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Essential Services Commission
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Dear Commissioners

Victorian Default Offer to apply from 1 January 2020 – Draft Determination – September 2019

EnergyAustralia is one of Australia's largest energy companies with around 2.6 million electricity and gas accounts across eastern Australia. We also own, operate and contract an energy generation portfolio across Australia, including coal, gas, battery storage, demand response, wind and solar assets, with control of over 4,500MW of generation capacity.

Our responses to the draft determination are:

- although difficult to ascertain, we believe Frontier's wholesale cost estimates do not appear to reflect the increasing trend in shaping costs
- the proposed method of estimating prices for certificates under the Large-scale Renewable Energy Target (LRET) does not reflect prudent retail practices and therefore understates efficient costs
- estimates of metering and loss factors understate the efficient costs of servicing a small but material portion of customers
- the small-scale technology percentage is based on an unreasonably low placeholder value and is highly unlikely to reflect efficient costs of meeting Small-scale Renewable Energy Scheme (SRES) labilities for 2020
- setting an average annual maximum bill for the purposes of regulating non-flat standing offer tariffs is not the best mechanism to satisfy the Objective of the Victorian Default Offer. This approach would also result in most customers paying materially more or less than the efficient cost of retailing in each distribution zone. Any tariff rebalancing risks negative stakeholder reaction at a time where Victorian electricity prices are increasing and likely to be heavily scrutinised.

We have provided information and suggestions to address each of these issues in the attached. If you would like to discuss this submission, please contact me on 03 8628 1655 or Lawrence.irlam@energyaustralia.com.au.

Regards

Lawrence Irlam
Industry Regulation Lead

The Commission's wholesale cost estimate should be higher

There are multiple ways to estimate wholesale costs incurred by retailers that all stem from assumptions around prudent behaviour. In this context we did not raise specific concerns with Frontier's methods, including its proprietary STRIKE model, in prior consultation given its outputs did not appear unreasonable to us. However, based on our own estimates of wholesale costs for Victorian customers, which we consider to be based on accepted and prudent practice, we consider Frontier's latest estimates for 2020 materially understate likely efficient costs.

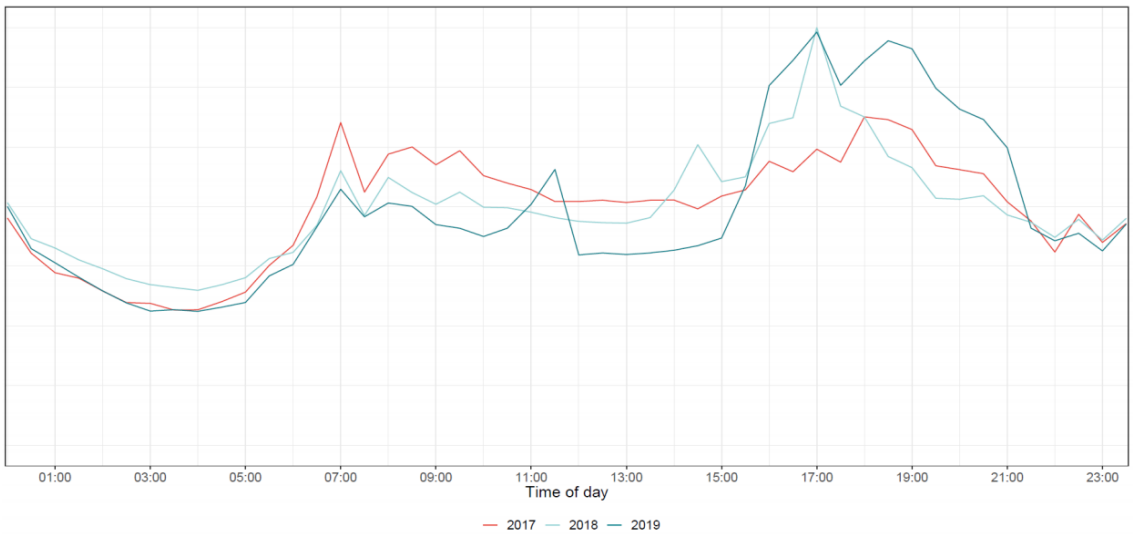
Various parameters used in our own mass market transfer pricing for 2019 and 2020 are contained in the confidential appendix to this submission. Common pricing values from the Commission's recommended (current) VDO values, and from its draft determination for 2020, are also listed.

