



EnergyAustralia

LIGHT THE WAY

2 July 2021

Ms Kate Symons
Essential Services Commission
Level 8, 570 Bourke Street
Melbourne Victoria 3000

Lodged electronically: <https://engage.vic.gov.au/>

Dear Ms Symons

Draft decision – Victorian Default Offer amendment to price determination 2021 – 24 June 2021

EnergyAustralia Pty Ltd
ABN 99 086 014 968

Level 33
385 Bourke Street
Melbourne Victoria 3000

Phone +61 3 8628 1000
Facsimile +61 3 8628 1050

enq@energyaustralia.com.au
energyaustralia.com.au

EnergyAustralia is one of Australia's largest energy companies with around 2.5 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.

We have reviewed the Commission's draft determination with respect to how changes in AER-approved network prices would be reflected in the Victorian Default Offer (VDO) from 1 September 2021. We have no feedback on prices for the flat tariff VDO and maximum annual bill amounts. We appreciate the Commission recognising and correcting the error we identified in its earlier usage profile for small business customers.

We acknowledge the difficult circumstances that have caused the delay in the Commission's variation determination, having dealt with the same timing issues last year with the AER under its Default Market Offer (DMO). The misalignment of timings in network and retail price cap determinations is something we are hoping to resolve in the upcoming review of the DMO Code. We expect the Commission will be a keen observer in this review. Either through the DMO Code or later through amendments to Victorian instruments, we will be seeking alignment in various procedural elements of the Victorian and national requirements. Our aim will be to minimise avoidable costs in serving our customers, while ensuring that customer benefits from retail price regulation are maximised.

We note the Commission intends to publish its final VDO prices and maximum bills by 19 July at the latest, given the delay to a 1 September effective date. This timing is acceptable to us and we expect the Commission to inform retailers of any further delays as soon as possible, as this would likely cause another shift in the effective date.

The Commission recognises that this timing has made the issue of recovery of network charges more important, now extending from 1 July to 30 August. However, we are unclear how the Commission intends to deal with this, with the draft decision outlining two options:

1. Reflect the network costs incurred over July and August 2021 from 1 September this year and across the next regulatory period starting 1 January 2022.

2. Reflect the network costs incurred over July and August 2021 in the next regulatory period starting 1 January 2022.¹

Our expectation is that one option would 'true up' the full amount of under or over-recovered network charges when setting the VDO from 1 September. That is, the additional reference to "and across the next regulatory period starting 1 January 2022" in option 1 above appears to be redundant. The Commission should confirm this or whether it intends for option 1 to provide for a partial true up on 1 September, and then a second adjustment from 1 January 2022.

We support network prices from 1 September being adjusted for the entire amount of network recoveries for July and August, rather than deferring this (or a portion of it) until January 2022.

This price adjustment could be calculated using a simple apportionment of annual network costs, that is, by assuming consumption/ costs are the same across all months. This approach will understate network bills for retailers due to winter consumption being higher, leaving retailers worse off. However, rather than debate the details of alternative consumption profiles with the Commission, our preference is for a simple apportionment approach and for its pass-through determination to be resolved expeditiously, so all stakeholders can begin to move on from the complexity that has characterised Victorian network and retail pricing over the last several months.

On that, we support a price safety net for standing offer customers. However, the intricacies of operationalising this safety net, including the confluence of annual network price changes and tariff restructuring, were not contemplated when retail price caps were mandated by governments. The VDO is layered upon various other Victorian retail regulations, including the need to gazette standing offer prices, Ministerial Orders, price change notification requirements, and restrictions on when and why prices can change. We encourage the Commission to maintain an ongoing dialogue with retailers and customer representatives about how all these regulations play out in 'real life'. This will inform ex post reviews of the many regulations introduced in Victoria in recent years (and still being introduced), and how they can be refined over time for the benefit of customers.

If you would like to discuss this submission, please contact me on 03 9060 0612 or Lawrence.irlam@energyaustralia.com.au.

Regards

Lawrence Irlam
Regulatory Affairs Lead

¹ ESC, p. 14.