12 April 2022

Essential Services Commission
Level 37, 2 Lonsdale Street
Melbourne VIC 3000

By electronic lodgment: www.engage.vic.gov.au

Victorian Default Offer 2022-23 – Draft decision

Alinta Energy welcomes the opportunity to respond to the Essential Services Commission's draft decision on the Victorian Default Offer for 2022-23.

Alinta Energy, as an active investor in energy markets across Australia with an owned and contracted generation portfolio of over 3,300MW and more than one million electricity and gas customers has a strong interest in the setting of the Victorian Default Offer given its impact on our customers and the competitiveness of the Victorian retail electricity market.

Alinta Energy maintains the position that price oversight is not required in competitive retail energy markets as it inhibits innovation, is contrary to the long-term interests of consumers and ultimately damages competition.

However, we generally accept the approach the Commission has adopted for the draft decision, noting that the approach taken to determining the VDO is largely the same as for the first six months of 2022.

There has been constant regulatory change in recent years with which retailers must comply and that impose material, ongoing costs on their businesses. In recent years these have included five-minute and global settlement in the National Electricity Market, the implementation of the Better Bills Guideline and the Consumer Data Right. Each of these regulatory interventions are material and have (or will) place significant costs on retailers

We are concerned that some retail operating costs are not recognised in the draft decision, amplifying the risk that retailer's will under-recover their efficient costs, threatening the viability of competition in the retail market and the capacity for retailers to invest in innovation and respond to customer needs and preferences. Alinta Energy is providing information regarding the impact of the cost of reforms separate to this public submission to assist the Commission.

We respond to specific issues set out in the draft decision below and welcome further engagement with the Commission as it works towards its final decision. Please contact David Calder at David.Calder@alintaenergy.com.au in the first instance.

Yours sincerely

Graeme Hamilton
General Manager, Regulatory & Government Affairs

Wholesale Electricity Costs

We note that the Commission's consultants (Frontier Economics) have moved from a five to three-year period to estimate demand through Monte-Carlo simulations. Alinta Energy supports this approach as the pattern of electricity demand is evolving (the impact of solar PV, increasing electrification for heating and cooling, efficiency of appliances) and a tighter period to estimate demand will reflect the most recent trend in demand for small customers.

The Commission states it will continue to monitor changes in demand and other wholesale market settings.[1] Alinta Energy supports striking a balance between having a flexible and adaptable approach to fundamental elements of the VDO, while maintaining as much consistency as possible between review periods to avoid price shocks for consumers.

Network costs

We support the Commission's approach to assumed network costs for 2022-23. While the determination of network prices for 2022-23 is outside of the Commission's control, we maintain the view that the Australian Energy Regulator should finalise these by no later than mid-April each year to allow sufficient time for the Commission and the AER to use up to date, approved network tariffs in the VDO and the Default Market Offer respectively, ideally giving retailers six to eight weeks to implement changes to standing offers.

We also support the Commission's decision to apply a customer-weighted approach to metering costs as this more accurately reflects the allocation of advance metering infrastructure costs among customer connection types that exist across different network areas. This does raise the concern that this component of network costs has been materially understated in previous VDO final decisions – for example, a $9.20 per customer adjustment in the AusNet distribution network implies metering costs have been understated by approximately $6.9m annually based on 750,000 distribution network connected customers for that network alone.[2]

Other network and wholesale cost elements can be dependent on (unknown) future price and demand outcomes, however data supporting accurate, customer-weighted regulated metering costs is available to the Commission in the distributors' annual pricing proposals. For the 2022-23 VDO Final Decision Alinta Energy recommends that a one-off allowance is applied as a true-up mechanism for the under recovery of metering charges in previous years.

Environmental costs

We support the Commission's unchanged approach to calculated environmental costs and the use of the latest possible data on Victorian energy efficiency certificate costs in determining the cost (in $/MWh) of the Victorian Energy Upgrades program.

Retail operating costs

We note that the Commission has removed the $6 temporary adjustment for bad debts for the January to June 2022 VDO decision and that it will not be reinstated for the 2022-23 VDO period. This is despite the financial consequences of the pandemic continuing to have an impact on bad and doubtful debts, evidence of which Alinta Energy will provide separately to the Commission.

We also do not consider it is appropriate to assume economic conditions will rapidly improve, thereby reducing bad debt exposure for retailers given stagnant real wages growth and

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[1] ESC (2022), *Victorian Default Offer – Draft Decision*, page 10.

[2] AusNet Services (2021), *Electricity Distribution Annual Pricing Proposal 2021-22*, page 5. Note: under-recovery may be slightly less than $6.9m given exclusion of >160MWh per annum customers from regulated metering charges. AusNet's customer numbers include large customers connected to their electricity distribution network.

inevitable interest rate rises impacting consumer borrowing and rental costs.

Further, we note that some retailers have provided information on the cost of complying with the Consumer Data Right. We intend to provide the Commission with our forecast share of CDR costs attributable to Victorian customers for the 2022-23 financial year. This is a material cost for all retailers and likely to be greater than the implementation of the five minute and global settlement rule change and procedures.

Customer acquisition and retention costs

While the approach to CARC is to remain unchanged, we would ask the Commission to consider the impact of the Energy Fairness Plan and the restrictions it places on retailer's customer acquisition and retention activities. Restrictions which necessitate a reliance on more costly acquisition and retention activities, the cost of which should be considered and reflected in the CARC allowance.

Other costs

Alinta Energy supports the use of the Australian Energy Market Operator's budgeted fees and charges for 2022-23 in the final decision. We understand the budgeted fees for 2022-23 will be materially higher than 2021-22 and along with other costs discussed above, cannot be cumulatively absorbed by retailers through the VDO.

Retail margin

We note that whilst the draft decision states "[the Commission] found the range of retail margins set by Australian regulators in their latest regulatory decisions was between 5.4 to 5.7 per cent"[3], the AER in its recent draft determination for the Default Market Offer (2022-23) stated that:

> *Our view is that a 10% retail allowance for residential customers (encompassing the retailer profit margin and the allowance to meet the DMO objectives which were previously part of the 'residual' component of the DMO), protects customers while enabling retailers to make a reasonable margin and compete below this ceiling. For small business customers, we consider a 15% retail allowance achieves these objectives.*[4]

[3] ESC (2021), op. cit., page 29.
[4] AER (2021), Default Market Offer Prices 2022-23 – Draft determination, page 2.