We cannot confidently attribute year-on-year differences to aspects of Frontier's methods or data. One seemingly important change in its approach from estimating 2019 costs has been the additional year of historic load and price observations.

This also reflects a change in method, namely extending historic input data from two to three years. Any such change should be carefully considered in terms of providing certainty and consistency in regulatory approach, recognising the need to be flexible in ensuring relevant market data are used. The Commission should also consider how changes to methods or input data are reflected in Frontier's outputs. Where possible, model outputs should be subjected to an overall reasonableness assessment, including in comparison to data or forecasts generated from other sources.

In this context, we recommend the Commission instruct Frontier to conduct a sensitivity analysis of using one, two and three years of historic data. Our view is that more recent data may be more reflective of expected conditions for 2020, particularly an increasing trend in price volatility which might be apparent from Frontier's chart below.

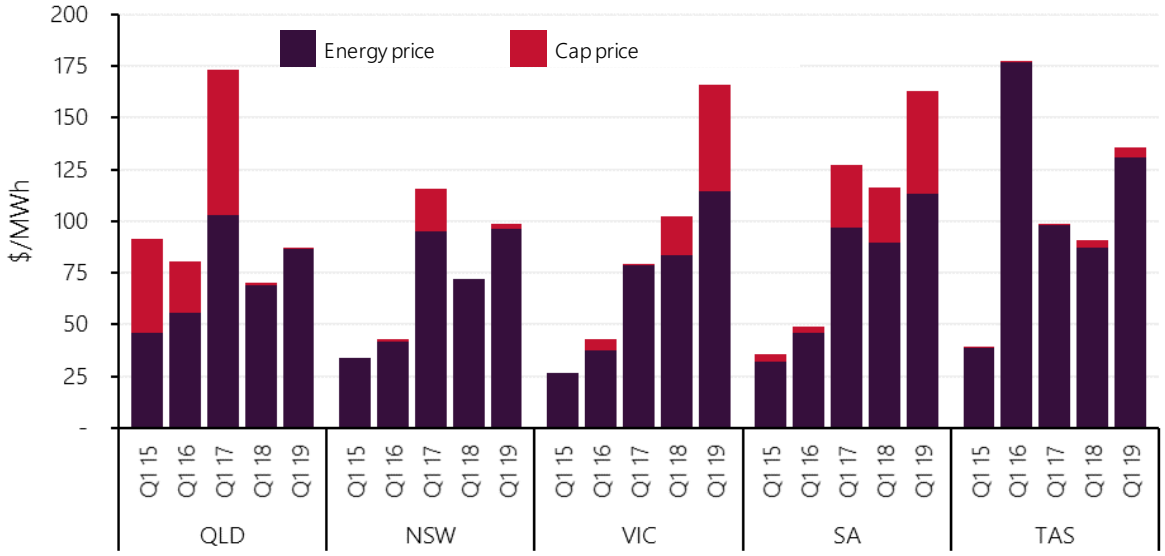
Figure 1: Average daily profile for Victorian spot prices



Source: Frontier Economics, *Wholesale Electricity Costs for 2020*, 16 September 2019, p. 11.

Our own volatility measures (see appendix) suggest there has been a material increase in shaping costs (associated with peakier consumption profiles and related price outcomes) for our customer base over 2019, which supports the presence of this trend. Price and cost trends may also be read from other data including those published by AEMO.

Figure 2: Average wholesale electricity price per region for Q1



Source: AEMO, *Quarterly Energy Dynamics - Q1 2019*, May 2019, p. 8.

