

30 July 2020

Ms. Kate Symons
Chairperson
Essential Services Commission
Level 37, 2 Lonsdale Street
Melbourne Victoria 3000

Consultation: Victorian Default Offer 2021 Consultation Paper

Submitted online: via email to VDO@esc.vic.gov.au

Dear Ms Symons

Thank you for the opportunity to provide a submission in response to the Victorian Default Offer 2021 Consultation Paper. Next Business Energy P/L (NBE) is a 100% Australian owned and operated electricity retailer. NBE is focussed on providing competitively priced electricity to businesses in Victoria, New South Wales, South Australia, Queensland, and the Australian Capital Territory.

- **Are there any changes or issues we need to consider in relation to the underlying data we use to calculate wholesale electricity costs? In particular, changes to volume or patterns of consumption due to COVID-19 that might extend into the 2021 calendar year?**
 - NBE considers that there may be an impact to wholesale electricity prices depending on the ongoing application of lockdown requirements, and social distancing. For example, office buildings are likely to see reduced electricity consumption for the duration of lockdown periods. This would also be exacerbated by businesses to extending “work from home” provisions to rowing numbers of employees.
 - Across our business portfolio we have seen an average drop of between 10 to 15% in consumption.
- **Should we consider any other approaches to accounting for the difference between the forecast and binding small-scale technology percentage?**
 - NBE understands that the calculation of the forward view of the Small-Scale Certificate percentage poses a significant difficulty given the timing of the VDO and publication of the rate. This is further impacted as the % rate is used to stabilise STC prices and given the impact of COVID-19 on building rates, there is likely to be significant impact on certificate creation. NBE recommends that the commission should form a view on the likely change in conjunction with the Clean Energy Regulator using data that is reflects the COVID impact on on small scale solar generation.
 - NBE also suggests that if the commission chooses to amend the VDO in July/August 2021, the commission will be able to adjust for the previously published STC rate. This approach could be carried forward each year.

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- **What impact has COVID-19 had on retail operating costs and for how long will it effect costs?**
 - NBE considers that the commission should allow a COVID-19 Bad Debt allowance considering the extraordinary impact that COVID-19 will have on retailer businesses over the next few years.
 - NBE also considers that costs of the implementation of the Draft Decision on the extension of the Payment Difficulty Framework to small business customers should also be added to retailer operating costs, depending on the impact of the final decision.
 - NBE considers that the impact of COVID-19, on retailer operating costs will continue for the at least the next two fiscal years, if not longer.
- **What approaches if any should we use to quantify the impacts (including any opposing changes)?**
 - NBE does not have any specific approach to recommend to the commission. However, any action taken by the regulator to quantify the impact, must weigh the adverse impact of committed contracts and sunk costs that a retailer may have, considering the overall macro-economic impacts of COVID-19 on the economy and retailers.
- **What other options should we consider for regulating non-flat standing offer tariffs and why?**
 - NBE proposes that commission should consider removing demand pricing from the process of regulating all standing offers. Customer demand charges are variable between customer types and are dependent on a great many factors, such as equipment design and age. If the commission insists on regulating a demand charge, then the commission should set the demand charge rate that applies to each customer type, based on the underlying demand tariff – This approach would be consistent with the commissions approach to the application of the rest of the VDO.
- **How many standing offer customers have chosen to take up a non-flat standing offer in the past 12 months?**
 - NBE has no comment
- **How many standing offer customers were placed on a non-flat standing offer in the past 12 months?**
 - NBE has no comment
- **Are there any changes we should consider to the way retailers are required to show that their non-flat standing offer tariffs comply with our determination?**
 - NBE believes that if the commission accepted our proposal to set the rate of the demand charge, then this issue would be largely resolved.
- **Should the commission change the length of the regulatory period beginning 1 January 2021 to 6 or 18 months? If so, what are the reasons for why we should make this change?**
 - Yes. The regulatory period should be set to align with the new requirement for retailers to set their non VDO pricing 1 month after a distribution price change. Therefore, the current VDO period should extend to 30 January 2020 and the Next VDO Period end on 31 July 2021.
 - NBE considers that the above approach has several advantages

- Reducing retailer costs from completing two price change actions a month apart.
- Aligning the Commissions VDO approach with its Decision on price certainty for customers
- Reducing retailer costs associated with calculating reference prices for each price change
- Better aligning the STC costs in the proposed August VDO change (which would remain better aligned each subsequent year)
- Enabling the commission to incrementally respond to the ongoing impact of the pandemic across 2 VDO changes in 2021.
- **Are there any other matters we should consider in the context of making a cost data request this year**
 - As stated above, the commission must take steps to align the VDO period to the new regulatory price change requirements that the commission has mandated. If this is not rectified by extending the current VDO 1 February 2021, the Commission will be contributing to the confusion about pricing that new price date certainty mandate was seeking to resolve.

Should you require any further information regarding this submission, please do not hesitate to contact our Regulatory and Compliance Manager, Andrew Mair on 0419 388 283 or via email at andrew@nextbusinessenergy.com.au

Regards

David Hayes

David Hayes
Chief Executive Officer