Next steps for the Victorian Default Offer Public Forum

Public forum on our consultation paper – Thursday 20 May 2021 — Question and Answer session

Question asked to Ben Barnes, Australian Energy Council

Did the analysis in the Synergies report referenced in Ben Barnes' slides include gentailers or was the focus only on retailers, given that historically the market was set up in that way?

Answer:

AEC/Synergies did not go so far as to compare the impact on customers with or without upstream generation or retailers with or without upstream generation. The report considered a theoretical/representative retailer.

Question asked to Patrick Sloyan, Consumer Action Law Centre

Patrick asked why the ESC is not updating wholesale costs as part of the variation.

Answer:

Thanks Patrick, for those perspectives. In the 2021 Victorian Default Offer (VDO) decision, we reflected around 20 per cent reduction in the wholesale costs. We did reflect around a lot of the reductions that have happened in the last couple of years. Network costs are different to wholesale prices and other things that move with the markets. Network costs are based on tariffs approved by the AER and these are certain for a period of time. Generally, regulators will pass those costs through, pretty quickly, to regulated prices. We are aware that other costs are moving about too – environmental costs have gone up. The proposed variation recognises the different nature of network costs in the regulatory process. Practically, if we did decide to open up the current VDO price determination to update wholesale costs, the review would take up most of the year anyway. These are some of the main issues, but we will take up your comments.

Question asked to Patrick Sloyan, Consumer Action Law Centre

What are your views on Ben's suggestion re allowing retailers different timing for introducing the changes to network costs - any particular customer perspectives you can provide?

Answer:

Have not gone into time of use as of yet as they have not had a chance to consult on it. No issues at this stage as an initial view but will include perspectives in CALC response.

Question received from Simon Kranz, Energy Australia

How is the ESC planning to consider Ausnet's new NAST13/14/15 tariffs when it comes to prescribing rates for time of use (TOU) and flat plus controlled load (CL) tariffs? Will it simply use the controlled load charge for both flat and TOU tariffs and will it use 4000 kWh for the TOU portion and 2000 kWh for the controlled load portion?

Answer:

[Question was taken on notice during the public forum. The ESC will publish its reply on our Engage Victoria page. Below is our response.]

The network pass-through for the ESC's VDO CL is the same for both flat and TOU customers and can be combined with either the flat or TOU VDO rates. This is based on Ausnet's 2022-26 revised tariff proposal – the NAST13/14/15 TOU+CL tariff codes include the same CL charge as the single rate + CL network tariff (which the ESC uses for the existing CL VDO rate).

If a retailer offers another combination of non-flat and controlled load tariff, the annual reference consumption amount for a TOU customer is 4000 kWh per year. Usage allocated for peak and off-peak (or other) consumption would be required for calculation of an annual estimated amount. Separately, the pricing order refers to a 2000 kWh per year amount for the purposes of calculating bill discounts for tariffs with controlled load rates. However, this is not included for the purposes of prescribing rates or calculating maximum bill amounts.

Question received from Matt Giampiccolo, Simply Energy

What would be the practical impacts from choosing a 6 month or 18 month period for the next VDO (in terms of forecasting market-based costs)?

Answer:

Balancing 6 months vs 18 months VDO period raises a number of issues for the ESC to consider. Pros and cons to each approach – part of what is appealing about 6 months is that the ESC can move to the new regulatory period quicker and there's less risk in terms of certainty about the price and less risk around prices diverging. When we move to 18 months, it does give more price certainty, but the risk is that our forecast costs could diverge from those estimates, particularly around wholesale costs. We could do a variation around the costs, but the difficulty we face is – what approach do we take about that and it could end up being a bit messy.

We are interested in comments and feedback on the practicality of 6 months or 18 months for customers and businesses.

Question received from Agus Wiranata, Energy Australia

For the VDO re-opener on 1st August - will there be a recovery mechanism for the one month increase in network for July?

Answer:

We considered this quite carefully and talked through with a range of stakeholders, whether or not we would have a reopener (for the one-month period) in terms of those network costs. What we heard was that it, in itself would be messy in regard to how it is reflected in comparison to the reference price, in other and different obligations on retailers.