Frontier's examination of the "load premium" (the load-weighted price divided by the time-weighted price) also indicates a rising trend, at least for residential customers.[1] Examination of historic prices in detail would guide the use of judgement in placing more or less weight on certain years of data. This examination should include whether, for example, the conditions that led to high price events in Q1 2019, including generator outages, are expected to be present again in 2020.[2] Recent or expected changes in the generation mix are also relevant factors to consider. Frontier's commentary alludes to the need to undertake such analysis[3] and we recommend it does so. This would allow stakeholders to validate instances were Frontier has stated expected cost impacts of data or method changes would be immaterial.[4]

The Commission's LRET method should reflect prudent retailer practice

As we have raised in previous submissions, the Commission's method of assuming retailers procure all Large-scale Generation Certificates (LGCs) directly from the market does not reflect prudent retailer practice and would only reflect efficient costs by

[1] Frontier Economics, *Wholesale Electricity Costs for 2020*, 16 September 2019, p. 11.
[2] AEMO, *2019 Electricity Statement of Opportunities*, August 2019, p. 3.
[3] Frontier Economics, p. 15.
[4] ibid.

coincidence. There is a growing divergence between the market price of LGCs and the actual efficient costs being incurred by the largest retailers supplying the majority of mass market load. The Commission needs to address the challenge it perceives in developing a robust and transparent alternative method and we have proposed such an alternative below.

The following lists the Commission's latest responses[5] to stakeholder comments on the use of a market approach, with our further observations against each:

- LGC spot and forward prices are transparent and verifiable — we recognise the importance of the Commission generating cost estimates from robust and trusted datasets. However, clause 12(3) of the Order requires the Commission to determine tariffs based on the efficient costs of the sale of electricity by a retailer. The Order does not prescribe or provide guidance around certain data sources or methods on the basis of transparency. Furthermore, while power purchasing agreements (PPAs) cannot be viewed by stakeholders, they can be viewed by the Commission to verify the costs retailers are actually incurring in meeting their LRET liabilities. In contrast, it does not appear to us that the Commission has verified the extent to which retailers are purchasing LGCs from the market, and at what price.

- market prices represent the most reliable indicator of the current market consensus view of the price of large-scale certificates — whether or not prices are reliable depends on there being enough trades and a diversity of traders in the market. Our point, however, is that the bulk of certificates surrendered by retailers are procured under PPAs and not from the market. Market prices are an unreliable guide to the true cost of certificates surrendered, given they only reflect the relatively small number of LGCs in existence that are traded. Market prices may also reflect short-term speculative activity, as seen in price changes following political announcements.[6]

- market prices represent efficient costs as they are the price at which the market currently trades these products — again this might be true were retailers only or mostly purchasing traded certificates and not procuring LGCs under PPAs.

- ACIL Allen's comments that LGC prices will decline due to the LRET being supplied/ oversupplied, and this is a function of market conditions – it is not clear what the Commission intends here, for example, the relevance of market outcomes versus policy decisions affecting efficient costs. In any case, ACIL Allen's recommendation is to rely on traded LGC prices because they reflect a market consensus view and are transparent (addressed above) as well as consistency in regulatory approach over time.[7] ACIL Allen does not comment on whether this approach reflects prudent retailer practice or better reflects efficient costs.

- PPA contracts are often confidential and bespoke to particular retailers rather than representative across the industry — PPA contracts are confidential, however

[5] Essential Services Commission, *Victorian Default Offer to apply from 1 January 2020 - Draft decision*, 20 September 2019, pp. 32-33.
[6] EY, *Residential Electricity Price Trends – Wholesale Market Costs Modelling 2018 - Australian Energy Market Commission*, 18 December 2018 p. 32.
[7] ACIL Allen, *Estimated Energy Costs – 2019-20 retail tariffs*, 19 February 2019, p. 9.

the Commission has powers to request PPA information and even the contracts themselves. That they are bespoke or unrepresentative is an assertion, and it is not clear what bearing this has on determining efficient costs. Our contention is that PPAs are a representative source of LGCs for the industry in terms of the number of certificates surrendered, and hence the costs incurred by retailers in total that should be recovered from customers. Based on the number of certificates and costs incurred by retailers, procuring traded certificates is an unrepresentative practice.

