



# Next steps for the Victorian Default Offer

Consultation paper

Public forum

Thursday 20 May 2021



# Acknowledgement of country

The commission acknowledges the Traditional Owners on all of the lands wherever you are today.

We pay our respects to Elders past and present who may be here today.

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



# Our approach today

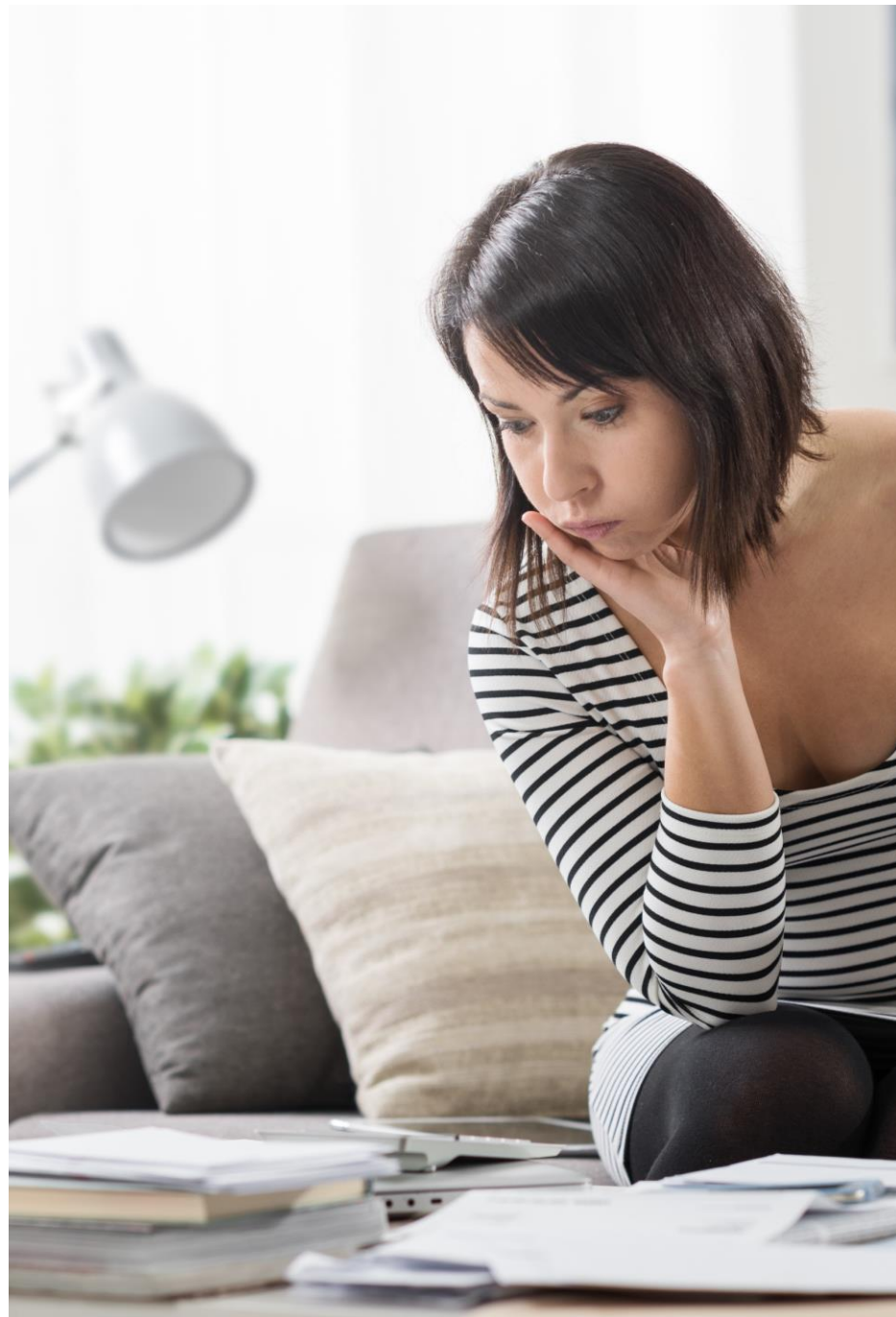
We're keen to hear from you

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

Please make submissions via Engage Victoria:

**Variation – 25 May**

**VDO 2022 – 16 June**



# Today's forum

3:00pm – Introduction (Kate Symons, Commission Chair)

3:05pm – Our consultation paper (Rebecca Love, Project Manager):

- the process for making a variation
- our approach to 2022 VDO.

