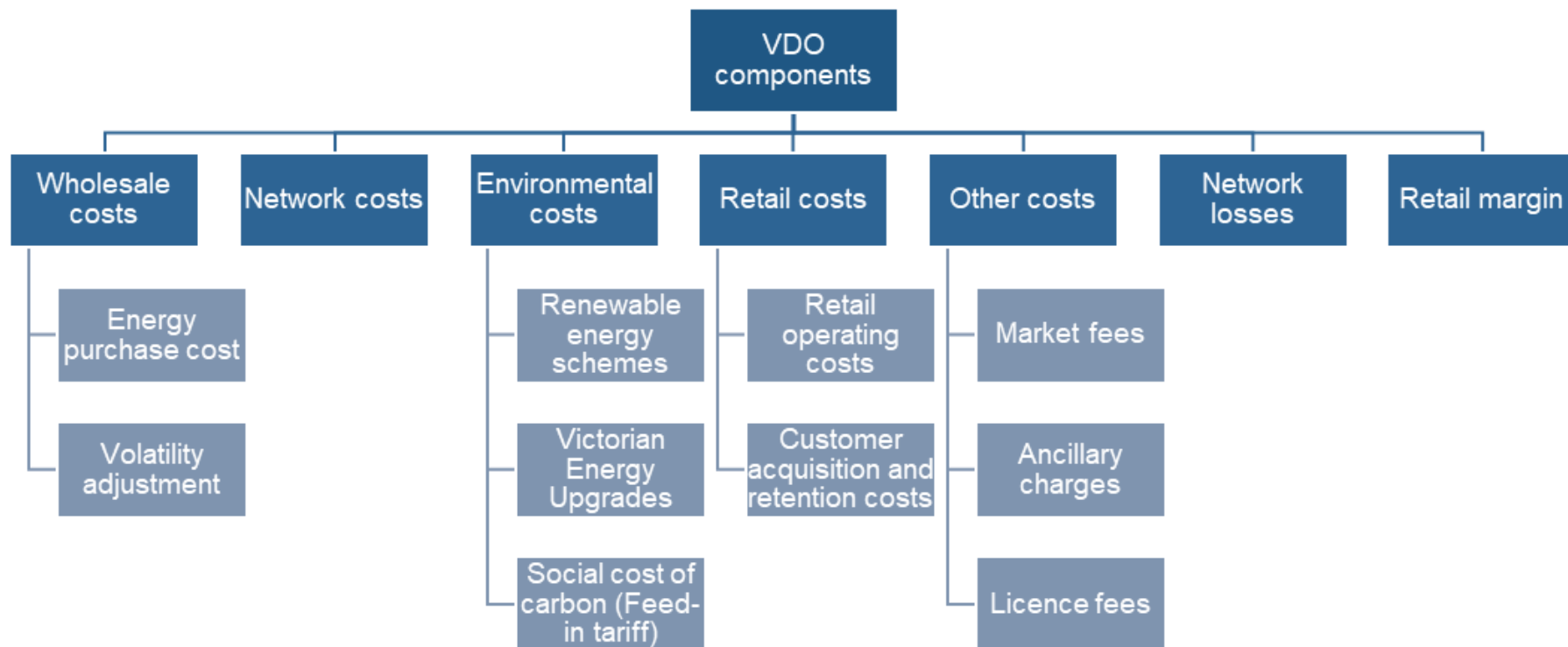
Please make submissions via Engage Victoria:

Due date - 12 April



Our approach to the Victorian Default Offer 2022–23

The overall approach has been generally supported by stakeholders, but we are open to justified changes like we have already in the past reviews.



