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Essential Services Commission of Victoria

Submitted online via: <https://engage.vic.gov.au/victorian-default-offer-2021>

Submission to Victorian Default Offer 2021 Consultation Paper

Tango Energy thanks the Essential Services Commission of Victoria (ESC) for the opportunity to make this submission on the ESC's consultation paper on the Victorian Default Offer 2021.

Like most businesses, Tango Energy has had to take steps to protect customers and the continuity of our operations in response to the coronavirus pandemic. Tango Energy is expecting the full economic impacts of the pandemic, and subsequent increases in bad debt and non payment for both residential and small business customers, to be fully realised in the final quarter of 2020 upon the unwinding of Government economy wide stimulus packages. We also expect the recently proposed coronavirus measures by the ESC, currently proposed to come into effect on 1 October 2020 until April 2021 and potentially ongoing, to have an impact on the levels of future bad debt. These may not be reflected in historical costs provided to the ESC in the making of this determination.

Tango Energy would also like to take this opportunity to reiterate concerns raised in previous submissions on the 2019¹ and 2020² VDO prices. The methodological issues previously highlighted result in continued systematic under-estimation of retailer costs. In addition, the impact of not factoring in the additional debt levels as a result of the pandemic into a retailer's costs (as discussed above) will result in a VDO level that is set too low, and also more generally inhibit the ability of retailers to offer lower market offers due to the additional debt on the balance sheet reducing the amount of further risk a prudent retailer is able to take.

We note the Australian Energy Market Commission's (AEMC) findings in its 2020 Retail Market Competition Review³ that in Victoria, the lowest market priced offers have increased due to the lowered incentive and ability to offer lower priced market offers. While the effect of lowered price dispersion between the VDO and the lowest market offer may benefit disengaged customers, this must be balanced against penalising customers who choose to engage in the market to seek the lowest cost market offers, but find their ability to do so restricted, particularly in current circumstances where residential customers are experiencing higher consumption and usage, and are incentivised to shop around.

¹ Tango Energy submission to VDO to apply from 1 July 2019, 4 April 2019:
https://www.esc.vic.gov.au/sites/default/files/documents/4_4_2019%20VDO%20draft%20advice%20submission%20Tango%20Energy%20redacted.pdf

² Tango Energy submission, Re: VDO to apply from 1 January 2020 – Draft Decision, 17 October 2019
https://www.esc.vic.gov.au/sites/default/files/documents/SBN%20-%202017_10_2019%20VDO%202020%20Draft%20Decision%20Submission%20Tango%20Energy%2020191017.pdf

³ 2020 Retail Energy Competition Review, AEMC, 30 June 2020:
https://www.aemc.gov.au/sites/default/files/documents/2020_retail_energy_competition_review_-_final_report.pdf
Page xiv, point 68

VDO tariffs for non-flat tariffs

As highlighted in our previous submissions, the VDO as an annual maximum bill distorts efficient price outcomes for customers on non-flat network tariffs. In addition, this also leads to confusion for these customers as they are unable to reconcile the concepts of, on one hand, a network tariff that is intended to reflect the timing of their usage patterns and its impact on the grid, and on the other, a simple annual maximum bill.

This misalignment of the network and retail tariffs also leads to confusion of best offer and reference price messages where a customer has a natural change in consumption patterns over the seasons. Considered holistically with other regulatory changes and reforms, this may inadvertently lead to greater confusion, going against the VDO's aims of being a simple price.

To provide greater clarity to all stakeholders we suggest that the ESC could consider either the Australian Energy Regulator's (AER) approach of setting usage profiles for retailers to follow in calculating the VDO, or setting VDO prices for flexible tariffs except demand tariffs. The first option of setting usage profiles appears to be more consistent with the VDO's policy intent.

We also recommend that the ESC excludes the application of VDO tariffs for customers on demand network tariffs for the following reasons:

- Demand tariffs are currently applied mostly to medium to larger sized business customers based on consumption thresholds. These customers are sophisticated customers who have the ability and bargaining power to shop around and are highly engaged in the market. This appears inconsistent with the policy intent of the VDO, which is intended to protect and provide a fallback for disengaged customers.
- Demand tariff calculations with respect to the VDO are even more complex and difficult for customers to understand (as discussed above) and operationally difficult to administer for industry and Government alike. For Tango Energy, customers on demand network tariffs make up a small component of our customer base and this means that operational complexity has to be managed and significant costs are spent on these customers at the expense of improvements for other mass market customers.
- Currently, the VDO as a simplistic flat annual maximum bill is used as a reference price for customers to determine whether they are on the best offer. This does not account for seasonality inherent in current distributor tariff structures and may further exacerbate the confusion discussed above for other non-flat tariff structures. For example, a seasonal distributor network tariff that is intended to be cost reflective of the peak demand caused during summer months will provide conflicting best offer messages to customers (for customers eligible to receive these messages); in summer, a customer will receive a best offer message saying the VDO is the better plan, while in winter, the same customer might receive a best offer message saying the market offer plan is the best plan.

Overall, with respect to non-flat tariffs, we urge the ESC to consider the VDO's interaction with other ESC reforms (e.g. best offer on bills, reference pricing), and also broader national policy goals such as network cost reflective pricing. While network cost reflective pricing may appear confusing initially, these reforms were agreed nationally to ultimately lower the cost of maintaining the grid and delivering energy to consumers, something that Tango Energy is supportive of.

Administrative arrangements

We note the gazettal process currently required whenever the VDO price changes is based on legacy arrangements. We urge the ESC to discuss with Department of Environment, Land, Water and Planning (DELWP) any opportunity to streamline these legacy requirements, particularly if the ESC chooses to make VDO prices for non-flat tariffs.

In terms of the regulatory period, our preference is for a 6-month determination, followed by a 12-month determination. While this is more administratively cumbersome, our view is that the benefits outweigh these costs in allowing the uncertainty caused by the coronavirus pandemic to be better priced into the VDO determination and this builds in greater flexibility for adjusting the subsequent determinations for changes in circumstances. A suitable alternative may be a 12-month, followed by a 6-month, determination.

If you would like to discuss this submission, please contact me at stan@tangoenergy.com or 03 8621 6476.

Yours sincerely,

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