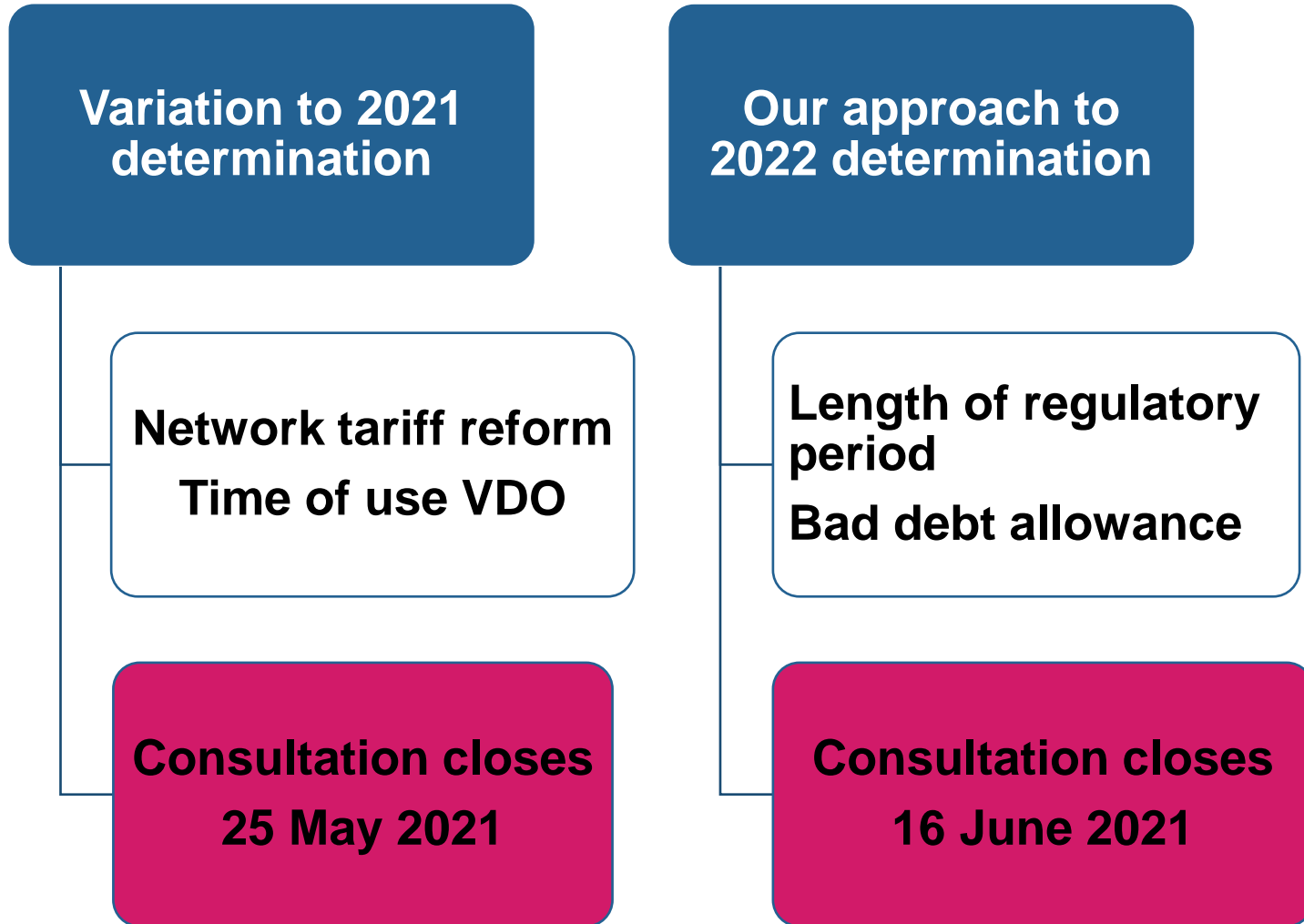
3:15pm – Ben Barnes (Australian Energy Council)

