



16 June 2021

Mr Aaron Yuen
Essential Services Commission
Level 37, 2 Lonsdale Street Melbourne VIC 3000

By electronic lodgment – www.engage.vic.gov.au

Dear Aaron

Next steps for the Victorian Default Offer: Consultation on the determination of the 2022 VDO

Alinta Energy welcomes the opportunity to respond to the Essential Services Commission's consultation paper on setting the Victorian Default Offer for 2022.

Alinta Energy is an active investor in energy markets across Australia with an owned and contracted generation portfolio of nearly 3,000MW and more than 1.1 million electricity and gas customers. We have a strong interest in the determination of the VDO. The setting and level of the VDO has a significant impact on the competitiveness of the retail energy market to deliver products and services sought by Victorian electricity consumers.

We maintain the view that price regulation in the retail energy market is not in the long-term interest of Victorian consumers, whilst the Australian Consumer and Competition Commission has also expressed similar concerns with the policy objectives of the Victorian Default Offer.

However, we are generally supportive of the approach the ESC intends to take to setting the VDO for 2022. We believe the continued impact of the COVID pandemic allows scope for the ESC to maintain the temporary allowance for bad debts. Additional measures taken by retailers to provide relief to customers facing payment difficulties, including those in regulatory statement of expectations, while assisting in the medium term, have contributed to growing accumulated debt levels.

We support the approach to wholesale costs, however if a six-month VDO period (January-June 2022) is adopted, the ESC's consultants should consider the high wholesale costs facing retailers for this period (particularly the March quarter) as they will be higher than simply apportioning the annual wholesale costs to a six-month period.

Specific comment on components of the VDO and the ESC's proposed approach are set out below. We welcome further discussion with the ESC as it works towards its draft determination of the 2022 VDO. Please contact David Calder on (03) 9675 5359 in the first instance.

Yours sincerely

Graeme Hamilton
General Manager, Regulatory & Government Affairs

Bad debt

Alinta Energy believes there are strong grounds to continue the temporary allowance for bad debts in determining the VDO for 2022. We agree that the ESC should monitor conditions, but the impact of the COVID pandemic on bad debt accumulation is ongoing. We have evidence that bad debt levels (including final debts that are unpaid and have a low likelihood of payment) have grown materially since March 2020 and continue to increase.

Wholesale cap contracts

We support the ESC using the new ASX Energy cap contracts introduced in March to feed into the calculation of wholesale energy costs. We note that there have been trades in these instruments since their introduction.

Retail operating margin

We support the maintenance of the retail operating margin at 5.7%. Given the uncertainties and challenges faced by retailers since the beginning of the pandemic, it is appropriate the retail operating margin reflects the increases risks that retailers have had to manage, while implementing significant external regulatory changes at the same time.

The cost of complying with Victorian energy regulation for retailers is higher than in other jurisdictions, as it is not part of the National Energy Consumer Framework. Additional and different regulation in Victoria (for example, customer assistance requirements) suggests that the retail operating margin should reflect these costs at the higher range of any benchmark.

Five-minute settlement implementation and operating costs

There is the risk of delay in the commencement of five-minute settlement at the retail level in October 2021. Alinta Energy would encourage the ESC to engage with AEMO on any potential delay in implementation. A delayed start for five-minute settlement will impose additional costs on retailers (standing down then re-engaging contractors, re-testing solutions, user acceptance testing). If the start of five-minute settlement is delayed beyond October, Alinta Energy believes a further allowance for five-minute settlement costs should be included in the determination of the VDO for 2022.

Productivity factor

We support the ESC's view that a productivity factor should not apply to the determination of the VDO for 2022. We agree that ongoing uncertainty driven by the pandemic suggests it would not be appropriate to apply a productivity factor at this time.

Network tariffs

Alinta Energy supports the ESC's decision to develop a time of use VDO based on the new network two-part time of use tariff introduced by the Victorian distributors. This structure is likely to become more common over time as new connections, solar PV and electric vehicle charging installations increase.

Length of the regulatory period

We support a six-month regulatory period for 2022 VDO. An 18-month VDO determination period will make managing uncertainty and any changes in costs difficult. A six-month VDO would more likely reflect actual costs. Consistent with this approach, wholesale energy costs should also be determined using the discrete six-month period.