Proposed two minor adjustments

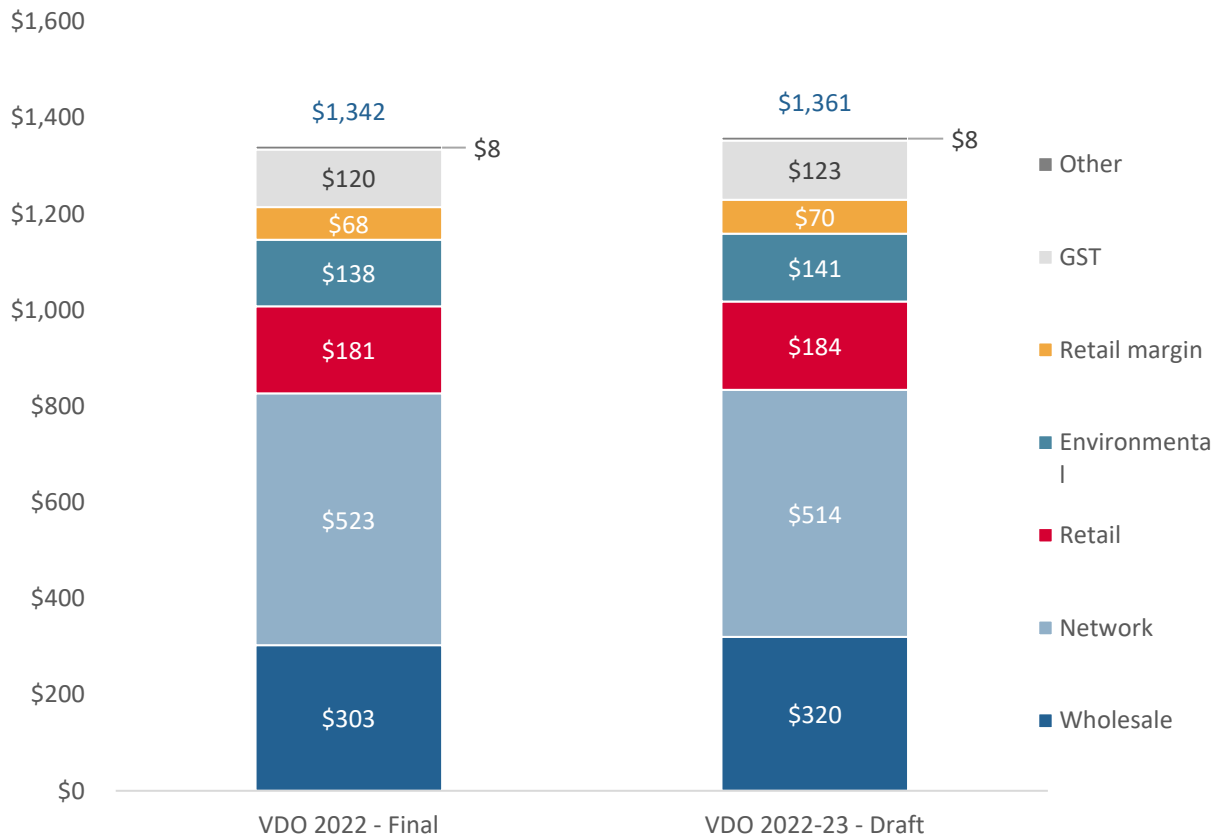
- Wholesale Electricity Costs: Use three most recent years of data to estimate electricity demand/load instead of five years
 - impact on average residential VDO bill is around \$3
- Network Costs: Use customer weighted average approach instead of cheapest meter approach to calculate metering costs
 - impact on average residential VDO bill is around \$3

* We will update the final decision for the network tariffs published by the AER for 2022–23