3:25pm – Patrick Sloyan (Consumer Action Law Centre)

3:35pm – Question and answer session

4:15pm – Closing comments (Kate Symons, Commission Chair)

# What we are consulting on





# Changes to network tariff structures

- The Australian Energy Regulator approved simplified two-period time of use network tariffs:
  - residential customers – 3pm to 9pm everyday peak
  - small business customers – 9am to 9pm business day peak.
- Replaces existing time of use tariff structures

# Customers will be better off under new tariff structures

Distribution zone	Customers better off		Customers worse off	
	% customers	\$ saving	% customers	\$ inc
AusNet Services	98%	\$110	2%	\$10
Citipower	95%	\$56	5%	\$16
Jemena	99%	NA	1%	\$13
Powercor	93%	\$62	7%	\$15
United Energy	95%	\$68	5%	\$2
<b>Victoria</b>	<b>96%</b>	<b>\$71</b>	<b>4%</b>	<b>\$14</b>

Source: Victorian distribution revenue decisions.

## Changes to Victorian network revenue allowance

Australian Energy Regulator working on changes to price level of network tariffs – decision expected mid June 2021

Current price determination uses existing approved network tariffs for six-month period to 30 June 2021 – prices for the second half of 2021 were not available at the time



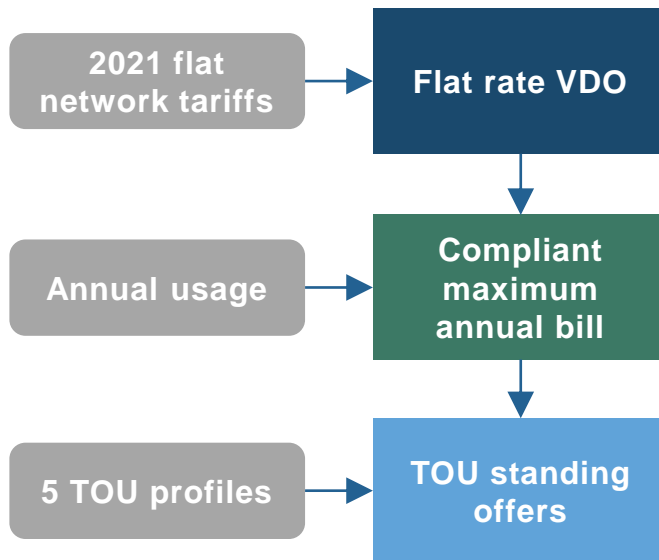
# Variation to current default offer determination

- **Update** the flat default offer tariff to reflect the new approved rates for flat network tariffs.
- **Introduce** two period time of use default offer tariff based on approved network tariff structure and prices
- **Update** compliant maximum annual bill

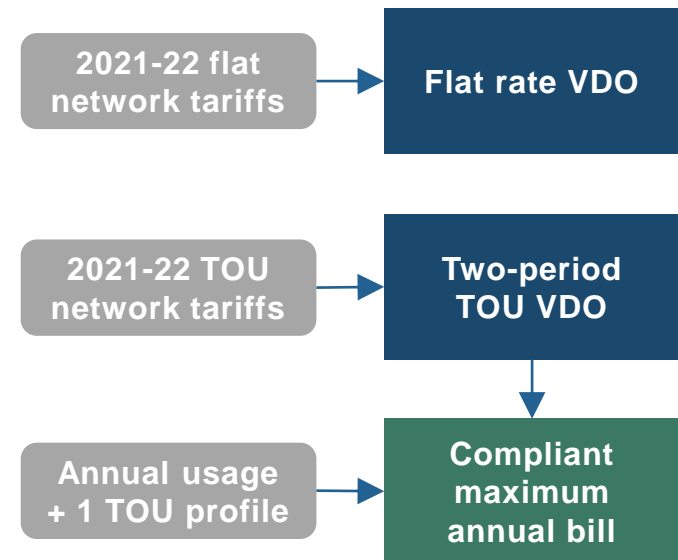
We are working towards the variation taking effect from 1 August 2021.

