

Victorian Default Offer amendment to price determination 2021

Final decision

14 July 2021



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Variation of the current Victorian Default Offer price determination

We will vary the current Victorian Default Offer Price Determination in response to changes in network tariffs applying from 1 July 2021.

The variation will take effect from 1 September 2021.

Depending on the distribution zones:

- domestic customers on the flat VDO tariff will face an increase of \$3–\$6 per month on their electricity bills for the period 1 September to 31 December 2021
- small business customers on the flat VDO tariff will face an increase of \$12–\$32 per month on their electricity bills for the same period, except for small business customers under the United Energy zone who will face a decrease of \$6 on their bills per month.

We intend to account for any under or over recovery of network costs for the period between 1 July and 31 August 2021 in the 2022 Victorian Default Offer.

Changes to network tariffs

When we determined the 2021 VDO prices in November 2020, we used the information available to us at that time.¹ We used approved network tariffs to calculate network costs for the VDO. However, the approved network tariffs for the second half of 2021 were not available.

Since then, the Australian Energy Regulator has made changes to the structure of network tariffs. The new two period (peak and off-peak) time of use network tariffs will be the default network tariff for around 400,000 legacy non-flat customers (approximately 15,000 being VDO customers), as well as new connections in Victoria.

On 15 June 2021, the Australian Energy Regulator approved the network tariffs that would apply from 1 July 2021.

¹ The 2021 Victorian Default Offer price determination applies from 1 January–31 December 2021.

Network costs are treated as a pass through

Our current VDO price determination nominates the Australian Energy Regulator's final decision on network tariffs as one of the circumstances under which we might vary the default offer prices.²

Network costs account for around one third of the costs reflected in the VDO. Our methodology treats these costs as a 'pass through'.³ This means the network costs approved by the Australian Energy Regulator are accounted for in full in the VDO cost stack, so are fully recovered from VDO customers. Retailers must pay charges, determined by Australian Energy Regulator, to use the networks that deliver energy to customers.

Given network costs are a large share of retailer costs it is important they are reflected sooner in retail tariffs. Also, if we do not pass the changes in network tariffs through in the current VDO price determination we would need to account for them in full in the 2022 VDO price determination. Our final decision means changes to network costs will be passed through from 1 September this year. In passing through most of the changes to network tariffs now it means VDO prices will be smoother and customers will face a smaller price increase.⁴

Based on our calculations, domestic and small business customers will face an increase in their electricity bills for the period 1 September to 31 December 2021 as a result of changes to network tariffs. However, there are some small business customers who will face a decrease in their electricity bills for the same period depending on the distribution zones. The next chapter has the details on the customer impacts.

The Australian Energy Regulator increased network tariffs for a range of reasons including the impacts of the coronavirus pandemic, which contributed to lower consumption forecasts by network businesses for 2021–22. As noted by the Australian Energy Regulator, most networks are expecting less energy will be consumed in 2021–22, resulting in higher prices being set in order to recover the required revenue. Some of the increase also reflected adjustments for previous under recovery of revenue.⁵

² Essential Services Commission, Victorian Default Offer Price Determination 2021: 1 January 2021–31 December 2021, November 2020, pp. 10–11.

³ Essential Services Commission, Victorian Default Offer 2021: Final decision, November 2020, p. 18.

⁴ However, given the need for a later effective date of 1 September for the variation, the network costs for the second half of 2021 have not been passed through in full. Any under or over recovered network costs in the period between 1 July and 31 August 2021 will be accounted for in the next VDO.

⁵ Australian Energy Regulator, AER approves 2021–22 network tariffs for Victorian electricity customers, accessed 13 July 2021, <https://www.aer.gov.au/communication/aer-approves-2021-22-network-tariffs-for-victorian-electricity-customers>.

Feedback on our draft decision

Stakeholder submissions on our consultation paper⁶ and draft decision paper⁷ generally supported our proposed approach to vary the current VDO price determination to account for network costs. The next chapter has detail on stakeholders' feedback on our draft decision.

We intend to account for any under or over recovery in 2022

The effective date for the variation of 1 September means we need to consider what to do with the difference between the network costs currently included in the prices and actual network costs for the period between 1 July and 31 August 2021. Depending on distribution zones and types of VDO tariffs and customers, the actual network costs recovered by retailers from customers during that two month period may be higher or lower than what they should be, based on the new network tariffs approved by the Australian Energy Regulator.

We acknowledge these under or over recovered network costs need to be taken into account in the VDO, and our intention is to account for them from 1 January 2022.

In our draft decision, we noted that while these costs will be incurred by retailers over July and August 2021, they will not have been reflected in the VDO. We also sought stakeholder views on how we might account for these costs in the VDO – including options for the consumption profiles used to estimate the costs, and when we might reflect these costs in the VDO. In response to our draft decision, stakeholders had mixed views on how to account for them. We considered these views in making our final decision. The next chapter has detail on these considerations.

Our process and consultation

In amending the current price determination, we run a public engagement process to ensure the views of interested stakeholders are heard and considered.

We issued a consultation paper and a draft decision paper for stakeholder feedback. We also held a public forum attended by 65 stakeholders. These consultations are in addition to the extensive

⁶ Essential Services Commission, Victorian Default Offer amendment to price determination 2021: Draft decision, June 2021, pp.14-16.

⁷ Origin Energy, Submission to the commission's Victorian Default Offer amendment to price determination 2021: Draft decision, 2 July 2021, p.1; Australian Energy Council, Submission to the commission's Victorian Default Offer amendment to price determination 2021: Draft decision, 2 July 2021, p.1; Red and Lumo Energy, Submission to the commission's Victorian Default Offer amendment to price determination 2021: Draft decision, 2 July 2021 p.1; AGL, Submission to the commission's Victorian Default Offer amendment to price determination 2021: Draft decision, 2 July 2021 p.1; Alinta Energy, Submission to the commission's Victorian Default Offer amendment to price determination 2021: Draft decision, 2 July 2021, p.1.

consultation we undertook in 2020 on options for reflecting anticipated changes in network tariffs in the VDO.

Our proposed effective date for the variation was moved to 1 September 2021 due to slight changes in the Australian Energy Regulator's network tariff approval process.

Our final decision

Our final decision:

- updates the flat VDO tariffs from 1 September 2021, with the new Australian Energy Regulator approved network costs applying from 1 July
- introduces two-period time of use VDO tariffs from 1 September 2021
- determines the compliant maximum annual bill, to apply from 1 September 2021, based on the two-period time of use VDO tariffs
- sets 1 September 2021 as the effective date for the variation
- intends to account for under or over recovery of network costs for the period between July and August 2021 in the next VDO.

Network costs represent the costs of building, operating and expanding the electricity distribution and transmission networks, provision of metering services and the cost of jurisdictional schemes. We are required to have regard to network costs in estimating efficient costs, with the charges levied by each of Victoria's five network distribution zones approved by the Australian Energy Regulator on an annual basis.

Our current VDO methodology treats network costs as a pass through and uses the simplest network tariffs approved by the Australian Energy Regulator for each distribution zone.

Changes to network tariffs from 1 July

On 30 April 2021, the Australian Energy Regulator made its final decision on the Victorian distribution network businesses' revenue requirements for the 2021–26 regulatory period. It subsequently published its approved network tariff rates for the Victorian distribution network businesses to apply from 1 July 2021 to 30 June 2022.

The Australian Energy Regulator also approved Victorian distribution network businesses' plans to introduce simplified two period (peak and off-peak) time of use network tariffs. These tariffs are designed to better reflect the cost of using the network. While retaining flat and demand tariff options, the new network time of use tariffs with the following peak periods will be introduced:

- residential customers – 3pm to 9pm every day peak
- small business customers – 9am to 9pm business day peak.

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Updating the flat VDO tariff

We have updated the flat VDO tariff to reflect the new Australian Energy Regulator approved rates for flat network tariffs. The structure of the flat VDO tariff, and all other cost components (except for network costs) remain unchanged. This is consistent with the treatment of network costs as a pass through in our VDO methodology.

Using the Australian Energy Regulator approved network tariffs⁸, our updated VDO calculations show that depending on the distribution zones:

- domestic customers on the flat VDO tariff will face an increase of \$3–\$6 per month on their electricity bills for the period 1 September to 31 December 2021
- small business customers on the flat VDO tariff will face an increase of \$12–\$32 per month on their electricity bills for the same period, except for small business customers under the United Energy zone who will face a decrease of \$6 on their bills per month. See Appendix C for details.

