



NETWORK ENERGY SERVICES

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4th April, 2019

Essential Services Commission
Level 37, 2 Lonsdale St
Melbourne, Vic, 3000

Submission re: The Victorian Default Offer to apply from 1 July 2019: Draft Advice paper

Dear ESC,

The comments provided in this submission reflect the view of Network Energy Services and the interests of our Exempt Selling clients and their internal customers. Network Energy Services is an Embedded Network Manager working with around 150 Retirement Villages, Land Lease villages, Caravan Parks and 'Over 55s' resorts structured as embedded networks. In addition to our role as ENM we provide data management, billing and customer service for about twenty thousand customers in these embedded networks.

This submission focuses specifically on Section 4 – 'Embedded Network Customers' of the consultation paper titled 'The Victorian Default Offer to apply from 1 July 2019: Draft Advice paper.'

The paper indicates that 'it is the commission's view that the VDO would become the maximum price embedded network customers could be charged from 1 July 2019. We note that embedded network providers can offer a price below the VDO.'

At present the transitional pricing rule within the General Exemption Order governs the electricity tariffs that Exempt Sellers in Victoria can charge; which is the standing offer tariffs of the 'licensee who is the local retailer for electricity supplied in the electricity distribution area in which the supply point for the supply of electricity to the customer is located.'

The embedded networks that we work with endeavor to provide prices that are market leading and these discounts are predominantly applied to the standing offer usage rates, since this is the approach used by licensed retailers. The supply charge would generally have either a small discount off the Default Retailer's standing offer supply charge or be equal to the Default Retailer's Standing Offer supply charge. This pricing strategy enables Exempt Customers to easily assess the value proposition of their embedded network tariffs compared to competitive market offers.

This type of discounted usage rate is especially beneficial for elderly and ill consumers who use large amounts of energy during daytime hours to maintain comfortable living conditions through colder and hotter times of the year.

When comparing the proposed VDO Tariffs to the Default Retailers standing offer tariffs we have noticed that the VDO supply charge is substantially less than the Default Retailers

standing offer supply charge which will compromise the prices that our clients can charge. The compromise occurs where our clients have provided very low usage rates and only a small discount off the supply charge.

This results in the aggregate cost to the consumer being lower than the aggregate of the VDO tariffs. The dilemma for our clients is that if the supply charge was to be reduced down to the VDO then the electricity usage rates will need to increase in order for their electricity on-selling activities to operate viably.

It will be a grossly unfair situation if Exempt Sellers were required to restructure all of their tariff offerings so that their supply charges drop down to the VDO supply charge, and their usage rates increase, which will inevitably mean that their usage discounts won't compare as favorably to market offers and vulnerable consumers will end up paying more.

We note that licensed retailers are able to make "market offers available to customers that differ from the VDO," however the same provisions have not been provided to Exempt Sellers at this point in time.

This scenario would create more confusion for consumers within embedded networks if Exempt Sellers were forced to structure their tariffs in a way that are not reflective of the type of market offers that are being advertised and promoted by licensed retailers.

It is therefore only fair and appropriate that the VDO, or Maximum Price for Exemption Sellers, be based on usage rates and a supply charge that are in aggregate no greater than the aggregate of VDO tariffs.

This may result in a tariff where the usage rate is discounted compared to the VDO usage rate, yet the supply charge is higher than the VDO supply charge, however the net effect is a saving to the exempt consumer compared the aggregate VDO.

If the purpose of the VDO is to set a regulated tariff that makes it easier for consumers, then consumers of community focused embedded networks should not be forgotten within the design of the VDO.

The Exempt Sellers that we assist are community based embedded networks that provide competitive discounts for their customers and they also use their exempt selling activities to reduce the cost of living within the village or park for their residents.

In summary, we propose that Exempt Sellers should have the option of offering a discounted tariff that is no greater than the aggregate of the VDO tariffs for a normal usage range.

Consumers of Exempt Sellers will be the winner in this scenario since they will be gifted greater choice. It also means that Exempt Sellers will not be forced to operate in a discriminatory landscape where they are unable to offer similar market based offers. Establishing an even playing field is essential in light of the current AEMC Embedded Network reforms which are being designed to provide consumers within embedded networks with greater choice.

I invite any queries with regard to this submission.

Toby Etchells
Director
Network Energy Services