# Victorian default offer proposed price structure

## Before 2021 variation



## After 2021 variation

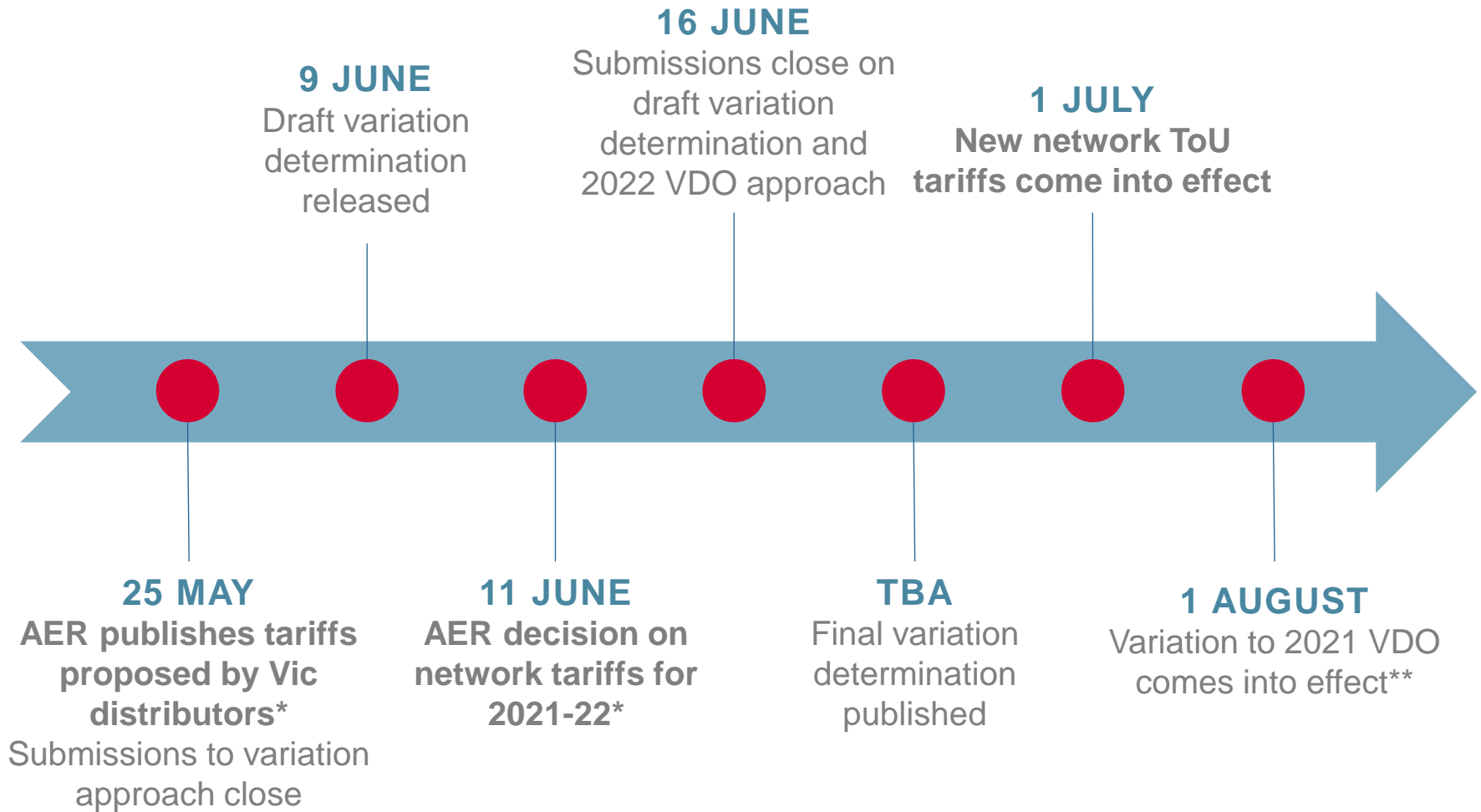


# Consulting on the variation

- Short consultation period on proposed variation:
  - consulted extensively in 2020
  - benefits for customers in new default offer prices being available by 1 August
  - focus of variation is narrow (network tariffs only)
  - networks costs are a pass through

DELWP exploring changes to gazette timelines to enable changed tariffs from 1 August.