Despite the increase in flat network tariffs for the second half of 2021, the annual bills under the amended 2021 VDO prices remain lower than under the 2020 VDO prices for domestic customers on flat VDO tariffs.

Table 1: Comparison of estimated annual bills of flat tariff domestic VDO customers in 2021 with 2020, in \$nominal*

Distribution zone	2020 VDO	Amended 2021 VDO
AusNet Services	\$1,646	\$1,525
Citipower	\$1,420	\$1,292
Jemena	\$1,496	\$1,348
Powercor	\$1,517	\$1,387
United Energy	\$1,508	\$1,330
Victoria (average)	\$1,517	\$1,376

Note:

- * For clarity, the above amended 2021 VDO in Table 1 are not the compliant maximum annual bill amounts we have determined under the amended 2021 VDO price determination.
- * The estimated annual bills are calculated using annual usage of 4,000kWh.

⁸ The Australian Energy Regulator approved revenue requirement for 2021 is higher than for 2020. Also, the network tariffs for second half of 2021 are higher than the network tariffs for the first half of 2021.

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* Annual bills for Amended 2021 VDO are calculated by combining the original 2021 VDO tariffs for January – August 2021 and the amended 2021 VDO tariffs for September – December 2021, assuming uniform monthly usage across the two periods.

Network tariffs are approved by the Australian Energy Regulator. Under the VDO methodology we pass through the published network tariffs directly.⁹ We consider passing through the changes in network tariffs this year best supports the VDO objectives.

If we do not pass these costs through within the current VDO price determination we would need to update for them in the next VDO price determination. The risks of delaying the pass through of these costs include that network costs would be lumpy (that is customers will pay their increased network costs over a shorter period).¹⁰

Further, given network charges are a large proportion of retailer costs, it is important that they are reflected in retail tariffs.¹¹

Stakeholder feedback

We did not receive any new feedback from stakeholders on our proposed approach to update the flat VDO tariffs. However stakeholders, in their submissions to our consultation paper, generally supported our proposed approach to the variation including updating the flat VDO tariffs with the Australian Energy Regulator approved network tariffs.¹²

See Schedules 1B and 2B of the variation determination for details about the updated flat VDO tariffs for the five distribution zones (provided as Appendix A).

Updating the non-flat tariffs

The pricing order requires us to determine:¹³

- the tariffs, or the maximum tariffs, a retailer may charge prescribed customers under a standing offer during the regulatory period or

⁹ This means that the actual network tariffs approved by the Australian Energy Regulator are allowed to be recovered by retailers from their customers under the VDO methodology.

¹⁰ There are currently around 120,000 residential and 30,000 small businesses on the flat VDO tariff.

¹¹ Essential Services Commission Act 2001, s. 8A(1)(b).

¹² Essential Services Commission, Victorian Default Offer amendment to price determination 2021: Draft decision, June 2021, pp. 14-16.

¹³ Clause 10 of the pricing order.

- the manner in which the tariffs, or the maximum tariffs, a retailer may charge prescribed customers under a standing offer during the regulatory period are to be determined or calculated.

Currently, there is a large range of non-flat network tariffs and retailers offer a variety of standing offer tariffs which are regulated under the compliant maximum annual bill regime.

Our final decision is to vary the current price determination to:

- **Introduce** a new two period time of use tariff VDO, which is calculated based on the new default time of use network tariff structure and prices approved by the Australian Energy Regulator.¹⁴ To set the new tariffs for the time of use tariff VDO, all other cost components (that are not network costs) are the values used to calculate the flat VDO tariff in the current price determination.¹⁵
- **Update** the compliant maximum annual bill arrangements to reflect the new default time of use network tariffs approved by the Australian Energy Regulator (currently the compliant maximum annual bill is calculated based on the flat tariff VDO rates). The updated compliant maximum annual bill would regulate all standing offers not covered by the flat VDO tariff, or by the proposed new two period time of use VDO.¹⁶

Our updated VDO calculations shows that impacts of the new network tariffs on domestic and small business customers on non-flat VDO tariffs are mixed.¹⁷ Compared to the tariffs for the first part of the year and depending on the distribution zones:

- some domestic customers will face a decrease of \$1–\$2 per month on their electricity bills for the second half of 2021 while others will face an increase of \$2–\$5 per month
- some small business customers will face a decrease of \$4–\$107 per month on their electricity bills for the same period while others will face an increase of \$6–\$8 per month. See Appendix C for details.

The introduction of a new two period time of use VDO to align with the new default time of use network tariffs should see more standing offer customers' prices regulated through specified VDO tariffs, rather than through the compliant maximum annual bill. Generally, stakeholders agreed with

¹⁴ As with the flat VDO rates, all non-network components remain unchanged and are combined with the relevant time of use network charge. This is consistent with our treatment of network costs as a pass through in our VDO methodology.

¹⁵ Under our methodology the retail operating margin is also updated to reflect adjustments made to the cost stack –such as network costs.

¹⁶ This does not change retailers' obligations for the purposes of the reference bill.

¹⁷ There are currently around 5,000 residential and 10,000 small businesses on a non-flat tariff VDO.

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our approach to specified tariffs as they are more transparent and reduce compliance costs for retailers (compared to the compliant maximum annual bill system).¹⁸ Accordingly, we consider our approach will simplify the VDO, which is consistent with our objectives under the pricing order.¹⁹

However, when comparing time of use tariffs to flat tariffs using representative bills, customers on the new time of use tariffs will either be about the same or better off.²⁰ Our final decision allows standing offer customers currently on legacy time of use network tariffs to benefit from the new two-period time of use tariffs. These customers should be better off because the new time of use peak periods for residential and small business have much shorter peak periods than many legacy network tariffs. Also, the network businesses' rebalancing of prices between flat and time of use tariffs (which lead to lower network costs for time of use tariffs) will benefit these customers.²¹

We also consider the variation will provide for consistency between retail and network tariffs, which could lead to reduced financial risks for retailers as their retail tariffs will better reflect underlying costs.²²

Stakeholder feedback

Stakeholders supported our proposed approach to updating non-flat tariffs.²³ In response to the Shopping Centre Council of Australia's query, we clarify that the flat VDO tariff will continue to apply from 1 September 2021.²⁴

¹⁸ Simply Energy, Submission to the commission's Next steps for the Victorian Default Offer: Consultation on our approach to network tariff reforms and determination process, 24 May 2021; Origin Energy, Submission to the commission's Next steps for the Victorian Default Offer: Consultation on our approach to network tariff reforms and determination process, 25 May 2021, p.1.

¹⁹ Clause 3 of the pricing order.

²⁰ Most domestic customers on time of use compared to flat tariffs have similar bills, whereas most small business customers on time of use tariffs are better off compared to flat, using the usage assumptions from the VDO. This will vary depending on a customer's actual consumption.

²¹ Jemena in its tariff structure statement analysed its legacy time of use customers bill impacts of their proposed changes. Jemena's analysis covered the 18,529 customers on its legacy time of use tariffs who have consumption over 250kWh and below 40MWh. Out of these 18,529 customers, Jemena has 201 customers (1 per cent) with bill increases, with the remainder having bill decreases.

²² Clause 12(3) of the pricing order.

²³ Essential Services Commission, Victorian Default Offer amendment to price determination 2021: Draft decision, June 2021, pp. 14-16; Origin, Submission to the commission's Victorian Default Offer amendment to price determination 2021: Draft decision, 2 July 2021, p.1; Red and Lumo Energy, Submission to the commission's Victorian Default Offer amendment to price determination 2021: Draft decision, 2 July 2021, p.1.

²⁴ Shopping Centre Council of Australia, Submission to the commission's Victorian Default Offer amendment to price determination 2021: Draft decision, 6 July 2021, p.1.

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See Schedules 6, 7 and 8 of the variation determination provided as Appendix A for details about the new two-period time of use tariff VDO and updated compliant maximum annual bill amounts for each distribution zone.

Other matters we have considered

Usage profile

Our final decision adopts the following usage profiles in calculating the compliant maximum annual bill amounts.²⁵ For more details on how we will use these usage profiles, see clause 7 of the attached Victorian Default Offer Amendment to Price Determination 2021.

