



St Vincent de Paul Society, Victoria: Response to the consultation paper to the Essential Service Commission, Developing a reference price methodology for the Victorian energy market.

April 2018

The St Vincent de Paul Society (Vinnies) welcomes the opportunity to respond to the Essential services Commission (ESC) consultation paper on developing a reference price methodology for the Victorian energy market.

The Vinnies believe the best way to deliver optimal outcomes for energy consumers is to empower them to seek the products and services that they desire. Where the market is unable to achieve this, or where a particular group needs additional support, the issues should be addressed by government and support provided (either directly or via the social services sector).

The current energy consumer protection framework has to a large extent derived from the continuous refinement of the energy retail code and, most recently, the review of the hardship programs, and as such reference pricing should be complementary to the broader framework.

We also believe the ESC must be also mindful of the overall interaction of the various recommendations of the independent review and the development of a reference price. For example, review recommendations of the independent review appear to be designed to empower consumers through enhancing their decision-making and ultimately drive the type of market changes that consumers seek and are consistent with national reforms being undertaken (these issues are explored in more detail though Consumer Policy Research Centre).

Vinnie's support of this general approach and in our view it supports energy consumers in the "traditional" energy market as well as enhancing consumers' ability to make effective decisions for "behind the meter" purchases, such as solar and batteries. It also supports the development of new products and services from other market participants, such as peer to peer trading and micro grids.

However with the current conversation we are unsure the purpose, role of reference price and this shapes the methodological approach. With this in mind please consider the following.

Reference pricing methodology and Victorian Government policy objectives

The Vinnies believes the reference price methodology should consider Victorian Government policies and programs such as energy efficiency measures, the mandated flexible (time of use) tariff, the opt-out arrangement for demand tariffs (as well as other network tariffs), green schemes such as Victorian Energy Efficiency Target (VEET) and the regulated feed in tariff (including the 2.5 cent social and environmental benefits levy on non-solar households and the fair solar policy).

In such a case we would welcome the ESC seeking what impact if any the following policies and procedures might have on the reference price methodology:

- The Fair Solar policy;
- The 2.5 cent environmental and social benefits levy;
- The regulated feed in tariff; and
- The applicability of the reference pricing to various customer groups (such as solar customers)

Reference pricing methodology and policy impacts

We would welcome the ESC consider the impact if any of a reference price methodology on the following.

- Changes in the Renewable Energy Target (RET);
- The National Energy Guarantee (NEG) of adopted as this may change market cost and structures;

Reference pricing methodology and market transformation.

The energy market is currently undergoing rapid transformation. New and emerging technologies and approaches are developing, and households are increasingly making “behind the meter” investments.

This transformation is facilitated by State Government policies and other financial supports as well as market participants through their development of new platforms such as peer to peer trading and micro/mini grids.

As the reference price could change the price point and hence the return that households and others would get on their energy investments and could significantly impact on these (and future) market developments. There is hence a risk that the reference price (if designed in a particular way) could undermine the rate and pace of energy market transformation.

In this case we are seeking the ESC to detail which consumers the reference price methodology will be applicable to, this includes embedded networks and other exempt arrangements within the market such as mini grids and peer to peer trading and so on. Or will unique reference prices be developed for these groups in the future.

Reference pricing and price setting

We also believe that determining the reference price will be highly complicated process, which in itself creates further risks and challenges. For example, as each retailer has a different cost structure for electricity, gas and solar customers, there would need to be a number of unique reference pricing for each retailer. Furthermore, as there are multiple electricity and gas pricing zones across Victoria, the reference pricing would also need to reflect the specifics for each zone. In addition, the reference pricing would need to reflect the underlying Network Use of System Charges (NUOS) and gas distribution charges within each of the electricity networks/gas pricing zones.

In this case we believe there may be a need for more reference prices to be developed than those proposed, this could include, the mandated time of use tariff and the climate saver tariff.

Reference price and other challenges

Listed below are a number of other methodological considerations to consider in developing a reference price

- New market entrants reference pricing and licensing.
- Retailer of last resort (ROLR) events - impact of reference pricing on retailer of last resort and how reference pricing applies in a ROLR event or market acquisition event.
- Appeals and or review processes for the price setting of the reference pricing (s).
- AMEO and other interventions such as the Reliability and Emergency Revert Trader (RERT) and other events which add significant cost to market participants and are unknown (but costs are worn by all retailers).
- Wholesale markets and predicting future prices.
- Costing of the reference pricing – will it include all the regulatory cost associated with delivering the full retail code and other obligations (which do not all apply to market offers)
- reference pricing adjustments and timing - will these be monthly, quarterly, annual or other?
- Interaction between the gas and electricity market and the interaction of a gas reference pricing and impact on electricity reference price.

Thank-you again for the opportunity to comment please do not hesitate to contact Gavin Dufty, Manager Policy and Research, St Vincent de Paul Society Victoria, [REDACTED], [REDACTED]