# Variation timeline

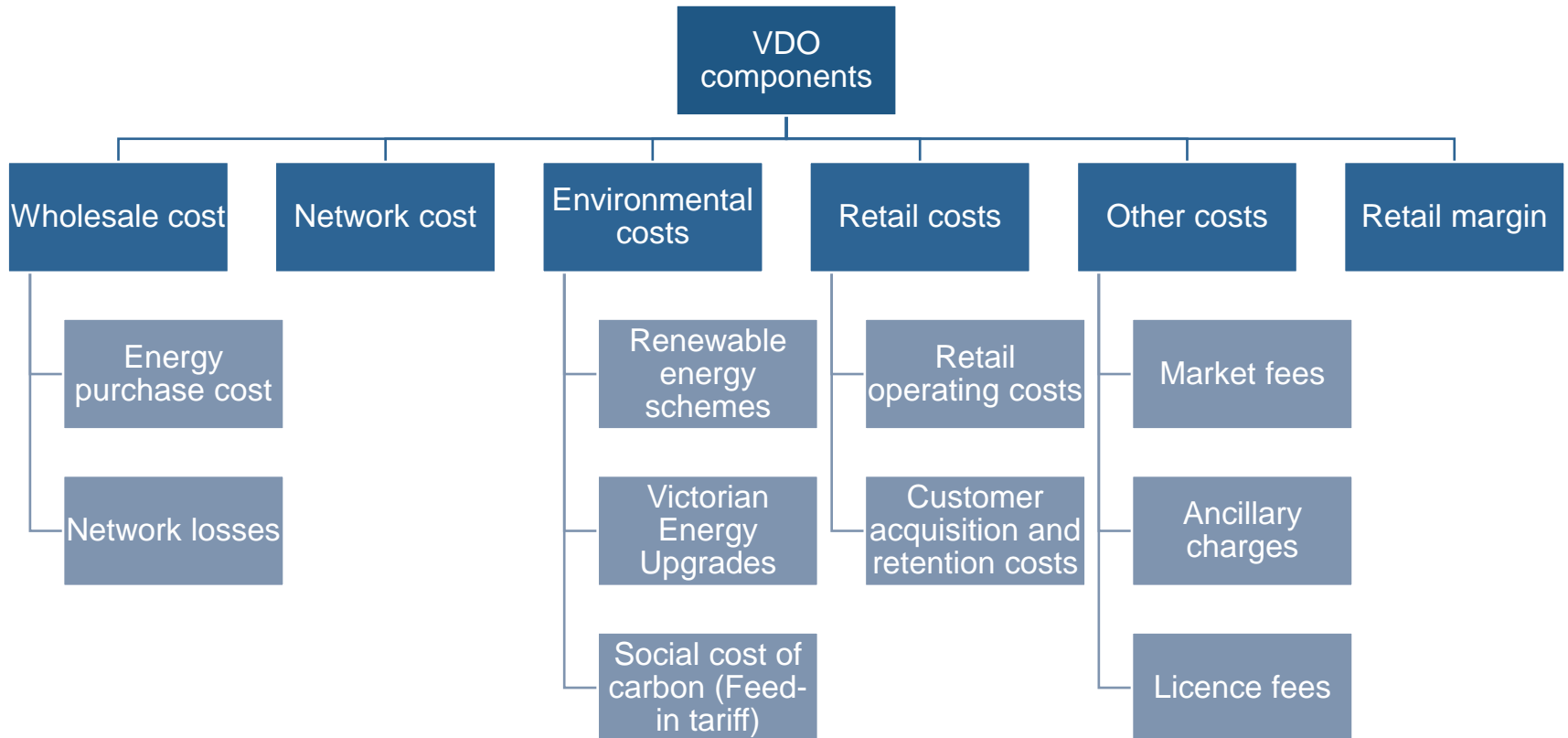


\* These timings are indicative only.