Table 2: Domestic – usage profile for maximum bill calculation

Customer class	Peak period	Off peak
Time period window	3.00pm–9.00pm every day	All other times
Usage profile	0.33	0.67

Table 3: Small business – usage profile for maximum bill calculation

Customer class	Peak period	Off peak
Time period window	9.00am–9.00pm weekdays	All other times
Usage profile	0.49	0.51

²⁵ To establish usage profiles for the residential and small business maximum bill, we used Manually Read Interval Meter (MRIM) data provided by the Australian Energy Market Operator for the period 1 July 2019 to 30 June 2020. The data has been filtered by AEMO to only capture customers relevant to the VDO, that is, residential and small business customers using up to 40MWh per year. Noting the MRIM data aligned with AEST we included an adjustment for daylight savings in Victoria. For each distribution zone, we calculated the proportion of total volume of electricity peak and off-peak loads consumed during the specified peak and off-peak periods. To calculate Victoria wide profiles for both residential and small business customers, we used a simple average of the profiles of each of Victoria’s five distribution zones.

We have also updated these usage profiles in response to stakeholder feedback on our consultation paper. In particular, we adjusted the methodology to account for daylight savings during the six-month period from the start time in October to the end time in April. We also ensured that the small business profile reflects the peak and off-peak consumption with peak 9.00am-9.00pm weekdays, and off peak all other times.

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Wholesale costs

In our consultation and draft decision papers, we proposed to continue to use our current approach to calculating wholesale costs. We will use the average wholesale costs rather than having separate wholesale costs for the peak and off-peak period. Under this approach retailers recover their efficient costs.

Stakeholder feedback

Usage profile

The Australian Energy Council considers our proposed usage profiles for estimating the maximum annual bill are more reflective of actual consumption patterns and will result in a fairer price for consumers.²⁶ Red and Lumo Energy recommends we adopt them as final noting ‘Otherwise, retailers will not have sufficient time to make the necessary adjustments in their billing systems and to tariff structures after the final determination and ahead of 1 September’.²⁷

Origin Energy also seeks additional information on the changes to the small business usage profile given the extent of change compared to the commission’s consultation paper.²⁸ We consider the usage profiles in the draft decision better reflect the two period time of use tariff assumptions. We provided further information regarding our approach in footnote 25 above.

Origin Energy seeks clarification on whether the usage profiles in schedule 3 of the VDO pricing order ‘are indicative rather than mandatory for market customers ... for the purposes of comparing market offers with the VDO as required in section 15(4) of the VDO Order’.²⁹ We accept Origin’s submission as broadly correct. We confirm that when retailers are comparing non-flat market offers with non-flat VDOs as required in section 15(4) of the VDO Order, they must use the relevant usage profile for the specified non-flat tariff type. For each non-flat tariff type specified in Table 1 of Schedule 3 of the VDO Order, the retailer must use the relevant usage profile specified for that non-flat tariff type in that Table. For each non-flat tariff type other than those specified in Table 1, the relevant usage profile is the representative profile of customer usage or relevant usage

²⁶ AEC, Submission to the commission’s Victorian Default Offer amendment to price determination 2021: Draft decision, 2 July 2021, p.1.

²⁷ Red and Lumo Energy, Submission to the commission’s Victorian Default Offer amendment to price determination 2021: Draft decision, 2 July 2021, p.2.

²⁸ Origin, Submission to the commission’s Victorian Default Offer amendment to price determination 2021: Draft decision, 2 July 2021, p.2.

²⁹ Origin, Submission to the commission’s Victorian Default Offer amendment to price determination 2021: Draft decision, 2 July 2021, pp.1-2.

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allocations the retailer has adopted for the equivalent non-flat VDO tariff type as published in the gazette.

Wholesale costs

Two stakeholders commented on our proposed approach. EnergyAustralia acknowledges that our proposed approach is appropriate in the short term.³⁰ However it encourages the commission to consider using different wholesale prices for peak and off-peak periods, which provides a 'more effective and stronger price signal to customers', in the medium term.³¹ The Consumer Action Law Centre notes our proposed approach.³² It also suggests we monitor wholesale electricity prices given increased solar and battery installations have the potential to decrease wholesale electricity prices and customers should benefit from that.³³

As discussed in our draft decision, we consider different wholesale costs for peak and off peak periods are not required given retailers do not hedge separately for different tariff types (such as VDO customers on time of use or flat tariffs).³⁴ We may reconsider this approach in future reviews if appropriate.

In response to Shopping Centre Council of Australia's query, we clarify that from 1 September 2021:

- either a flat, time of use tariff or other flexible tariff can be used
- the two period time of use VDO tariff will also apply
- the current maximum bill will be updated using the new two period time of use tariff.³⁵

Variation to take effect from 1 September

Our final decision is that the variation will take effect from 1 September 2021.³⁶ It should allow electricity retailers sufficient time to prepare and implement the changes and meet their customer

³⁰ Energy Australia, Submission to the commission's Next steps for the Victorian Default Offer: Consultation on our approach to network tariff reforms and determination process, 16 June 2021, pp.3-4.

³¹ Energy Australia, Submission to the commission's Next steps for the Victorian Default Offer: Consultation on our approach to network tariff reforms and determination process, 16 June 2021, pp.3-4.

³² Consumer Action Law Centre, Submission to the commission's Next steps for the Victorian Default Offer: Consultation on our approach to network tariff reforms and determination process, 16 June 2021, pp.6-7.

³³ Consumer Action Law Centre, Submission to the commission's Next steps for the Victorian Default Offer: Consultation on our approach to network tariff reforms and determination process, 16 June 2021, pp.6-7.

³⁴ Essential Services Commission, Victorian Default Offer amendment to price determination 2021: Draft decision, June 2021, p. 13.

³⁵ Shopping Centre Council of Australia, Submission to the commission's Victorian Default Offer amendment to price determination 2021: Draft decision, 6 July 2021, p.1.

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notification requirements. The timing also provides for a relatively quick pass through of changes to retailer costs that will occur from 1 July 2021.

Stakeholder feedback

Origin Energy supports the proposed effective date of 1 September 2021 noting the timing of the Australian Energy Regulator's decision.³⁷ AGL said the delay is regrettable while EnergyAustralia acknowledged 'the difficult circumstances that have caused the delay'.³⁸

We intend to account for under or over recovered costs

The effective date of 1 September means we needed to consider how to reflect network costs for the period between 1 July 2021 and 31 August 2021. Depending on distribution zones, the VDO tariffs and types of VDO customers, the actual network costs recovered by retailers from customers during that two month period could be higher or lower than what they should be, based on the new network tariffs approved by the Australian Energy Regulator.³⁹ We acknowledge that under or over-recovery of network costs need to be reflected in the VDO, consistent with our VDO methodology. We intend to include any under or over recovered network costs in the VDO applying from 1 January 2022.

In making our final decision we have considered stakeholders' feedback on our draft decision paper. On balance, we consider that our final decision is in the long term interests of consumers for the following reasons:

- It is consistent with our VDO methodology of passing through network costs.

³⁶ The change from 1 August to 1 September 2021 effective date resulted from the delayed release of our draft decision. We decided to delay the release of draft decision paper to account for re-submissions by two network businesses to the Australian Energy Regulator's network pricing determinations (Citipower and Powercor have submitted revised annual pricing proposals to the Australian Energy Regulator on 11 June 2021. Source: accessed on 5 July, <https://www.aer.gov.au/networks-pipelines/determinations-access-arrangements/pricing-proposals-tariffs/powercor-annual-pricing-2021-22>; <https://www.aer.gov.au/networks-pipelines/determinations-access-arrangements/pricing-proposals-tariffs/citipower-annual-pricing-2021-22>).

³⁷ Origin, Submission to the commission's Victorian Default Offer amendment to price determination 2021: Draft decision, 2 July 2021, p.1.

³⁸ AGL, Submission to the commission's Victorian Default Offer amendment to price determination 2021: Draft decision, 2 July 2021, p.1; EnergyAustralia, Submission to the commission's Victorian Default Offer amendment to price determination 2021: Draft decision, 2 July 2021, p.1.

³⁹ The Australian Energy Regulator approved the network tariffs for Victorian distribution network businesses on 15 June 2021.

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- It will ensure any adjustment for under or over recovered network costs is more cost reflective, that is, based on actual consumption for July and August – which addresses retailer concerns regarding the difference between allowed and actual costs.
- It will not further disrupt any preparations already made by retailers for updating market and standing offers, thereby minimising administrative costs. Noting the draft determination we released on 16 June was already based on the Australian Energy Regulator’s approved network tariffs.

We will engage with stakeholders on proposals for how to reflect under or over-recovered network costs for the 1 July to 30 August 2021 period, when we release our draft decision for the Victorian Default Offer review 2022 in September this year.