Key issues raised in submissions to our initial consultation

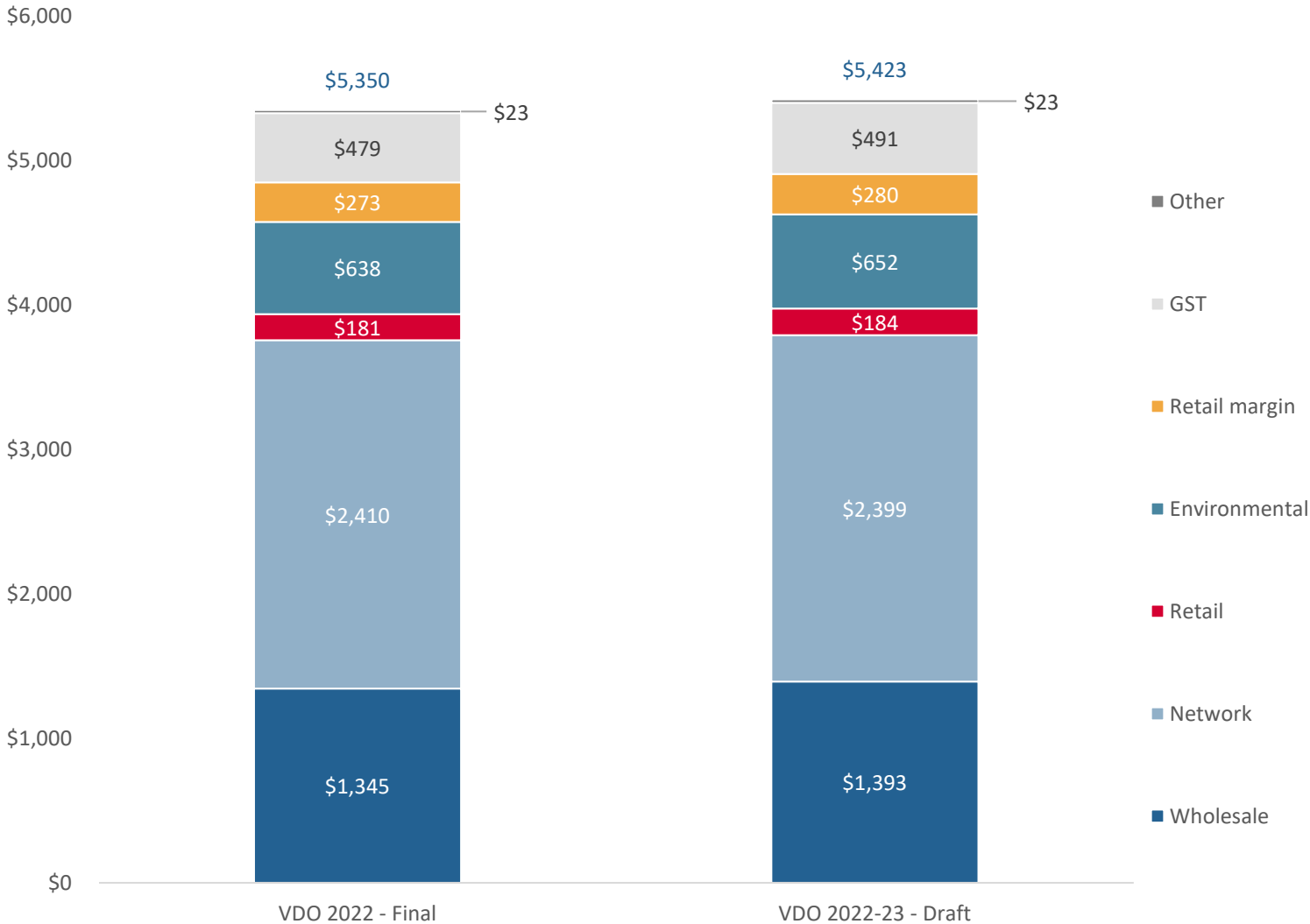
- In general, stakeholders supported the use of the same methodology.
- **VEEC prices:** no change in the 12 month trade-weighted approach to reflect efficient costs over the long run.
- **Consumer Data Right costs:** no adjustment as the impact is not material and accommodated within the current retail operating cost benchmark.
- **Bad debts:** no additional adjustment based on strong economic recovery, government indication of fewer restrictions and lack of clear evidence from retailer information.

Our draft decision would lead to a one per cent increase in annual bills - residential

