

Victorian Default Offer 2022-23: Draft decision public forum

Public forum on our draft decision paper – Thursday 31 March 2022 — Question and Answer session

Question asked to Dean Wickenton, Essential Services Commission

What period is used for inflation and how will that be taken account of in the final decision?

Answer:

We roll forward inflation with the Australian Bureau of Statistics consumer price index each year. We have taken, for the purpose of retail costs, a benchmark that was established in 2017, and then roll it forward with Australian Bureau of Statistics index over that period. The same process will be followed for the final decision.

Question asked to Marcus Crudden and Mayank Grover, Essential Services Commission

Momentum did submit our costs for the change for the initial costs and while they're not significant, the CDR (Consumer Data Right) is going to cost a significant amount of money going forward and we've been pleased to hear, I hope, that those costs will be recovered, there's a little bit of a trend in the market now where we're getting lots of new regulatory impositions that have significant costs but deliver no benefits and these changes have not been brought in with proper cost benefit analysis and we seem to be getting lumbered with new costs if you talk about NEM (National Energy Market) switching, CDR, five-minute settlements, global. There's lots of new changes coming in based on other drivers which I'm aware of but they deliver no benefit to retailers, just significant costs. While we've submitted costs, I'm just wondering, you said that others may not have submitted exact costs, but is that a thing that you're looking for on every submission is significant cost from every retailer? If it's only one or two retailers, the costs are submitted, do you ignore them? What's the future now with these major regulatory information input provisions being imposed on retailers

Answer:

We do tend to look for these. And we will look for the data and information submitted. We will take account of it. I think we would like some further data so I'm not sure if many participants gave us

data at this point in time. We would certainly welcome more. If you've already submitted data, then we'll take account of that with the other information we get in so we're not asking you to account the second time. And we are, whether there are regulatory changes, trying to look at what the impacts are. We're certainly mindful of these things because they do add up and impact on customers and I think all of us are concerned about cost of living and affordability.

The important question is that we do look for information that is substantiative and it can be from any one retailer, or two, or all of them, but it should be representative of broader industry. When we look at that information, it makes sense of the general impacts on the VDO (Victorian Default Offer), why this cost would add to the cost of the retailers to serve electricity. We are happy to receive more information on costs. One example is the five-minute settlements costs, where we have taken or considered the information that we got through publicly available sources or otherwise, that we have passed through in the VDO.

Question asked to Marcus Crudden, Essential Services Commission

The costs are going to come in at different times for different retailers because of the timeline. I think first-tier retailer will go ahead by, I think it's November 2022, and we're not till August to November 2023. It seems a little bit varying in when the costs are going to be imposed and at what time. But there's no doubt the costs are being incurred now and are going to ramp up quite significantly. This is a massive change that's going to be very expensive and with no benefit for retailers. Just costs. And that's the unfortunate thing that and hence I'm keen to see that they are suitably reflected in the VDO.

Answer:

Since we have released the draft, there's a few contacts that made comments around it so we will look closer at it between now and the final decision. We certainly welcome data and information in submissions on it. We acknowledge that when we get data and costs, we are certainly very open to including them in the cost stack.

Question asked to Retailers

I'm just interested whether any retailers have any views on how the maximum bill and the time of use VDO and the flat VDO are working at the moment, from their perspective. It might be a bit hard to do anything for this VDO but as we sort of work through future ones perhaps.

Answer:

I probably couldn't talk about specific experience but just the point about - anything other than a flat tariff relies on assumptions about timing of use and volume of consumption at particular times and absolute levels of consumption over a 12-month period. The purpose these price signals is to shift behaviour so sometimes you're chasing a bit of a moving target to come up with, I guess, a reference price or a maximum allowable amount that is reasonable, because you can see different

responses. It's challenging to align price regulation and reference pricing to more cost reflective tariffs and it's just going to become more and more of a challenge. So that's more of a general point than a specific observation.

Question asked to Jeff Cefai, Essential Services Commission

The VEEC (Victorian Energy Efficiency Certificate) costs have come up a bit in the methodology but as I understand it, there's been some easing off in the VEEC prices over the last month or so. Could you give us a general update on what's happening in the area?

Answer:

There's been a bit of work being at the ESC and the government department level. There's been a number of updates and so forth. We've seen probably last month that the price has reduced significantly. Now I have to say that ESC does not have any pricing role on the VEU (Victorian Energy Upgrades) side so we're just basing that on anecdotal feedback and our subscription to one of the market traders. But they show that on the spot level the price has decreased from the early 80's to the mid 60's over the last four weeks. I think for the retailers and for consumers that's a good thing so we just have to do a bit of understanding on why that's the case. I do get asked quite a few times during the day what's the reason for that and as I said, we don't have the direct visibility of the pricing or even the forward contracts that participants will have with the retailers so we can only guess and I'm not going to state what some of those reasons might be because they would only be guesses but yes there has been a sort of significant drop in the last few weeks compared to the historic highs that we've seen.

Question asked to Andrew Harpham, Frontier Economics

Can I ask when Frontier close the book on their calculations for the certificate prices and futures contracts? I know the ESC have their process to make decisions so it's quite some time before the commission makes its final determination but is that something you're able to disclose?

Answer:

For the draft report we looked at contract prices someday towards the end of January. We'll be updating that for the final report. We haven't done that modelling yet, so we'll be taking into account prices up to some cut-off point early into April or perhaps the end of March. It'll be some point in the next week or two that will cut-off the price series and do the analysis.

Comment by Marcus Crudden, Essential Services Commission

The cut-offs are not as early as you think. We kind of always work out what's about the last day we can get a report to actually do it because there's a bit of volatility or anything in the market, trying to get as up to date as we can. It's pretty important from our perspective. And I think you know that there's been some very big price movements in recent times in some of the other states.