Stakeholder feedback

In our draft decision paper, we sought stakeholder feedback on how we might account for under or over recovered network costs in the VDO – including options for the consumption profiles used to estimate the costs, and when we might reflect these costs in the VDO. We also noted our interest in how the proposed recovery periods balance the financial risks on retailers as well as managing customer impacts at this time. In terms of timing for the recovery of these costs, we presented two options:

1. Reflect the network costs incurred over July and August 2021 from 1 September this year and across the next regulatory period starting 1 January 2022.
2. Reflect the network costs incurred over July and August 2021 in the next regulatory period starting 1 January 2022.

We received a range of views from the eight stakeholders who made a submission on our draft decision paper.

When to account for under or over-recovery of costs

Origin preferred the first option noting recovery from 1 September will assist in smoothing price impacts.⁴⁰ Whereas, AGL and Red and Lumo Energy prefer option 2. AGL prefers the variation to be a transparent pass-through of the change in network prices and therefore support the over or under recovery of network costs be reflected in the next regulatory period.⁴¹ AGL stated that:

⁴⁰ Origin Energy, Submission to the commission’s Victorian Default Offer amendment to price determination 2021: Draft decision, 2 July 2021, pp.1-2.

⁴¹ AGL, Submission to the commission’s Victorian Default Offer amendment to price determination 2021: Draft decision, 2 July 2021, p.1.

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All elements of the VDO prices will be considered then and this deferral will provide the ESC the time and actual data on consumption in July and August to more effectively calculate the under-recovery, including incorporating the time value of money.⁴²

Red and Lumo Energy notes that ‘further uncertainty about the allowable network component of the VDO for remainder of 2021 will disrupt retailer operations’ given ‘prudent retailers will have already commenced with the decision made by the Australian Energy Regulator’s distribution network determinations and are well progressed with those processes’.⁴³ Red and Lumo also considers option 2 would give customers a better experience.⁴⁴

Alinta Energy, EnergyAustralia and WinConnect all support network prices from 1 September being adjusted for the entire amount of network cost recoveries for July and August, rather than deferring this (or a portion of it) until January 2022 for a number of reasons:⁴⁵

- it is not difficult to implement and ‘preserves the recovery of retailer costs in the period to which they apply’⁴⁶
- ‘the VDO and (any amendment to it) should only reflect costs associated with the relevant pricing period’; allowing for cost differentials incurred in 2021 to be pushed forward into a future 2022 VDO is not an acceptable proposal’.⁴⁷

The Australian Energy Council’s preference is to account for the network cost differentials during the 2021–22 financial year.⁴⁸

⁴² AGL, Submission to the commission’s Victorian Default Offer amendment to price determination 2021: Draft decision, 2 July 2021, p.1.

⁴³ Red and Lumo Energy, Submission to the commission’s Victorian Default Offer amendment to price determination 2021: Draft decision, 2 July 2021, pp.1-2.

⁴⁴ Red and Lumo Energy, Submission to the commission’s Victorian Default Offer amendment to price determination 2021: Draft decision, 2 July 2021, p.1.

⁴⁵ Alinta Energy, Submission to the commission’s Victorian Default Offer amendment to price determination 2021: Draft decision, 2 July 2021, p.1; EnergyAustralia, Submission to the commission’s Victorian Default Offer amendment to price determination 2021: Draft decision, 2 July 2021, p.2; Winconnect, Submission to the commission’s Victorian Default Offer amendment to price determination 2021: Draft decision, 2 July 2021, pp.1-2.

⁴⁶ Alinta Energy, Submission to the commission’s Victorian Default Offer amendment to price determination 2021: Draft decision, 2 July 2021, p.1.

⁴⁷ Winconnect, Submission to the commission’s Victorian Default Offer amendment to price determination 2021: Draft decision, 2 July 2021, p.1.

⁴⁸ Australian Energy Council, Submission to the commission’s Victorian Default Offer amendment to price determination 2021: Draft decision, 2 July 2021, p.1.

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How to account for under or over recovery of costs

We also received a range of views from stakeholders on how to account for the under or over recovery of network costs. The Australian Energy Council, Alinta Energy and WinConnect submit that any recovery should be seasonally adjusted (noting that energy consumption is likely to be higher in the winter months).⁴⁹

AGL notes its support for the use of actual data on consumption in July and August to effectively calculate the under-recovery, including incorporating the time value of money.⁵⁰ On the other hand, EnergyAustralia supports 'a simple apportionment of annual network costs, that is, by assuming costs are the same across all months'.⁵¹ EnergyAustralia notes that 'this approach will understate network bills for retailers due to winter consumption being higher, leaving retailers worse off' but is preferable in order to pass through the determination quickly.⁵²

Origin notes that its internal calculations of network cost differentials are 'marginally greater' than our estimate for domestic customers but considers it is pragmatic for the commission to adopt an estimate on the lower end of the expected range to ensure that customers do not pay more than their actual cost of supply.⁵³

The commission notes stakeholders have different views on when and how we should account for under or over recovery of network costs. We acknowledge the operational concerns shared by Red and Lumo and we do not want to impose any further disruptions.⁵⁴ Also, given the different views about how to account for the network cost differentials, we consider it would be more prudent to consider them as part of the next VDO review. It will give us more time to consider and further engage with stakeholders on the different approaches proposed by stakeholders.

⁴⁹ Australian Energy Council, Submission to the commission's Victorian Default Offer amendment to price determination 2021: Draft decision, 2 July 2021, p.1; Winconnect, Submission to the commission's Victorian Default Offer amendment to price determination 2021: Draft decision, 2 July 2021, p.2; EnergyAustralia, Submission to the commission's Victorian Default Offer amendment to price determination 2021: Draft decision, 2 July 2021, p.2.

⁵⁰ AGL, Submission to the commission's Victorian Default Offer amendment to price determination 2021: Draft decision, 2 July 2021, p.1.

⁵¹ EnergyAustralia, Submission to the commission's Victorian Default Offer amendment to price determination 2021: Draft decision, 2 July 2021, p.2.

⁵² EnergyAustralia, Submission to the commission's Victorian Default Offer amendment to price determination 2021: Draft decision, 2 July 2021, p.2.

⁵³ Origin Energy, Submission to the commission's Victorian Default Offer amendment to price determination 2021: Draft decision, 2 July 2021, p.2.

⁵⁴ Red and Lumo Energy, Submission to the commission's Victorian Default Offer amendment to price determination 2021: Draft decision, 2 July 2021, pp.1-2.

Our final decision

Matters we must have regard to in making a variation determination

The pricing order provides that before or during a regulatory period, the commission may, on its own initiative, vary a VDO price determination in respect of the regulatory period.⁵⁵ We may vary a VDO price determination:

- if an event has occurred or will occur that was uncertain or unforeseen by the commission at the time of making the VDO price determination; or
- to correct a clerical error, miscalculation, misdescription or other deficiency, or
- if any of the further circumstances for considering a variation outlined in clause 6.2 of the current VDO price determination occur.

The current VDO price determination nominates the Australian Energy Regulator's final decision on network tariffs as one of the circumstances under which we might vary VDO prices.⁵⁶ The Australian Energy Regulator approved the network tariffs for Victorian distribution network businesses on 15 June 2021. The variation to the current VDO price determination is to reflect and pass through changes in the network tariff structures and prices, to take effect from 1 September 2021.

The matters the commission is to have regard to in deciding to vary the current price determination are outlined below.

Matters to be considered in deciding whether to vary the current VDO price determination

The matters specified in the current VDO price determination we may have regard to when considering whether the changes in network tariffs proposed by the Australian Energy Regulator's final decision⁵⁷ are sufficiently material to warrant a proposed price determination variation, are outlined in the table below.⁵⁸

Table 4: Matters to which the commission may have regard in deciding whether to vary the current VDO price determination

⁵⁵ Clause 13(1) of the pricing order.

⁵⁶ Essential Services Commission, Victorian Default Offer Price Determination: 1 January 2021–31 December 2021, November 2020, pp. 10-11.

⁵⁷ Essential Services Commission, Victorian Default Offer Price Determination 2021: 1 January 2021–31 December 2021, November 2020, pp. 10-11, see circumstance 2 referred to in clause 6(2).

⁵⁸ Clause 6(2) of the pricing determination (Ibid). See circumstance 2 and the matters to the commission may have regard to when considering whether this circumstance is sufficiently material to warrant a proposed price determination variation.

Matters the commission may have regard	Comment
The extent of the impact (positive or negative) on the fixed flat tariffs specified in Schedules 1 and 2	See section on the flat VDO tariff above.
The impact on the calculation of a compliant maximum annual bill amount	See section on the non-flat VDO tariff and 'We intend to account for under or over recovered costs' above.
The general extent of the impact on prescribed customer annual bills	
The costs and benefits to retailers and prescribed customers of a proposed price determination variation	See sections on flat VDO tariff and non-flat VDO tariff above.
The objectives and requirements of the Order	See sections on flat VDO tariff, non-flat VDO tariff and matters to be considered under legislation below.
Any other matter that the commission considers relevant and appropriate.	We have also considered stakeholder submissions as shown above.