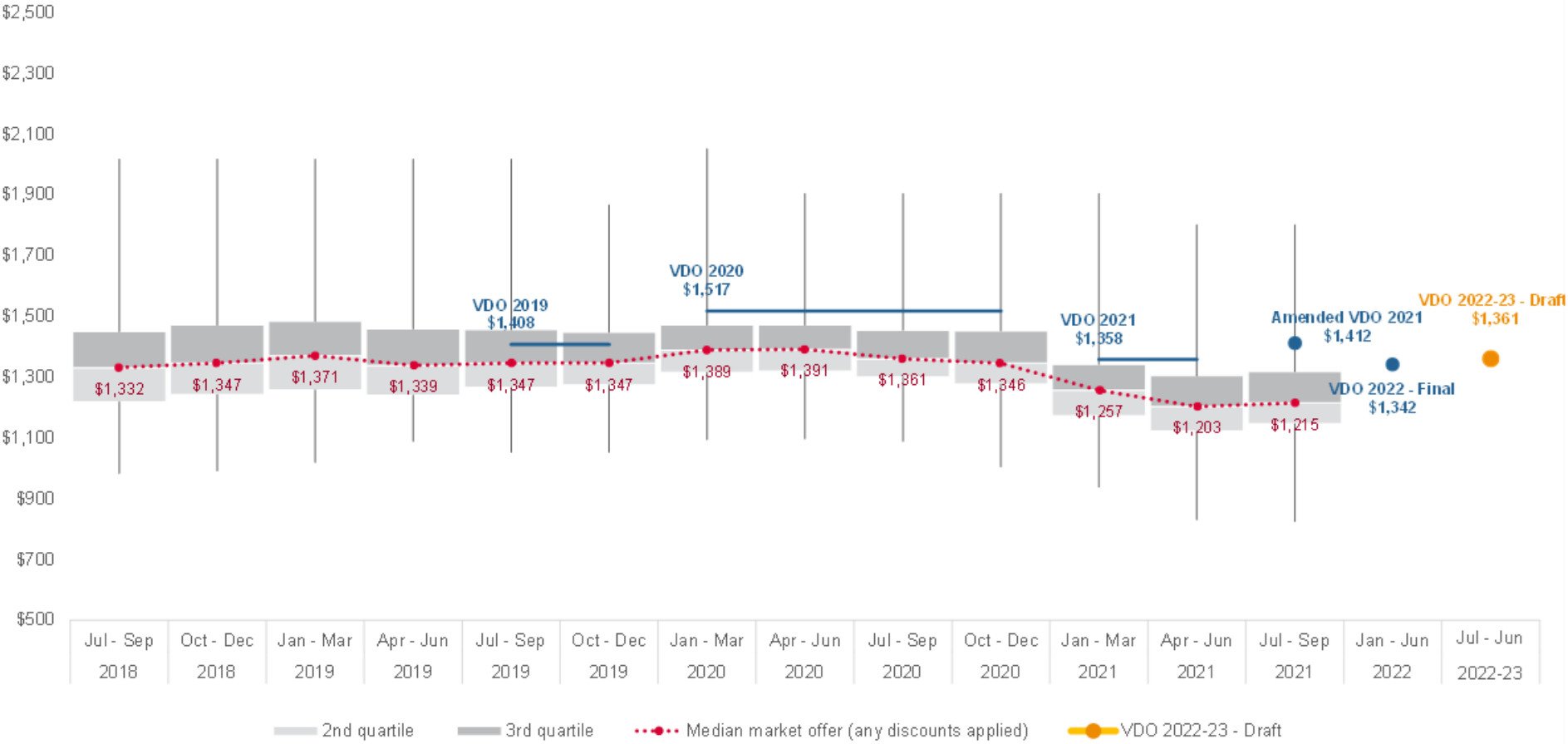


- The market-based figures will differ in our final decision as we update the costs closer to our final determination.
- AER has approved two cost pass-throughs in Ausnet distribution zone

Our draft decision would lead to a one per cent increase in annual bills – small business



Proposed default offer is above the median market offer



Timeframes for the Victorian Default Offer 2022–23 review

Key milestone	Date
Draft decision – release	15 March 2022
Draft decision – public forum	31 March 2022
Draft decision – submissions close	12 April 2022
Final decision and determination – release	By 24 May 2022
Victorian Default Offer 2022–23 takes effect	1 July 2022

Victorian Default Offer 2022/23 Draft Determination



About Red and Lumo

We are 100% Australian owned subsidiaries of Snowy Hydro Limited. Collectively, we retail gas and electricity in Victoria, New South Wales, Queensland, SA and in the ACT to over 1.1 million customers

Commenced operating in Victoria in 2004. Competed and built a customer base by offering a competitive price and innovative service (e.g. the first retailer to offer pay on time discounts rather than charge late payment fees, discount off entire bill) at a time that retail prices were regulated. For second year in a row, we received Canstar Blue Most Trusted Award for Energy Providers (National) and have won a Canstar award every year since 2010.