- The Order does not require the Commission to consider the actual costs of a retailer — this is correct however the Commission has the discretion to examine the actual practices of retailers and associated costs, and regulators frequently consider actual costs of regulated entities, including for monopoly businesses. The Commission has recognised the usefulness of actual cost data by requesting this recently from retailers (including LRET costs) and we expect it to continue to do so in future determinations. In any case, and as outlined below, we are not suggesting the Commission base tariffs on the actual (or forecast) costs of any one retailer but rather the costs likely to be incurred by all retailers in serving Victorian customers generally.

- the Commission does not have information on PPA terms and conditions, meaning there are a number of reasons why they might differ from the efficient cost of complying with the LRET scheme — it is not clear how the Commission can conclude, in the absence of information, that PPA contracts might not reflect efficient costs of complying with the LRET scheme. We consider that there are strong grounds to assume PPAs reflect efficient costs as they are negotiated by rival counterparties in a commercial setting.

- A market-based approach is consistent with the Commission's approach to wholesale electricity costs and with other Australian regulators such as the QCA — in our view, assuming retailers procure all LGCs directly from the market would be comparable, in the case of wholesale costs, to assuming retailers procured all electricity from the spot market without any associated hedging contracts. As noted above, ACIL Allen's advice to the QCA, and the QCA's decision[8] does not appear to be based on any consideration of prudent retailer practice, and instead places some value on maintaining consistency with a prior regulatory approach.

Using published data, the top five retailers operating in Victoria would be responsible for surrendering around 80 to 90% of LGCs.[9] These retailers are also vertically integrated with a significant amount of LGCs arising out of their own generation portfolios (especially under PPAs) and would have minimal need to procure LGCs from the spot market. As noted by ACIL Allen, the LGC market is oversupplied, and the declining price of certificates reflects this dwindling retailer demand.

Recognising the challenges for the Commission in not having visibility of PPA information, or in knowing how to reliably use such information, we propose an estimation approach that generates a weighted average LGC cost across all Victorian retailers. This average cost reflects the volume of certificates required to serve mass

[8] QCA, *Final determination - Regulated retail electricity prices for 2019–20*, May 2019, p. 36.

[9] EnergyAustralia analysis, using data on retailer market shares from AER, *Retail energy market performance report*, December 2018; and Essential Services Commission, *Victorian energy market report 2017–18*, February 2019.

market demand, as well as the supply of LGCs from PPAs and those sourced directly from the market. An example calculation is illustrated in the figure below.

This approach would require retailers to provide the Commission with PPA information, specifically the volume and cost of certificates under each contract, on a confidential basis. It also requires some assumptions about how LGCs generated nationally are allocated to Victorian mass market demand, which again can be informed by asking retailers of their practices. In the absence of such information, we propose that PPA volumes be allocated to Victorian load on a pro-rata basis. Users and other stakeholders will not have visibility of individual PPA contracts, but the Commission may be able to publish each retailer's notional average LGC cost for Victoria.

We would be pleased to engage with the Commission and other stakeholders in refining this method.