Matters to be considered under legislation in making this variation determination

In making a VDO price determination, which includes making a variation of such a determination, we must adopt an approach and methodology that is in accordance with section 33(2) of the Essential Services Commission Act 2001 and the pricing order.⁵⁹ This requires us to adopt an approach and methodology that is consistent with the objectives of the commission specified in the Essential Services Commission Act 2001⁶⁰, as well as under the Electricity Industry Act 2000⁶¹, best meets the objective of the VDO⁶², and has regard to various matters specified in the pricing order.⁶³

We have considered all our legislative obligations and had regard to all relevant matters required under relevant legislation in coming to our final decision to vary the current VDO price determination.

⁵⁹ Clause 12(1) of the pricing order.

⁶⁰ These are set out in section 8 read with section 8A of the ESC Act.

⁶¹ These are set out in section 10 of the EI Act.

⁶² Best meeting the objective of the VDO is a requirement under clause 12(2) of the pricing order.

⁶³ Section 8A(g) of the EI Act.

Our final decision

Appendix A – Victorian Default Offer Amendment to Price Determination 2021

See attached.

Appendix B – Distribution network businesses’ flat network tariffs for 2021–22

Table B.1 Domestic flat network tariffs – rates comparison

Distribution zone	Current network rate (1 January 2021 to 30 June 2021)	New network rate from 1 July 2021	Per cent change
AusNet Services – Residential small single rate, NEE11			
Daily charge (\$ per year)	\$106.00	\$111.11	4.82%
Block 1 (\$ per kWh)	\$0.1054	\$0.1145	8.69%
Block 2 (\$ per kWh)	\$0.1207	\$0.1284	6.33%
Controlled load (\$ per kWh)	\$0.0386	\$0.0426	10.39%
CitiPower – Residential single rate, C1R			
Daily charge (\$ per year)	\$90.00	\$90.01	0.01%
Variable charge (\$ per kWh)	\$0.0647	\$0.0805	24.42%
Controlled load (\$ per kWh)	\$0.0209	\$0.0247	18.18%
Jemena – Residential, A100/F100a/T100b general purpose			
Daily charge (\$ per year)	\$69.03	\$82.20	19.07%

Distribution zone	Current network rate (1 January 2021 to 30 June 2021)	New network rate from 1 July 2021	Per cent change
Variable charge (\$ per kWh)	\$0.0741	\$0.0867	16.94%
Controlled load (\$ per kWh)	\$0.0292	\$0.0360	23.42%
Powercor – Residential single rate, D1			
Daily charge (\$ per year)	\$140.00	\$139.98	-0.02%
Variable charge (\$ per kWh)	\$0.0674	\$0.0815	20.92%
Controlled load (\$ per kWh)	\$0.0214	\$0.0239	11.68%
United Energy – Low voltage small 1 rate, LVS1R			
Daily charge (\$ per year)	\$59.86	\$80.01	33.66%
Variable charge (\$ per kWh)	\$0.0767	\$0.0799	4.17%
Controlled load (\$ per kWh)	\$0.0173	\$0.0217	25.43%

Note: Charges have been rounded off to 4 decimal places for variable tariffs, and 2 decimal places for fixed tariffs. Percentage changes reflect non-rounded figures.

Table B.2 Small business flat network tariffs – rates comparison

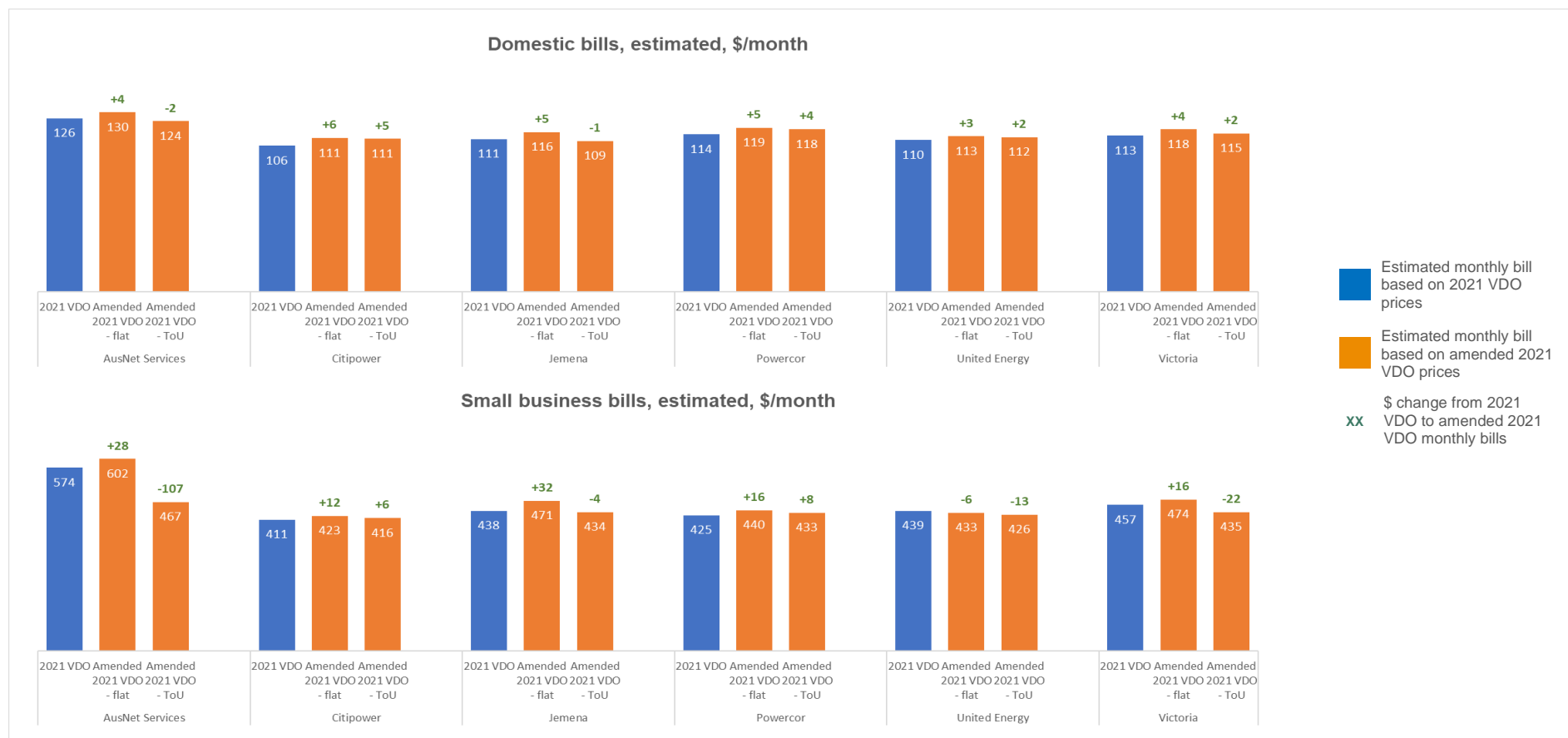
Distribution zone	Current network rate (1 January 2021 to 30 June 2021)	New network rate from 1 July 2021	Per cent change
AusNet Services – Business small single rate, NEE12			
Daily charge (\$ per year)	\$106.00	\$111.11	4.82%
Block 1 (\$ per kWh)	\$0.1396	\$0.1554	11.31%
Block 2 (\$ per kWh)	\$0.1693	\$0.1827	7.86%
CitiPower – Non-residential single rate, C1G			
Daily charge (\$ per year)	\$160.00	\$160.02	0.01%
Variable charge (\$ per kWh)	\$0.0754	\$0.0821	8.89%
Jemena – Small business, A200/F200a/T200b general purpose			
Daily charge (\$ per year)	\$118.74	\$134.47	13.24%
Variable charge (\$ per kWh)	\$0.0933	\$0.1097	17.66%
Powercor – Non-residential single rate, ND1			

Daily charge (\$ per year)	\$180.00	\$179.98	-0.01%
Variable charge (\$ per kWh)	\$0.0844	\$0.0929	10.07%
United Energy – Low voltage medium 1 rate, LVM1R			
Daily charge (\$ per year)	\$79.86	\$120.01	50.27%
Variable charge (\$ per kWh)	\$0.0927	\$0.0879	-5.18%

Note: Charges have been rounded off to 4 decimal places for variable tariffs, and 2 decimal places for fixed tariffs. Percentage changes reflect non-rounded figures.