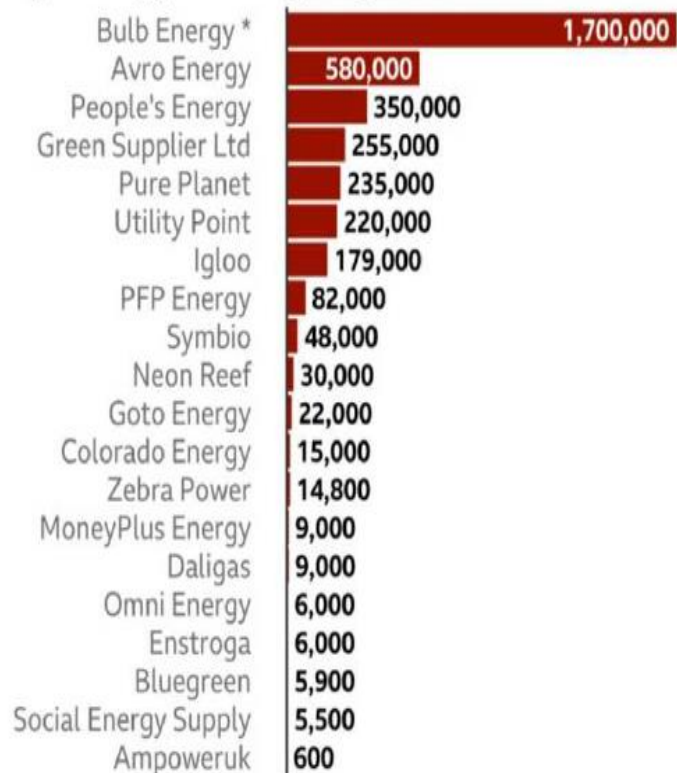
We are an example of how effective competition can encourage a different approach to customer engagement and deliver good customer service.



Views on price regulation

Price regulation is challenging and remains a second best solution - consequences can be higher prices on average and retail failure / market disruption

More than 3.8m UK households affected by energy firms going bust



* Bulb Energy set to go into administration
Note: Since 1 September 2021

Source: Ofgem

BBC

- Cannot not insulate consumers from cost pressures (we note the UK experience and enormous disruption for consumers from multiple SoLR events in the face of rising costs, 28 in 2021 impacting almost 4m customers)
- Has the potential to negatively impact competition and disproportionately impact smaller retailers
- Will become increasingly misaligned with the expected direction of market and ESB work program (more engaged consumers willing to participate in the market both directly and indirectly)



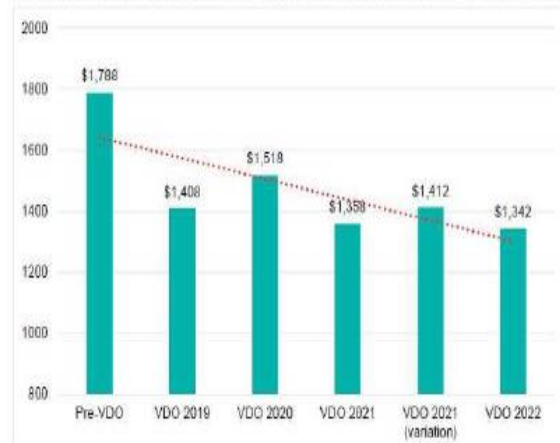
Experience with the VDO

For the most part, the Commission has shown stability, consistency and predictability in its VDO determinations, including this one. It departs from established positions or includes additional items when it sees evidence and analysis. We welcome this approach

- But the UK experience shows what can go wrong if done poorly; VDO is not a price cap so this risk is reduced (to some extent)

So the Commission and DELWP should continue to monitor the impact of the VDO on market outcomes, and on competition and innovation

Figure 3: Annual bill for residential VDO customers (average across five distribution zones)



Note: Figures are presented in nominal terms.

Source: DELWP analysis of Essential Services Commission, Victorian Default Offer to apply from 1 January 2020: Final decision, 18 November 2019 p.iii; ESC, Victorian Default Offer 2021: Final Decision, 25 November 2020 p.4; ESC, 1 January 2022 Victorian Default Offer: Final decision, 25 November 2021 p.3.