Figure 3: Example weighted average LGC price model

	DEMAND			SUPPLY		
	Vic MM LGC Obligation (2020 19.96%)	**MM LGC Demand National**	**Vic MM as a proportion of LGC portfolio**	**Retailers' National LGC PPA Offtake**	**Retailers' LGC Offtake Applied to Vic**	**LGC Offtake VWP**
	C	D	E	F		
Source/Formula	ESC data	AER data	= C/D	Estimate	=MIN(C, E * F)	Estimate
	K LGC	K LGC	%	K LGC	K LGC	$/LGC
AGL	462	3,000	15%	5,200	462	*$48.00*
ORIGIN	383	3,100	12%	6,000	383	*$45.00*
EA	382	2,100	18%	2,400	382	*$50.00*
SNOWY (RED, LUMO)	339	605	56%	2,152	339	$50.00
ENGIE (SIMPLY)	201	270	75%	783	201	$50.00
ALINTA	75	285	26%	1,359	75	$50.00
MOMENTUM (HYDRO TA	67	90	74%	762	67	$50.00
OTHER RETAILERS	205			1,000		$50.00
	2,113			**19,656**	**1,908**	**$47.94**

Source: EnergyAustralia, using dummy data.

The Commission's metering cost estimate should capture multiple meter types

The Commission's calculations assume all customers use the cheapest meter configuration, namely single phase/ single element. This understates the efficient cost of serving customers with more expensive meter types. Public data are available on how many customers are on each meter type, and the associated metering charges of each, which reflect the actual, efficient costs incurred by retailers.

Pricing models for distribution networks published on the AER's website indicate that around 20 to 40 percent of customers do not have the cheapest meter configuration, depending on the distribution zone. We recommend the Commission use a weighted average of metering costs for mass market customers in its calculations. An example calculation of this for Ausnet customers using approved 2019 metering charges is illustrated below. Note the most expensive meter type is likely to be applicable only for large commercial and industrial customers and would need to be excluded.

Figure 4: Example weighted average metering costs

2019 tariffs – Ausnet Services	$ per customer per year	Forecast customer numbers	Proportion of Customers
Single phase single element	57.80	426,623	56.4%
Single phase, two element with contactor	67.90	192,622	25.5%
Multiphase	82.10	68,970	9.1%
Multiphase, direct connected with contactor	90.20	64,284	8.5%
Multiphase Current Transformer connected	116.90	4,185	0.6%
weighted average – all customers	**$65.67**		

Source: EnergyAustralia analysis using Ausnet's approved 2019 tariff model[10]

Loss factors also need to reflect the small proportion of higher cost customers

Like metering costs, the Commission's approach to reflecting costs associated with energy losses is to assume all customers are on the same (and cheapest) network configuration.

AEMO publishes distribution loss factors for long and short sub-transmission. The Commission uses the short loss factor only, which understates actual losses in selling electricity to customers in regional and remote areas. This is mainly an issue for Ausnet and Powercor customers.

As per metering costs, we recommend the Commission generate an average of loss factors, weighted by customer numbers, to reflect the cost of serving customers, on average, in each distribution zone. Note this may still understate the efficient costs incurred by retailers (such as us) who have a greater than average proportion of customers in rural and remote areas.

The non-binding SRES percentage is unreasonably low and should not used

The Clean Energy Regulator's non-binding SRES percentage for 2020 is 14.26%, significantly lower than the current binding 21.73% for 2019. This large decrease seems counterintuitive given the continued influx of solar PV installations[11] and ongoing or renewed government subsidies[12]. As noted by the Commission, the Clean Energy Regulator's non-binding percentages have also been a poor indicator of the eventual binding value in the past.[13] Non-binding percentages have been consistently lower, for example, 8.06% in 2018 (compared to a binding 17.08%) and 12.13% (compared to a binding 21.73%).

The Commission has indicated that retailer costs arising from differences between placeholder and actual values would be subject to compensating price adjustments in future VDO determinations, however the mechanism for this has not been specified.

[10] https://www.aer.gov.au/system/files/AusNet%20Services%20-%20Tariff%20Approval%20Model%202019%20%28redacted%29%20-%2025%20February%202019.xlsm

[11] https://reneweconomy.com.au/australia-rooftop-solar-installations-equal-record-180mw-in-september-79207/

[12] https://www.solar.vic.gov.au/solar-panel-rebate

[13] Essential Services Commission, September 2019, p. 55.