Appendix C – Estimated customer impacts of the changes in network tariffs from 1 July

Figure C.1: Estimated bills for domestic and small business customers on flat and time of use tariffs, 2021 VDO vs Amended 2021 VDO, \$/month



Appendix C – Estimated customer impacts of the changes in network tariffs from 1 July

Note:

1. The estimated bills and customers impacts are calculated using an annual usage of 4,000kWh for residential and 20,000kWh for small business. The monthly usage is assumed to be spread uniformly across the year.
2. The allocation of load for peak and off peak windows for time of use tariffs used are given in tables 2 and 3 in this paper.
3. Totals may not tally due to rounding.

Appendix D – Order in council

Victorian Government Gazette

No. S 208 Thursday 30 May 2019

By Authority of Victorian Government Printer

The Lieutenant-Governor, as the Governor's deputy, with the advice of the Executive Council on the recommendation of the Minister pursuant to section 13(1B) of the **Electricity Industry Act 2000** (the Minister having first consulted with the Premier and Treasurer pursuant to section 13(1C) of that Act), acting under section 13 of the **Electricity Industry Act 2000** makes the following Order:

1. Purpose

The main purpose of this Order is to regulate the standing offer tariffs that retailers may charge prescribed customers, through the introduction of the Victorian default offer.

2. Commencement

This Order comes into operation on the date on which it is published in the Government Gazette and remains in force until it is revoked.

3. Objective of the Victorian default offer

The objective of the Victorian default offer is to provide a simple, trusted and reasonably priced electricity option that safeguards consumers unable or unwilling to engage in the electricity retail market.

4. Definitions

1. In this Order:

Act means the **Electricity Industry Act 2000**;

annual reference consumption has the meaning given in clause 15(5);

controlled load tariff means a tariff for the supply or sale of electricity only for use in specific appliances that are permanently wired to the relevant electricity meter;

Example: A storage water heater is such an appliance.

controlled load usage means use by a specific appliance that is permanently wired to the relevant electricity meter;

customer type means a customer who is either a domestic customer or a small business customer, as the case may be;

distribution system means a system of electric lines and associated equipment (generally at nominal voltage levels of 66 kV or below) which a distribution company is licensed to use to distribute electricity for supply under its licence;

distribution zone means the area in which a distribution company is licensed to distribute and supply electricity under the Act;

domestic customer means a customer who purchases electricity principally for personal, household or domestic use at a supply point;

Energy Retail Code means the document of that name (version 12 dated 1 January 2019) published by the Commission as amended and in force from time to time;

ESC Act means the **Essential Services Commission Act 2001**;

flat tariff means a tariff for the supply or sale of electricity where the tariff components do not vary by reference to:

- (a) the time of day;
- (b) the amount of electricity distributed or supplied during the day;
- (c) temperature, whether actual or forecast; or
- (d) other characteristics that vary during the day.

Notes:

1. A tariff with a daily supply charge as one tariff component and a usage charge calculated by \$ per kWh as another tariff component, is a flat tariff;
2. Paragraph (b) does not exclude block tariffs from being flat tariffs;
3. The definition does not exclude tariffs that vary seasonally, from being flat tariffs;

flexible tariff means a tariff for the supply or sale of electricity where the tariff components vary (wholly or partly) according to the time of day when the electricity is supplied;

former franchise customer means a person described in section 37 of the Act who is either a domestic customer or a small business customer;

general usage means any electricity usage that is not controlled load usage;

headroom means an allowance that does not reflect an efficient cost borne by firms operating in the market;

Example: An allowance that is added, so that retail prices do not act as a barrier to new entrants, is headroom.

kWh means kilowatt hour;

Minister means the Minister administering the Act;

MWh means megawatt hour;

objective of the Victorian default offer means the objective specified in clause 3;

Order means this Order;

prescribed customer: see clause 5;

quarter means a period of 3 consecutive months;

regulatory period means a period over which a VDO price determination is to apply;

Note: the first regulatory period commences on 1 January 2020.

relevant customer has the same meaning as in section 39 of the Act;

small business customer means a customer who is not a domestic customer and whose aggregate consumption of electricity taken from a supply point is not, or in the case of a new supply point is not likely to be, more than 40 MWh per annum;

standing offer tariffs means the tariffs determined by a licensee under section 35(1) of the Act and published in the Government Gazette in accordance with that section, as varied from time to time by the licensee as provided for under section 35(3) of the Act;

supply charge means a fixed charge for supplying electricity to a customer (whether charged on a daily basis or over any other period);

Note: A supply charge is also sometimes called a service charge.

supply point means, in relation to a supply of electricity to a person, the point at which that supply of electricity last leaves the distribution system owned or operated by a distribution company before being supplied to the person, whether or not the electricity passes through facilities owned or operated by any other person after leaving that point before being so supplied;

tariff component, in respect of a tariff for the supply or sale of electricity, includes the supply charge, the usage charge and any other charge that is part of the tariff for the supply or sale of electricity;

usage charge means a charge for the amount of electricity supplied or sold to a customer;

Note: A usage charge is sometimes called a consumption charge.

VDO compliant maximum annual bill has the meaning given it in clause 10(2);

VDO price determination means a price determination pursuant to clause 10;

Victorian default offer or **VDO** means an offer a retailer must make pursuant to this Order.

2. Despite subclause (1), in:

- (a) clause 6;
- (b) clause 7;
- (c) clause 10(2)(a)(i),
- (d) schedule 1; and
- (e) schedule 2,

the following definitions instead apply:

(f) **domestic customer** means a domestic customer within the meaning of the definition of 'domestic or small business customer' in the Act; and

(g) **small business customer** means a small business customer within the meaning of that definition.

Notes:

1. The following terms are defined in section 3 of the Act: Commission; domestic or small business customer; distribution company; electricity bill; regulated tariff standing offer; retailer; standing offer.
2. As at the date of the commencement of this Order, the Order in Council made under section 35 of the Act and published in the Government Gazette No. S 315 on 25 November 2008 applies for the purposes of the definition of 'domestic or small business customer' in the Act.
3. 'price determination' is defined in section 13(6) of the Act.

5. Declaration of Prescribed customers

The following customers are declared, pursuant to section 13(5) of the Act, to be prescribed customers:

- (a) a domestic or small business customer;
- (b) a former franchise customer who is a party to a deemed contract under section 37 of the Act; and
- (c) a relevant customer who is a party to a deemed contract under section 39 of the Act.

6. Victorian default offer tariffs

1. A retailer's standing offer tariffs for sale of electricity to prescribed customers must comply with this clause.
2. During the period from 1 July 2019 to 31 December 2019, the standing offer tariffs a retailer may charge to a domestic customer, in respect of the distribution zone specified in column 1 of the table in Schedule 1, are fixed at the amounts specified in columns 2, 4 and 5 of the table for the tariff components specified in those columns.
3. During the period from 1 July 2019 to 31 December 2019, the standing offer tariffs a retailer may charge to a small business customer, in respect of the distribution zone specified in column 1 of the table in Schedule 2, are fixed at the amounts specified in columns 2 and 4 of the table for the tariff components specified in those columns.

4. Subclauses (2) and (3) do not apply to standing offer tariffs other than:

- (a) a flat tariff; or
 - (b) a flat tariff with a controlled load tariff.
5. During any regulatory period commencing on or after 1 January 2020, a retailer's standing offer tariffs for sale of electricity to prescribed customers must comply with any VDO price determination made by the Commission that is in force.

Note: The VDO price determination will be in respect of both standing offer tariffs that are flat tariffs and standing offer tariffs that are not flat tariffs. See also clause 10.

7. Retailer must make Victorian default offer

1. A retailer's regulated tariff standing offer for sale of electricity to prescribed customers must include (specified as the 'Victorian default offer in respect of flat tariffs'):
 - (a) one flat tariff that is available to each domestic customer;
 - (b) one flat tariff with a controlled load tariff that is available to each domestic customer with a controlled load; and

- (c) one flat tariff that is available to each small business customer, which tariffs must be:
 - (d) for the period from 1 July 2019 to 31 December 2019, those fixed in accordance with clause 6(2) and clause 6(3);
 - (e) for any regulatory period commencing on or after 1 January 2020, standing offer tariffs complying with the VDO price determination in respect of that regulatory period.
2. In addition, for any regulatory period commencing on or after 1 January 2020 and in the case of standing offer tariffs that:
- (a) are not flat tariffs; or
 - (b) are any combination of a flat tariff, and a tariff that is not a flat tariff,
- a retailer's regulated tariff standing offer must include standing offer tariffs and terms and conditions (both specified as the '*Victorian default offer in respect of the VDO compliant maximum annual bill*') that ensure the retailer's compliance with the VDO price determination in respect of that regulatory period.