Review of the Victorian Default Offer Order in Council

Consultation Paper - March 2022

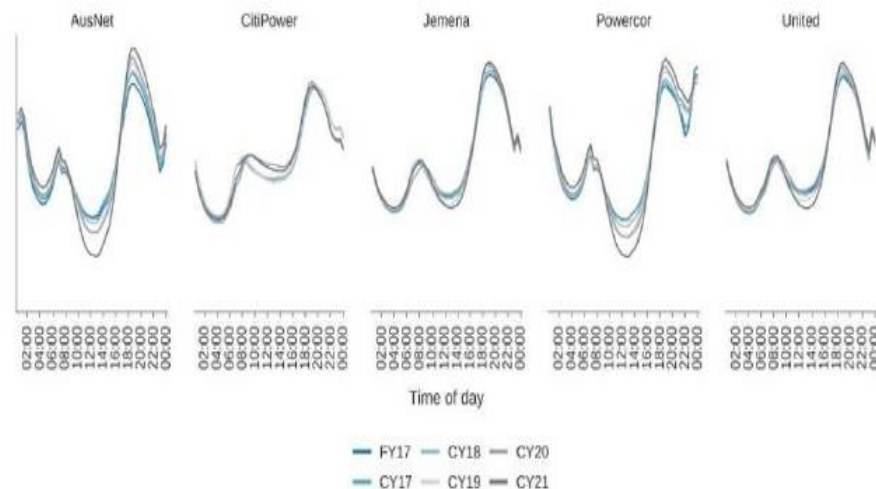


Wholesale costs

Commission proposes a change to calculation of wholesale component based on Frontier's analysis. We support the change but consistency should remain a guiding principle. We note the Commission's statement that it will continue to review the timeframe but caution against frequent changes to methodology.

However, we are now observing significant increases in wholesale costs so the risks from errors in methodology are greater.

Figure 3: Average daily profile for residential customers



Source: Frontier Economics analysis of AEMO data



Network and meter costs

Commission does not always have access to final network tariffs but should consider as close to final tariffs as possible and account for incentive schemes. This is not always possible as networks do not always submit in line with prescribed timeframes

- Support the proposal to better account for metering costs through customer weighted average (evidence based decision and networks' assignment policies are outside retailers' control)

As a general point, we would welcome greater coordination between regulatory agencies (networks, AER, Commission, DELWP) to minimise operational disruptions from network pricing strategies and to allow networks to pursue tariff reform in a manner that acknowledges the regulation of retail prices

- Implementation of default TOU structure (2021/22)
- Forthcoming tariff trial
- VDO functions less well for more complex tariffs



Retail operating costs

Commission is willing to adjust or include items when it is presented with quantitative data. Previous allowance for bad debt is an example and we note it remains elevated and further disruption from COVID cannot be discounted.



Other potential adjustments:

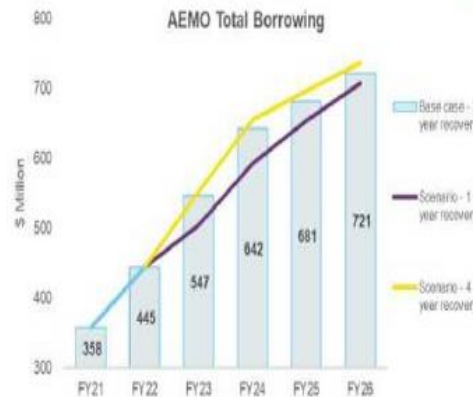
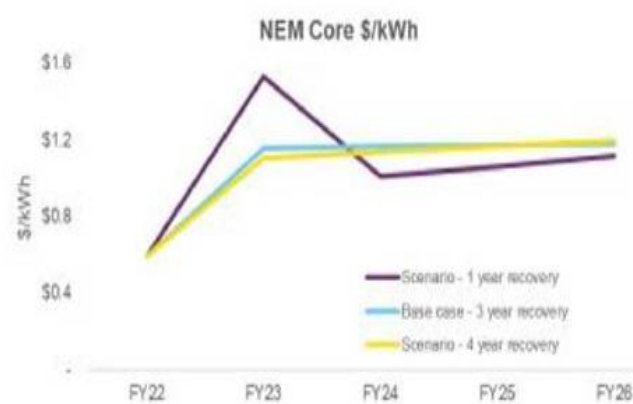
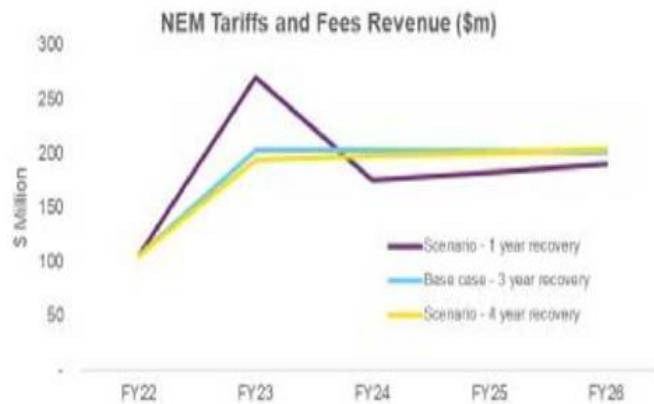
- Consumer Data Right - rules now finalised, technical standards in development so cost estimates become firmer but we hear the message from the Commission, the onus is on retailers to provide data