In any case, our recommendation for the next VDO determination is to use the current 2019 percentage as a placeholder for 2020, as this is more likely to reflect expected and efficient costs for 2020 than the non-binding value recently published. This would also benefit customers by minimising any price variations in future years to correct for large variances between placeholder and actual values.

The Commission should prescribe prices for non-flat VDO tariffs

As outlined in our previous submission, we consider that prescribing individual prices for non-flat VDO tariffs, alongside maximum annual bill amounts as required by the Order, will better serve the interests of customers and satisfy the VDO Objective.

We consider the Commission did not properly consider this option in its draft determination. The table below expands the comparison of the two options presented by the Commission[14] to include our own preferred option involving prescribed prices.

The two key advantages of our preferred option over others are:

- prices are prescribed by the regulator and are the same for each customer on that tariff type regardless of which retailer it deals with. This is simpler and more transparent than a range of prices determined by retailers, and so is more likely to be trusted by customers. It is also simpler for retailers to comply with.

- Prices can be determined in reflection of the underlying non-flat network tariff. In this way it avoids problems already raised by retailers about over or under-recovering tariffs which would occur if using the flat VDO bill amount for compliance purposes. This is also fairer for customers as there are no cross subsidies between tariff types.

These advantages go to the heart of the Victorian Government's reforms as featured in the Order, in particular the VDO Objective, and in setting tariffs in line with efficient costs. Our approach also minimises the joint administrative burden on retailers and the Commission, while also reducing risk of error or reputational damage at a time where the Commission will likely need to increase prices in line with efficient costs and so be heavily scrutinised.

[14] Essential Services Commission, September 2019, p. 74.

Figure 5: Comparison of options for regulating non-flat tariffs

Criterion	Approach 1 (average max bill)	Approach 2 (bill ranges)	Approach 1A (average max bill and prescribed prices)
Safeguard for disengaged customers	✓✓✓ Broad safeguard – average bill is capped	✓✓✓ Specific safeguard as each individual customer's bill is compared to max bill	✓✓✓+ Specific safeguard – same prices apply regardless of consumption
Based on efficient costs	✓✓ Retailers can set tariffs to recover costs	✓ Less flexibility to recover costs as each individual customer's bill is capped despite underlying network tariff costs	✓✓✓ Prices are set to recover actual network costs
Long term interest of consumers	✓✓	✓	✓✓✓
Administrative costs of regulation	✓✓ Up front design and publication of tariffs and representative consumption determines compliance	✓ More administrative cost associated with retrospectively reviewing all bills and possibly applying credits. Possible additional costs of manually transferring customers onto flat network tariffs.	✓✓✓ Retailers still have to gazette prices, but these are identical to ESC determination
Regulatory consistency	✓✓ More aligned with DMO and approach to calculating discounts in Victoria	✓ No real alignment with other similar regulations	✓✓✓ Same approach as flat tariff VDO
Efficiency in the industry	✓✓ Flexibility for retailers to design tariffs to recover costs	✓ Greater chance of cross-subsidisation by customers with bills below the maximum annual cap, including the removal of cost reflective price signals	✓✓✓ No cross-subsidies, price signals in network tariffs preserved

Our preferred approach directly ensures efficient cost recovery

The Commission's approach would prescribe the annual maximum bill for the average customer on a non-flat tariff, based on costs associated with the flat tariff VDO. This approach would result in an under or over recovery of efficient costs, depending on the distribution zone and customer type.

The examples below illustrate this point. For simplicity, we have only calculated the difference in network costs, assuming all other costs are constant or allocated pro-rata. We calculate the network cost of five-day time of use tariffs (with peak and off-peak allocations as per Schedule 3 of the Order) and compare this with the same cost arising from the flat network tariff underlying the current VDO. This comparison shows that the flat tariff bill understates costs associated with the non-flat tariff for the average residential customer by around $15 and as high as $30 per year in the CitiPower and Powercor zones, equivalent to around 40% of the benchmark retailer gross margin. The case is generally the opposite for small business customers, with the flat tariff network bill overstating costs for the corresponding non-flat network tariff (the difference equating to 15% of the current regulated retail bill in the case of Ausnet). That is, the Commission's approach appears to create a consistent misalignment of costs and revenues between residential and small business customers.