8. Information about the VDO on electricity bills

1. This clause applies until such time as the amendments to the Energy Retail Code required by clause 16(2)(b) come into force.
2. A retailer's electricity bill issued to a prescribed customer on or after 1 October 2019 must include information about how the customer may access the Victorian default offer from the retailer.
3. The information required by subclause (2) must be in plain and clear English and prominent on the electricity bill.

9. Conferral of functions and powers on the Commission

1. For the purposes of Part 3 of the ESC Act and section 12(1)(b) of the Act, the supply or sale of electricity under the Act is specified as prescribed goods and services in respect of which the Commission has the power to regulate prices.
2. The Commission may not make a price determination regulating tariffs for the supply or sale of electricity under the Act except as contemplated under this Order.

Note: See section 32 in Part 3 of the ESC Act. This Order is an empowering instrument for the purposes of Part 3 of the ESC Act: see paragraph (d) of the definition of 'empowering instrument' in section 3 of the ESC Act.

10. Commission to make VDO price determination

1. At least 37 days before the commencement of a regulatory period, the Commission must make a price determination in respect of the regulatory period that determines, for each distribution zone in Victoria:
 - (a) the tariffs, or the maximum tariffs, a retailer may charge prescribed customers under a standing offer during the regulatory period; or
 - (b) the manner in which the tariffs, or the maximum tariffs, a retailer may charge prescribed customers under a standing offer during the regulatory period are to be determined or calculated.
2. Without limiting subclause (1), the price determination that the Commission makes in respect of the first regulatory period:
 - (a) must determine:
 - i. the standing offer tariffs that are to apply in respect of flat tariffs, including, in the case of domestic customers, both flat tariffs and flat tariffs with a controlled load tariff; and
 - ii. in the case of a prescribed customer who is on:
 - A. a tariff that is not a flat tariff; or
 - B. any combination of a flat tariff, and a tariff that is not a flat tariff,
 the maximum annual electricity bill amount that the prescribed customer is to pay under a standing offer in the regulatory period (*VDO compliant maximum annual bill*); and
 - (b) may provide, in the case of the customers specified in subclause (2)(a)(ii), for how any overpayment by those customers in that regulatory period, or any year (or part year) thereof, is to be dealt with; and
 - (c) may also include any other decisions or determinations that are required by this Order.

3. Despite subclause (2), the Commission may after its first price determination, determine another manner pursuant to which the standing offer tariffs referred to in that subclause are to be determined or calculated.

11. Regulatory periods for VDO price determinations

1. The first regulatory period commences on 1 January 2020.
2. Subject to subclause (3), the duration of each regulatory period is 12 months.
3. Before the commencement of a regulatory period, if the Commission considers that special circumstances exist, the Commission may, after consulting the Minister:
 - (a) extend the duration of the regulatory period by up to 6 months; or
 - (b) reduce the duration of the regulatory period, provided the duration of the regulatory period as so reduced is not less than 6 months.

12. Approach and methodology for making a VDO price determination

1. In making a VDO price determination, the Commission must adopt an approach and methodology that is in accordance with section 33(2) of the ESC Act and this Order.

Note: section 33(2) of the ESC Act requires the Commission to adopt an approach and methodology that best meets the objectives of the ESC Act and of the **Electricity Industry Act 2000**.

2. In addition, the Commission must adopt an approach and methodology which the Commission considers will best meet the objective of the Victorian default offer.
3. The tariffs determined by the Commission pursuant to the VDO price determination are to be based on the efficient costs of the sale of electricity by a retailer.
 4. For the purposes of subclause (3), the Commission must have regard to:
 - (a) wholesale electricity costs;
 - (b) network costs;
 - (c) environmental costs;
 - retail operating costs, including modest costs of customer acquisition and retention;
 - (d) retail operating margin; and
 - (e) subject to subclause (10), any other costs, matters or things the Commission, in the exercise of its discretion, considers appropriate or relevant.

Note: Section 33(3)(e) of the ESC Act similarly requires the Commission to have regard to any other factors that it considers relevant.

5. The VDO compliant maximum annual bill must be based on:
 - (a) the standing offer tariffs that the Commission determines are to apply in respect of flat tariffs; and
 - (b) the prescribed customer's electricity usage.
6. For the purposes of subclause (4)(d), the Commission must, in the exercise of its discretion, determine the amount of modest costs of customer acquisition and retention.
7. For the purposes of subclause (4)(e), the Commission must, in the exercise of its discretion, determine a maximum retail operating margin, and in doing so must have regard to (without limitation) the principle that the margin must not compensate retailers for risks that are compensated elsewhere in the costs.
8. Subclauses (3), (4), (5) and (6) do not require the Commission to determine tariffs based on the actual costs of a retailer.
9. Subclause (7) does not require the Commission to determine tariffs based on the actual retail operating margin of a retailer.
10. In making a VDO price determination the Commission must not include headroom.
11. Section 33(4)(a) of the ESC Act does not apply to the making of a VDO price determination.
12. Otherwise, section 33 of the ESC Act applies to the making of a VDO price determination only to the extent that the section is not contrary to this Order.

Notes:

1. This Order, as an 'empowering instrument' in terms of the ESC Act, can modify the application of section 33 of the ESC Act: see section 33(1) of the ESC Act.
2. Pursuant to section 33(3)(d) of the ESC Act, the Commission must have regard to relevant interstate and international benchmarks for prices, costs and return on assets in comparable industries.

13. Variation of VDO price determinations

1. Before or during a regulatory period, the Commission may, on its own initiative, vary a VDO price

determination in respect of the regulatory period.

2. The Commission must specify, in a VDO price determination, the circumstances under which the Commission will consider, and the basis on which the Commission will decide on, a proposed variation and (subject to subclauses (4) and (5)) the processes to be followed to enable the Commission to make such a variation.

3. Without limiting subclause (1), the Commission may vary a VDO price determination:

- (a) if an event has occurred or will occur that was uncertain or unforeseen by the Commission at the time of making the VDO price determination; or
- (b) to correct a clerical error, miscalculation, misdescription or other deficiency.

4. Before making a variation, the Commission must consult in accordance with clause 14.

5. Subclause (4) does not apply if:

- (a) the variation is not sufficiently material to warrant consultation in accordance with clause 14; or
- (a) the need for the variation is sufficiently urgent to warrant consultation in accordance with clause 14 not being undertaken.

6. If, as a result of a variation of a VDO price determination, a retailer is or will be required to vary the retailer's standing offer tariffs, the Commission must ensure the retailer is given adequate notice before the variation to the VDO price determination takes effect.

14. Consultation

1. The Commission may decide the nature and extent of stakeholder consultation it will undertake when making a VDO price determination or a decision to vary a VDO price determination.
2. For the purposes of subclause (1), the Commission must have regard to its Charter of Consultation and Regulatory Practice (as amended from time to time) developed and published under section 14 of the ESC Act.

15. Victorian default offer tariffs to be the reference tariffs for discounts

1. This clause applies until such time as the amendments to the Energy Retail Code required by clause 16(2)(a) come into force.

Provided that, if those amendments do not provide for any matter provided for in this clause, then this clause continues to apply in respect of that matter.

2. A retailer that offers a discount to a domestic customer or a small business customer must:

- (a) if the discount is in respect of the period from 1 July 2019 to 31 December 2019, disclose how the discount is calculated as against the tariffs in Schedule 1 or Schedule 2 (as the case may be), and what (in percentage or dollar terms) the reduction in tariff is in terms of those tariffs; and
- (b) if the discount is in respect of a regulatory period, disclose how the discount is calculated as against the flat tariffs determined by the Commission pursuant to the VDO price determination that applies in respect of that period, and what (in percentage or dollar terms) the reduction in tariffs is in terms of those tariffs.

3. For the purposes of subclause (2), the reduction in tariffs is to be expressed as the difference between the estimated annual cost of the Victorian default offer for the customer type and distribution zone, and the estimated annual cost of the offer to which the discount relates after the discount is applied, using the annual reference consumption.