This is reasonable and should apply symmetrically. So we support the decision not to change CARC or ROC following Energy Fairness Plan. The consequences are unclear and it may add to costs (compliance and CARC) if retailers use less effective or less targeted sales and retention activities. Don't rely on assertions or preconceived ideas about its impact



Retail operating costs - draft AEMO fees

Note the change in AEMO costs, a proposed increase in Fees and Tariffs revenue of \$119.6m (to \$377.1m in 2022/23). This is an unavoidable cost and also reflects the extent of regulatory activity across the NEM that retailers must implement; this also crowds out other investment opportunities



Benchmark vs. cost build up for ROC?

Unclear which would lead to better outcomes but a shift is a major departure and is not without risk. Prima facie reasons for thinking that a benchmark from a small jurisdiction in 2017 with very high concentration does not provide a reasonable guide for estimating efficient retail operating costs [although we acknowledge that ESC cross checks].

- May not adequately capture expenditure on billing systems, innovation or regulatory initiatives; these are often lumpy and costs are recovered over many years

Any shift must be done properly. Datasets need to be fit for purpose, account for differences in business structure of retailers of different sizes, and acknowledge they are backward looking

Commission would need to develop consistent definitions and mechanisms for allocating overheads, shared services and other common costs (new item is Unaccounted for Energy). Could compound challenges for smaller retailers so need to proceed with caution.



Thank you



Victorian Default Offer (VDO) 2022-23

Draft decision – 15 March 2022



VCOSS preliminary observations at ESC public forum – Thursday 31 March 2022



Acknowledgement of Country



A traditional smoking ceremony at the 2021 Invasion Day Rally in Melbourne. Photo: Matt Hrkac

VCOSS is the peak body for Victoria's social and community sector

Working towards a Victoria free from poverty and disadvantage, where all people are supported to thrive.