Similar analysis was presented to the Commission previously. Its response was that its approach has regard to efficient costs and the financial impact on the industry given retailers have the flexibility to set prices, while also observing that "it is not always the case that retailers will face higher costs."[15] It is not clear how retailers would be able to design retail tariffs to ensure efficient cost recovery given these misalignments. Based on our examples below, we question whether the Commission is suggesting that retailers would recover losses in serving residential customers by raising standing offer prices for small business customers. More broadly, we recommend the Commission undertake its own quantitative analysis of possible retail price outcomes, relative to its assessment of efficient costs, in satisfying itself that its approach is in accordance with clause 12(3) of the Order.

In any case, and as discussed further below, allowing retailers the freedom to design regulated tariffs to address cost recovery issues, once acted upon, would likely to attract negative media attention, hurting retailers reputationally and commercially. This would be despite any tariff rebalancing being compliant with the Commission's determination and being an option presented to any retailers concerned about financial impacts under its regulatory framework.

By contrast, our preferred approach is for the Commission to prescribe non-flat VDO tariff prices that reflect the price differentials and resulting customer bills arising from the underlying non-flat network tariff in each distribution zone. Aside from network costs and tariff structures, the Commission would be able to determine the prices for non-flat VDO tariffs based on the prices and costs associated with the current flat VDO tariffs.

[15] Essential Services Commission, September 2019, p. 72.

Figure 6: Residential network tariff bill examples

Distributor	Flat tariff	non-flat tariff	Flat Network prices				5D TOU Network prices					Flat vs non-flat bill
			Fixed	Block 1	Block 2	$/year	Fixed	PK1	PK NS	OPK	$/year	
Powercor	Residential Single Rate	Residential Two Rate 5d	140.00	7.98		**459.20**	140.00	13.72		3.46	**491.81**	-$32.61
CitiPower	Residential Single Rate	Residential Two Rate 5d	95.00	7.06		**377.40**	95.00	12.08		3.22	**408.09**	-$30.69
AusNet	Small Single Rate	Small Two Rate	119.00	11.80	12.50	**592.49**	119.00	19.72		4.19	**609.65**	-$17.15
Jemena	Residential - General Purpose	Time of Use	59.18	8.58		**402.22**	99.64	12.00		2.59	**399.09**	$3.13
United	Low voltage small 1 rate	Low voltage small 2 rate	47.19	9.49	9.49	**426.79**	76.69	14.77	14.77	2.29	**427.87**	-$1.08

Figure 7: Small business network tariff bill examples

Distributor	Flat tariff	non-flat tariff	Flat Network prices				5D TOU Network prices					Flat vs non-flat bill
			Fixed	Block 1	Block 2	$/year	Fixed	PK1	PK NS	OPK	$/year	
Powercor	Non-Residential Single Rate	Non-Residential Two Rate 5d	180.00	8.75		**1,930**	180.00	14.12		3.49	**1,984**	-$54
CitiPower	Non-Residential Single Rate	Non-Residential Two Rate 5d	160.00	8.64		**1,888**	160.00	12.51		3.95	**1,840**	$48
AusNet	Small Single Rate	Small Two Rate	119.00	16.63	17.97	**3,658**	119.00	19.01		4.43	**2,522**	$1,137
Jemena	Small Business - General Purpose	Small Business - TOU Weekdays	102.43	10.78		**2,258**	170.65	13.45		2.63	**1,821**	$437
United	Low voltage medium 1 rate	Low voltage medium 2 rate 5 day	48.29	11.25		**2,298**	92.49	16.14	12.68	2.58	**1,809**	$489

Source: EnergyAustralia analysis, based on network prices proposed for 2020. Consumption profiles used in this calculation are those currently contained in the Order, including a 52% peak and 48% off peak usage split, residential consumption of 4MWh per year and small business consumption of 20MWh per year.

