



2 July 2021

Essential Services Commission
Level 37, 2 Lonsdale Street
Melbourne VIC 300

Dear Madam/Sir,

VDO – Amendment to the 2021 Price Determination

We write in response to the draft determination of the amendment to the 2021 VDO. Regrettably, the industry finds itself in a position having to consider this determination after the commencement date of increased network tariffs on 1 July 2021, which is way too late. WINconnect has long advocated for a harmonisation and coordination of regulatory practices across the states. The proposed Amendment to the 2021 Price Determination is a clear example of how a failure to coordinate different concurrent regulatory processes in Victorian and at a national level have led to undesirable consumer outcomes and potential confusion. The proposed treatment of the recovery of increased network charges by retailers could adversely affect the financial viability, especially of smaller, financially more vulnerable retailers. This in turn could negatively affect retail competition and customer choice.

About WINconnect

WINconnect, is a privately-owned company with its corporate headquarter in Melbourne supported by offices in Sydney, Brisbane, Perth and Adelaide. Since 2005, WINconnect has specialised in the establishment and operation of private community energy networks which include the provision of electricity and other utility services. The community energy network model allows for a greater proliferation of distributed renewable energy generation and energy management infrastructure. WINconnect is also an authorised electricity retailer in Victoria and NECF states.

The VDO under the General Exemption Order

We wish to identify a particular concern we have with respect to the application of the VDO as a hard price cap for consumers within embedded networks under the General Exemption Order. In previous submissions, WINconnect has supported the adoption of the VDO for this purpose. The current proposed Amendment to the 2021 Price Determination does highlight however, the importance of ensuring the VDO is calculated to accurately reflect efficient costs in a timely fashion. Where the ESCV fails to adequately and accurately allow for efficient costs within the VDO, then this will undoubtedly have commercial implications for embedded network operators. The ESCV should consider that the cash flow implications alone of a delayed update of the VDO may place smaller operators in this space under undue financial pressure. Any further failure to allow for the timely recovery of network costs incurred over July and August will only compound those pressures.

The July and August Recovery Options Proposed in the Draft Determination

We refer to the 2 options listed on page 14 of the draft determination. We note that neither of the two options presented appear to be acceptable. WINconnect is of the view that the VDO (and any amendment to it) should only reflect costs associated with the relevant pricing period. As such, allowing for cost differentials incurred in 2021 to be pushed forward into a future 2022 VDO is not an acceptable proposal.

WINconnect can only support an option which allows for the recovery of July and August costs within the 4 months period from September to December. This will also ensure that the 2022 VDO will only be determined by expected costs relating to that year. It is economically inefficient for consumers to face escalated VDO

prices in the future that are the result of price determination deficiencies of previous years. Furthermore, we are concerned that such an approach will set a precedent that would allow the ESCV to roll forward certain cost variations over VDOs for multiple future years. This would appear to go against the notion of the VDO allowing for efficient costs incurred during a price determination period.

Calculation of Network Costs Incurred Over July and August

We note that the estimates of the cost impacts of revised network tariffs (included in appendix C) provide a calculation of VDO variation per customer in dollars per month. This appears to be calculated forecasting an annualised VDO bill difference and dividing that difference by 12. We note that, especially where the variation is primarily in the usage component of the tariff, that this method does not adequately reflect the seasonality impact on consumption. We include below a worked example using the applicable VDO for **CitiPower Tariff C1R**, to demonstrate the impact of seasonality on monthly usage. Here we apply the respective 2021 VDO and Amended 2021 tariff to monthly MIRM data from 2020 provided by AEMO.

Data Date	AEMO VIC MIRM Load Data ¹	Seasonal %	Days	Amended VDO Usage Cost	2021 VDO Usage Cost	Usage Cost Variation	VDO SC H1 2021	VDO SC H1 2021	SC Var.	\$ per Month
Jan-20	1,147,485,800	8%	31	69.7	64.2	5.52	34.5	35.1	-0.63	4.89
Feb-20	1,028,366,800	7%	28	62.5	57.5	4.95	31.2	31.7	-0.57	4.38
Mar-20	1,052,957,189	7%	31	64.0	58.9	5.07	34.5	35.1	-0.63	4.43
Apr-20	1,180,961,837	8%	30	71.8	66.1	5.68	33.4	34.0	-0.61	5.07
May-20	1,519,538,675	10%	31	92.3	85.0	7.31	34.5	35.1	-0.63	6.68
Jun-20	1,643,502,028	11%	30	99.9	92.0	7.91	33.4	34.0	-0.61	7.30
Jul-20	1,772,368,056	12%	31	107.7	99.2	8.53	34.5	35.1	-0.63	7.90
Aug-20	1,630,233,924	11%	31	99.1	91.2	7.84	34.5	35.1	-0.63	7.21
Sep-20	1,210,848,875	8%	30	73.6	67.8	5.83	33.4	34.0	-0.61	5.21
Oct-20	1,131,981,696	7%	31	68.8	63.3	5.45	34.5	35.1	-0.63	4.81
Nov-20	1,002,847,380	7%	30	60.9	56.1	4.83	33.4	34.0	-0.61	4.21
Dec-20	975,198,248	6%	31	59.3	54.6	4.69	34.5	35.1	-0.63	4.06
Total	15,296,290,507	100%		929.6	856	73.60	406.1	413.5	-7.45	66.15

By not allowing for seasonality in the usage for July and August network costs, the commission may be dramatically under calculating the cost impact on a dollar per customer basis.

Methodology	2021 VDO	Amended VDO	\$ Change	% Difference
ESCV Calculation	105.8	111.3	5.5	
Seasonal Calc July	134.3	142.2	7.9	43%
Seasonal Calc Aug	126.4	133.6	7.2	31%

It would also be helpful for some additional transparency to be applied in how the Commission has applied the variation to each of the relevant network tariffs to the relevant VDO tariff. Using CitiPower tariff C1R as another example, the table in appendix B refers to the variation of and increase of 24.42% of usage charges and 0% on daily supply charges for that tariff. In the associated VDO flat tariff for CitiPower's area, usage

¹ Source: <https://aemo.com.au/en/energy-systems/electricity/national-electricity-market-nem/data-nem/metering-data/victorian-mrim-meter-data>

rates increase by approximately 8.60% and supply charge rates decrease by approximately 2.04%. This doesn't appear to reconcile assuming that the only adjustment to those VDO tariffs should be from the change in the associated network tariff. It would be helpful if, in the final determination, the ESCV could publish all the elements of the cost stack to demonstrate how the relevant network tariff variations feed into the amended VDO tariffs.

We thank the Commission for the opportunity to provide this submission to the draft determination, and we look forward to the Commission providing a final determination which seeks to amend the 2021 VDO Price Determination reflecting efficient costs that retailers can recover within the relevant price determination period.

Kind Regards,



James Norton
Executive General Manager - Energy Markets
WINconnect Pty Ltd