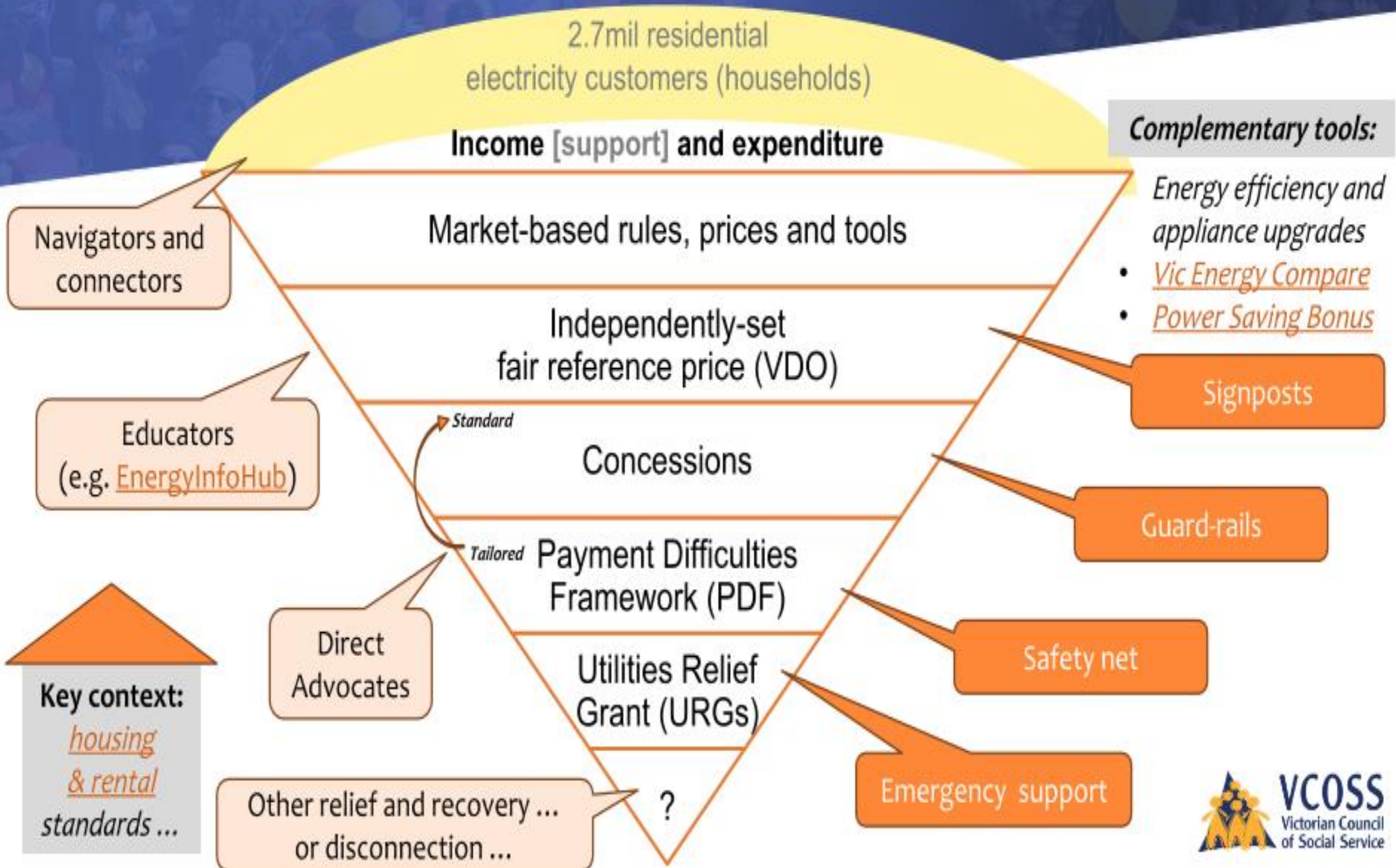


Energy-related equity issues – at household, market and systemic levels – can be complex, hidden, and often compound other forms of disadvantage.

Being able to afford and access adequate household energy is a key building block for wellbeing.

How does the Victorian system together?

Understanding where the VDO fits within an essential service context



ESC's draft decision on VDO for 2022-23

Largely unchanged methodology ...*

Headline – 1% increase in annual bills

- Driven by increase in wholesale electricity costs
- Directly relevant to 200,000 households and ~140,000 in embedded networks ... plus market-wide reference price

Building on 8-9 consultations in 3-4 years

- In-part due to calendar-to-financial year timing change

In-parallel: Order-in-Council review

- Risk of hard issues falling between cracks ...
 - **BUT** also opportunity for genuine collaboration on what's working well – or could be even better ...



ESC's process:

- Could include a "progress log" on issues from previous years?

Current questions for further consideration

Preliminary observations only: noting previous feedback ...

Forecast period

- *Consistency with integrity and vigilance*

Cost benchmarks

- *Creeping up ... time for re-build, and/or a productivity factor?*

Retail margin

- *Still at upper-end of range?*

Customer acquisition

- *Maintain discipline on “modest costs”*

Network Time-of-Use in-practice?

- *Any insights from practical experience with flat tariff, annual bill, time-of-use?*

VCSS
welcomes
discussion
today from
on these
points ...

ESC could
commit to
progressing in
future years?

*If you have any questions about this presentation,
or would like to connect with VCOSS on
energy-related hardship, wellbeing and equity
issues, please email their Energy Policy Advisor,
Jarrod Lenne – jarrod.lenne@vcoss.org.au*



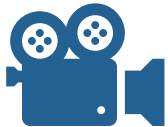
Questions



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

Next steps

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

Key dates

- Submissions on draft decision paper – 12 April 2022
- Final decision and determination – 24 May 2022
- Victorian Default Offer takes effect – 1 July 2022