The Commission's approach would not reduce administrative burden

The advantages of the Commission's suggested approaches, which involve giving retailers discretion to determine prices, appear to mostly relate to the administrative costs of accommodating a range of non-flat tariff types. That is:

- clause 10(2)(ii) of the Order appears to require the Commission to regulate all non-flat standing offer tariffs
- while the Order already contains usage allocations for most non-flat tariffs (that are required to calculate maximum annual bills and compliant prices), there are other non-flat standing offer tariffs with very few customers
- generating sales quantities for these less common tariff structures (and those yet to be developed) is challenging, given the small number of customers on each and likely wide variances in possible sales quantities
- arguably retailers are better placed to estimate these quantities and the associated prices for compliance purposes under an average maximum annual bill approach.

We acknowledge this problem, however, the Commission's approach for dealing with non-flat tariffs should not be decided on the basis of avoiding or allocating administrative burden. We consider the Commission's approach would actually involve a much higher collective burden in forcing retailers to perform calculations, and then have proposals individually assessed (and potentially rejected) by the Commission, rather than the Commission performing these calculations once for each non-flat tariff type.

The Commission's approach carries risks for customers and retailers

The Commission's approach carries risk, for retailers and customers, in performing a meaningful assessment of appropriate and compliant tariffs, given:

- there is little data available for some non-flat tariffs
- there are likely to be a wide range of pricing proposals for each non-flat tariff type
- the Commission and retailers have limited time to develop and assess proposed prices between the Commission's final determination and gazettal dates.

Given the heightened scrutiny applied to retailer pricing practices[16], and the likelihood of VDO and market offer prices materially increasing from 1 January, this compressed process may not give customers and policy-makers confidence in the resulting outcomes. Any 'outlier' customers will likely attract media attention, and perpetuate the narrative that retailers are attempting to minimise losses under the VDO, even though the Commission has expected retailers to rebalance tariffs to comply with annual maximum bill amounts.

A regulator-approved set of prices would avoid these concerns and any unwarranted damage to retailer reputations. The Commission has time now to gather this information and develop its own estimates of usage quantities, prescribed prices and associated

[16] Rolfe, J., Power bill banditry, *Courier Mail*, 5 August 2019, p. 21; Rolfe, J., Power companies hike cheap deals by 9pc, *Daily Telegraph*, 6 September 2019.

maximum bill amounts, and can seek input from retailers and customer representatives in this process.

Our preferred approach satisfies the Order requirements

The Commission may not have assessed the option of prescribing prices alongside maximum bill amounts because it considers this may not satisfy specific requirements of the Order. As noted above, our view is that setting prices provides more certainty for customers, and thus best meets the VDO Objective of being a simple and trusted safeguard.

Clause 12(5) of the Order requires that the maximum bill must be "based on" the flat standing offer prices. We consider that this requirement does not require the Commission to develop maximum bills using the same values for price and consumption as per the flat tariff VDO. As noted above, our proposal is to essentially use the flat VDO prices and underlying costs, save for adjustments to accommodate the relevant non-flat network tariff.

The consumption values used in these calculations should be the same as those determined by the Commission under clauses 15(4)(a)(ii) and 15(5)(b)(i) of the Order. In this way, the annual maximum bill for non-flat VDO tariffs, based on prescribed consumption and prices, would be the same as that used for reference pricing purposes. That is, it would address the current inconsistency in having to express discounts for non-flat market offers to the flat tariff VDO that arises through the operation of clause 15(2)(a). The requirement to calculate discounts for non-flat market offers in relation to the flat VDO is potentially misleading for customers given the underlying difference in costs and bills as previously outlined.