\*\* We are working towards this date. This timing is subject to change (for example if there are delays to AER's pricing approval process)

# 2022 Victorian default offer – our approach

Similar approach and methodology to 2021 determination.



# VDO 2022 – key matters we seek feedback on



Length of regulatory period – align the VDO with network tariff timing



Bad debt allowance – we continue to monitor market conditions



Five-minute settlement allowance



Using ASX data to inform wholesale cap contracts



Maintaining retail operating margin of 5.7 per cent



Our approach to estimating large-scale renewable energy target costs

# Consulting on the 2022 VDO next steps

Milestone	Date
Our approach to 2022 VDO – submissions close	16 June 2021
Draft decision 2022 VDO – release	September 2021
Draft decision 2022 VDO – public forum	September 2021
Draft decision 2022 VDO – submissions close	Early October 2021
Final decision and final determination on 2022 VDO	By 25 November 2021





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# Next steps for the VDO

Ben Barnes

General Manager Retail Policy

# 2021 Network costs variation

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- Broadly, AEC supports variation approach
  - Issues to consider:
    - In event network prices increase, what will be the impact?
    - Timing – retailers need time to implement price change
    - Early application of VDO?
- AEC supports ESC setting a specific two-part tariff

# 2022 VDO

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## Early views only

- AEC supports a 6 month VDO, from 1 January to 1 July 2022
  - 18 month VDO does not resolve issues faced today
- Level of customer debt in 2021 does not suggest reduction in bad debts in 2022
- Need to continue to revisit assumptions used to set VDO

# Retailer risks in 2021

**Figure 1 Movement in Australian energy retailer bad debt since April 2020**



Source: Synergies' analysis using AER data

# Retailer risks in 2021

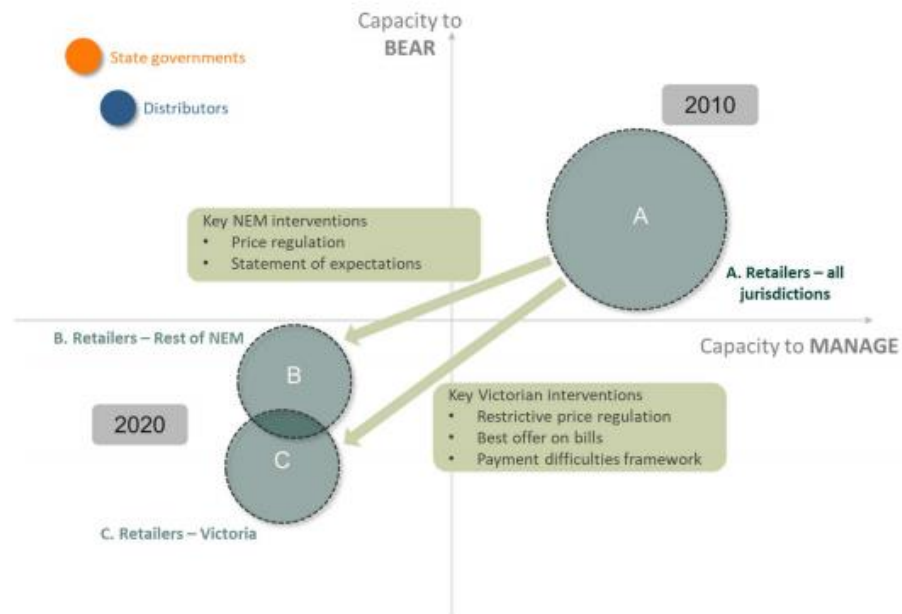
Figure 3 Risk allocation schematic



Data source: Synergies' analysis

# Retailer risks in 2021

Figure 8 Outcomes of interventions for efficiency of risk allocation



Source: Synergies analysis

## Next steps

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- AEC looks forward to continuing to work on 2022 VDO
- Opportunity to continue to develop methodology to ensure VDO meets the expectations of Victorian energy consumers
- Need to ensure that impacts of regulatory interventions are captured in the VDO – our advice from retailers is that costs in Victoria are increasing, not declining





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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.”