4. For the purposes of subclause (3):

- (a) the estimated annual cost of the Victorian default offer is:
 - i. during the period from 1 July 2019 to 31 December 2019, determined by applying Schedule 3;
 - ii. during a regulatory period, determined by applying Schedule 3 or any other approach or methodology determined by the Commission; and
- (b) the retailer must determine the estimated annual cost of the retailer's offer to which the discount relates:
 - i. if the tariff is a flat tariff or a flexible tariff (in either case, with or without a controlled load), by applying Schedule 3;
 - ii. otherwise, based on a reasonable estimate having regard to any relevant information available to the retailer; and

5. The annual reference consumption is:

- (a) during the period from 1 July 2019 to 31 December 2019:
 - i. for domestic customers without a controlled load – 4,000 kWh general usage per annum;
 - ii. for domestic customers with a controlled load – 4,000 kWh general usage plus 2,000 kWh controlled load usage per annum;
 - iii. for small business customers (with or without a controlled load) – 20,000 kWh general usage per annum.
 - (b) during a regulatory period:
 - i. the consumption amount determined by the Commission (if any); or
 - ii. if no amount is determined by the Commission pursuant to subclause (5)(b)(i), the amount specified in subclause (5)(a).
6. For the purposes of subclause (5), the amount of electricity consumed is assumed to be the same on each day of the year.
 7. Any percentage or dollar amount disclosed pursuant to this clause must be expressed as a whole percentage or dollar, rounded to the nearest percentage or dollar.
 8. Otherwise, Division 2 of Part 2A (*Customers entitled to clear advice*) of the Energy Retail Code applies to the disclosures required by this clause.

16. Direction to the Commission pursuant to section 13(3)(b) of the Act

1. The Commission must, as soon as practicable after the commencement of this Order, amend the Energy Retail Code and any other instrument of the Commission to give effect to the Victorian default offer and this Order.
2. Without limiting subclause (1), the Commission must amend the Energy Retail Code (and any other instrument of the Commission) so that the Code:
 - (a) provides for tariffs determined by the Commission pursuant to the VDO price determination being the reference tariffs for discounts and for the methodology of that comparison; and
 - (b) requires a retailer's electricity bill to include information about how the customer may access the Victorian default offer from the retailer.
3. For the purposes of subclause (2)(a), the Commission must have regard to the following principles:
 - (a) There must be a consistent methodology for comparison of tariffs that applies to:
 - i. all offers of discounts by retailers; and
 - ii. the advertising in respect of those discounts.
 - (b) The methodology must apply in respect of flat tariffs and tariffs that are not flat tariffs;
 - (c) The methodology must (without limitation) readily allow, in respect of a regulatory period, a comparison between:
 - i. the discounted tariffs offered by a retailer; and
 - ii. the tariffs determined by the Commission pursuant to the VDO price determination in respect of that period; and
4. Any actual comparison in accordance with the methodology must be readily understandable by a prescribed customer. Subclause (3) does not limit:
 - (a) the matters the Commission may have regard to; or
 - (b) the matters the Commission may provide for by way of the amendments required by subclause (2).

17. Review of the operation of this Order

The Minister must cause a review of the operation and effectiveness of this Order to be undertaken before the third anniversary of the Order coming into operation.

SCHEDULE 1

Victorian default offer tariffs for period from 1 July 2019 to 31 December 2019 – domestic customers

Charges are inclusive of GST.

Distribution zone	Supply charge (\$ per day)	Usage charge structure	Usage charge (not controlled load) (\$ per kWh)	Usage charge: controlled load (\$ per kWh)
AusNet Services	\$1.1368	Block 1 (up to 1020 kWh during a quarter) Block 2 (> 1020 kWh during a quarter)	\$0.2763 \$0.3113	\$0.2024
CitiPower	\$1.1055	Anytime	\$0.2325	\$0.1809
Jemena	\$1.0037	Anytime	\$0.2547	\$0.1618
Powercor	\$1.2333	Anytime	\$0.2403	\$0.1561
United Energy	\$0.9115	Anytime	\$0.2620	\$0.1873

SCHEDULE 2

Victorian default offer tariffs for period from 1 July 2019 to 31 December 2019 – small business customers

Charges are inclusive of GST.

Distribution zone	Supply charge (\$ per day)	Usage charge structure	Usage charge (\$ per kWh)
AusNet Services	\$1.1368	Block 1 (up to 1020 kWh during a quarter) Block 2 (> 1020 kWh during a quarter)	\$0.3154 \$0.3605
CitiPower	\$1.2972	Anytime	\$0.2464
Jemena	\$1.1450	Anytime	\$0.2682
Powercor	\$1.3611	Anytime	\$0.2394
United Energy	\$0.9691	Anytime	\$0.2717

SCHEDULE 3

1. Estimated annual cost for flat tariff offers

The estimated annual cost for an offer for the supply or sale of electricity under a flat tariff is to be calculated as follows:

$$EAC = SC \times 365 + UC \times ARC$$

where:

EAC is the estimated annual cost of the offer;

SC is the supply charge;

UC is the general usage charge; and

ARC is the annual reference consumption for general usage.

2. Estimated annual cost for flexible tariff offers

The estimated annual cost for an offer for the supply or sale of electricity under a flexible tariff is to be calculated as follows:

$$EAC = SC \times 365 + ARC \times UC_p \times UA_p + ARC \times UC_s \times UA_s + ARC \times UC_{op} \times UA_{op}$$

where:

EAC is the estimated annual cost of the offer;

SC is the supply charge; and

ARC is the annual reference consumption for general usage;

and where, in respect of the relevant tariff type specified in column 1 of Table 1:

UC_p is the retailer's peak usage charge;

UA_p is the peak usage allocation specified in column 2 of Table 1; UC_s is the retailer's shoulder usage charge;

UA_s is the shoulder usage allocation specified in column 3 of Table 1; UC_{op} is the retailer's off-peak usage charge; and

UA_{op} is the off-peak usage allocation specified in column 4 of Table 1.

3. Estimated annual cost for offers that include a controlled load tariff

The estimated annual cost for an offer for the supply or sale of electricity that includes a controlled load tariff is to be calculated as follows:

$$EAC = EAC_{GU} + UC_{CL} \times ARC_{CL}$$

where:

EAC is the estimated annual cost of the offer;

EAC_{GU} is the estimated annual cost of the offer for general usage only, calculated in accordance with clause 1 or 2 of this Schedule 3 (as the case may be);

UC_{CL} is the usage charge for controlled load usage; and

ARC_{CL} is the annual reference consumption for controlled load usage.

Table 1 – Usage allocation for flexible tariffs

Tariff type	Peak	Shoulder	Off-peak
Flexible price (3 part time of use)	0.25	0.45	0.30
5-day time of use	0.52	0.00	0.48
7-day time of use (small business customers only)	0.74	0.00	0.26
5-day time of day 9 pm off peak (United Energy distribution zone only)	0.25	0.20	0.55
5-day time of day (United Energy distribution zone only)	0.32	0.20	0.48

Dated 28 May 2019 Responsible Minister
HON. LILY D'AMBROSIO MP
Minister for Energy, Environment and Climate Change

PIETA TAVROU
Clerk of the Executive Council

Electricity Industry Act 2000

MINISTERIAL ORDER UNDER SECTION 35(3B)

I, Lily D'Ambrosio, Minister for Energy, Environment and Climate Change and Minister responsible for administering the **Electricity Industry Act 2000** (the Act), specify, pursuant to sections 35(3B)(a) and 35(3B)(b) of the Act, the following periods within which a licensee may publish a notice under section 35(3) of the Act, and the following dates on which tariffs varied in accordance with section 35(3) of the Act must take effect.

1. Commencement

This Order commences on the date that it is published in the Government Gazette.

2. Periods within which a notice varying licensee standing offers must be published

If, during the period from the date of commencement of this Order until the expiry date of this Order, a licensee proposes to publish a notice under section 35(3) of the Act, varying the tariffs determined by the licensee and published in the Government Gazette under section 35(1) of the Act, the notice may be published during the following periods:

- (a) the period commencing on the date this Order commences and ending on 17 June 2019; and
- (b) the period commencing on 25 November 2019 and ending on 18 December 2019.

3. Dates on which a variation to a licensee standing offer under clause 2 must take effect

Pursuant to section 35(3B)(b) of the Act, any variation to licensee standing offer tariffs under clause 2 of this Order must take effect on the following dates:

- (a) if the variation is under clause 2(a) – on 1 July 2019; and
- (b) if the variation is under clause 2(b) – on 1 January 2020.

4. Expiry of this Order

This Order expires on 31 March 2020.

Dated 22 May 2019

HON. LILY D'AMBROSIO MP

Minister for Energy, Environment and Climate Change