In terms of the reopener (for the one-month period) itself, we are not convinced that the amount would be material (in relation to VDO offers). The ESC is open to consultation and feedback from stakeholders on the issue.

Question received from Agus Wiranata, Energy Australia

If the 2022 VDO is for 6 months, will the ESC use the wholesale costs for 6 months which includes the high Quarter 1 prices? Similarly, if it is for 18 months, will the ESC use the two Quarter 1 peaks?

Answer:

The way we forecast (or the way Frontier forecasts for us) is a 12 month ahead forecast and we would apply that forecast for the 6 month period. This is the ESC's intention (should we have a regulatory period of 6 months) though the ESC is open to consultation and feedback from stakeholders.

Question received from Carmen Forbes, Shell Australia

How does the ESC see the variation interacting with Clause 46AA.7 of the Code? That is "In the event that a VDO price determination is varied on account of an event that was uncertain or unforeseen by the Commission, subclauses (3) and (5) do not prevent a retailer from increasing any tariffs charged under a market retail contract with effect from the date one month after the date on which the variation to the VDO price determination takes effect"

Answer:

[Question was put on notice during the forum. The ESC will publish its response on our Engage Victoria page. Below is our response.]

Clause 46AA (7) of the Energy Retail Code does not apply to the proposed changes in regulated network tariffs that will shortly be approved by the AER and come into effect from 1 July 2021.

The 2021 VDO price determination will be varied by the commission (most likely with effect from 1 August 2021) to take these changes into account in the Victorian Default Offer (standing offer) framework. This circumstance was identified in clause 6.2 (see circumstance 2) of the 2021 VDO price determination as a foreseeable circumstance in which the commission would consider a price determination variation.

The timing of and mechanism to be used by retailers to increase any of the tariffs payable by a small customer under a market retail contract is provided for in clauses 46AA(3), (4) and (5) of the Energy Retail Code.

Question asked to retailer & consumer representatives attending the forum

Would anyone like to comment on their current views on things the ESC should be considering in the ESC's approach for bad debts in the current VDO?

Answer:

No answer from those attending the forum.

Question asked to retailer AGL

Could AGL explain some of the reasons why they adjusted their forecasts for bad and doubtful debts along with some of the information behind the statements AGL made in their half-yearly report?

Answer:

No answer from those attending the forum. AGL subsequently provided an extract from page 23 of AGL's financial year Half Year Presentation. AGL noted although the provision for credit loss for financial year 2021 has been reduced by $5 million, covid impact is forecast at $35 million so that total provision for credit loss for financial year 2021 is materially higher than previous years.

Question asked to embedded network retailers

Given that the variation will have an effect on embedded networks in terms of the VDO being the maximum price for the embedded network customers, are there any challenges, practicalities, or other issues that the ESC should consider from an embedded network perspective?

Answer:

No answer from those attending the forum.

Question received from Stefanie Monaco, Red Energy Australia

On the VDO for 2022, will the ESC consider reflecting the new budget announcements (e.g. payroll tax and land tax increases) in the retail operating costs?

Answer:

The ESC is open to assess any changes in efficient cost for a business. This is something stakeholders can comment on in their submissions to the ESC.

Comment received from James Shead, Meridian Energy Limited

People need to move away from saying average wholesale costs have fallen. Yes, the time average cost has fallen, but customers are increasingly consuming in the higher priced periods (i.e. outside of the solar window), customers on a net basis are consuming less and less, and any insurance products bought (caps etc) are having to be recovered across a smaller net volume due to the higher penetration of solar. In fact, retailers are now increasingly becoming the customer with the higher uptake of rooftop solar.

Comment received from Dead Wickenton, ESC

Given the timelines, even if the submissions are short and brief points, that is okay. The ESC would understand that due to the short timeframes. Anything the stakeholders can provide would be good.

Comment received from Simon Kranz, Energy Australia

We have approached the VDO project team separately on the topic of small business profiles.