# Fair outcomes

## Our thoughts on the proposed variation

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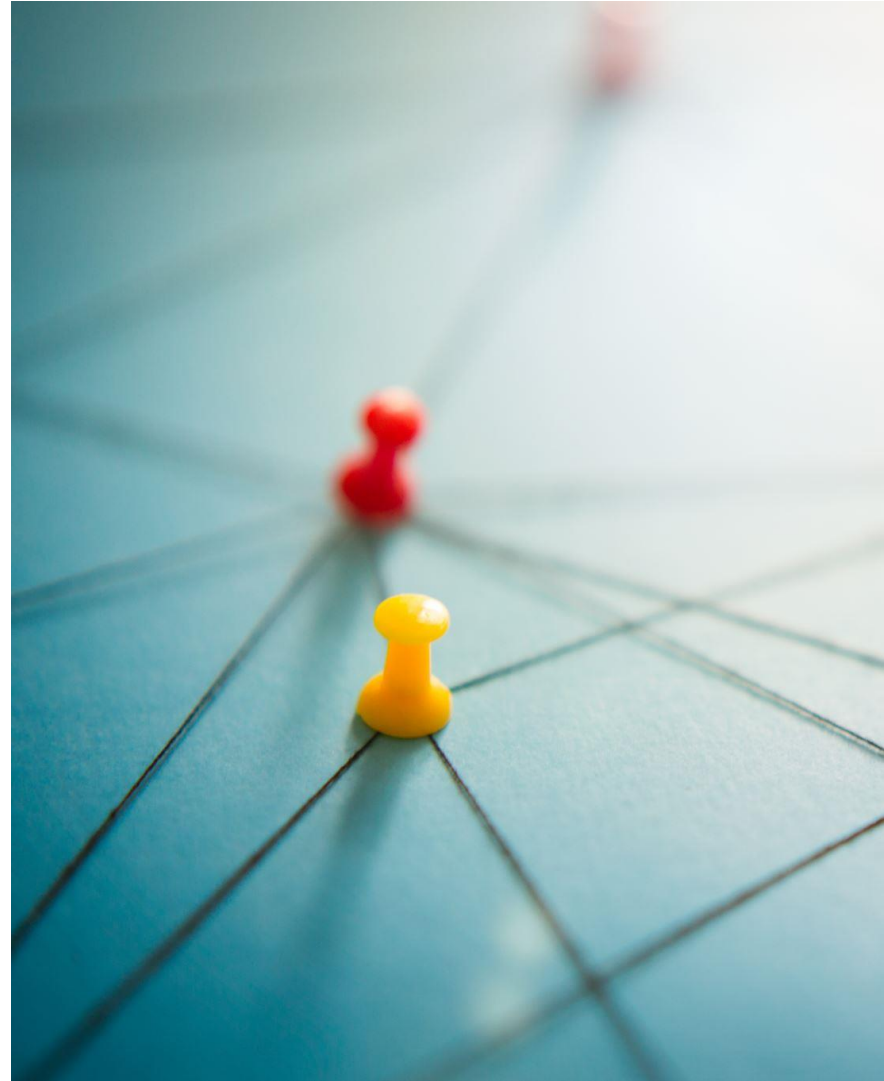
1. Falling wholesale prices must flow through to customers
2. Remove the bad debt provision
3. Retail margin
4. Five minute settlement
5. Introduce a productivity factor in 2022
6. Comments on start date for the variation and the next regulatory period

# Conclusion

## Getting fair prices for all households

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- Returning to the purpose of the VDO
- The ongoing impacts of COVID-19 and the need for the VDO to set a fair price for energy





# Questions and Answers



Everything is being **recorded**



Use the raise hand function or put in chat



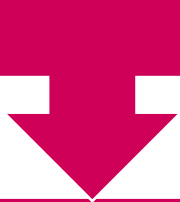
Presentation slides, video and answers will be on our website

# Next steps

Make submissions via Engage  
Victoria –  
[www.engage.vic.gov.au](http://www.engage.vic.gov.au).



Email [VDO@esc.vic.gov.au](mailto:VDO@esc.vic.gov.au).



## Key dates

Submissions on variation  
to 2021 determination  
close 25 May 2021.

Submissions on approach  
to 2022 determination  
close 16 June 2021.

