Maximum prices for embedded networks and exempt sellers

Draft Decision
Online public forum
Thursday 28 May 2020

Presenters
Kate Symons – Commission Chair
Dean Wickenton – Senior Regulatory Manager
Rebecca Love – Project Lead
Jordan Tasker – Project Manager
Welcome

- Please mute your mic and switch off video.

- Please note this public forum is being recorded, this means:
  - Any statement, comment or question will be included in the recording.
  - Any question you ask using the chat function may be read out along with your name (also recorded).

- You can use the chat function to type a question to a commission staff member (ESC staff) during the presentation – we will collate during the break and respond during the Q and A session.

- Raise your hand during the Q and A – we will respond.
Welcome

- Make a submission or general comment on our draft decision via Engage Victoria – www.engage.vic.gov.au.

- Email us at retailenergyreview@esc.vic.gov.au.

- Submissions to our draft decision close 15 June 2020.

- We will release our final decision in July.

- At this stage it is proposed that maximum prices will be implemented 1 September 2020.
Today's forum – agenda

- 1:00 pm – Introduction from the chair of the Essential Services Commission: Kate Symons
- 1:05 pm – Discussion of policy context: Dean Wickenton
- 1:10 pm – Presentation on our draft decision: Rebecca Love
- 1:30 pm – 10-minute break – to field questions
- 1:40 pm – Question and Answer session
- 2:05 pm – Close
Our role

We are Victoria’s independent economic regulator – we promote the long-term interests of Victorian consumers with respect to the price, quality and reliability of essential services.

We regulate:

– electricity and gas
– water, sewerage, and
– transport.
Our work in energy

We are strengthening protections for energy customers, including customers in embedded networks.

This includes our work on:

• Our monitoring role (with the Australian Energy Regulator) to collect data on retailer response to coronavirus
• Victorian Default Offer
• Energy Retail Code review
• Protections for life support customers
• Electricity Distribution Code Review.
Background

The General Exemption Order 2017:

• Empowers the commission to formulate a maximum price for exempt sellers.
• Put the transitional pricing rule in place.

Amendments to the General Exemption Order in 2019:

• Froze maximum prices to that of standing offers – in effect as of May 2019
• Confirmed that in formulating maximum prices we must have regard to commercial market data and may have regard to any other matter we consider relevant.
What is an embedded network?

Generally, an exempt seller buys electricity at a ‘gate’ meter and on-sells it to individual customers within the embedded network.
What is meant by a maximum price?

- Sets a ‘limit’ or ‘cap’ on the price exempt sellers can charge customers for the sale of electricity.

- Exempt sellers can charge at or under the maximum price.

- Maximum prices already apply to exempt sellers under the General Exemption Order.

- We are not reviewing the enforcement and compliance framework as part of this project.
Live in an embedded network?

You could save under our proposed maximum price.
Overview of our draft decision

Victorian Default Offer as the maximum price

For all residential and small business customers – covering most customers in embedded networks.

Reduces maximum prices for most customers

Compared with current maximum prices, annual bills could reduce by:
- $180 to $370 for residential customers
- $900 to $2,200 for small business customers

Proposed to apply from 1 September 2020
Our process to formulating a maximum price

Our consultation paper:

- Set the scope for our review, including:
  - the framework for formulating maximum prices
  - tariff structures
  - implementation

- Commenced our formal consultation on a new maximum price, seeking feedback from stakeholders – receiving 34 public submissions in response.
Formulating the maximum price

The Victorian Default Offer as a maximum price:

- Aligns with the policy objective of providing similar protections to that of on market customers.
- Considers the efficient cost benchmarks of the competitive market – which are likely to represent what an efficient exempt seller should be able to achieve.
- Considers the long-term incentives for investment and financial viability.
What could this mean for residential customers?

**Indicative Annual Bill (Domestic Customers)**
Comparison between local area retailers standing offer tariffs (27 May 2019) and the Victorian Default Offer 2020
(based on annual consumption of 4,000 kWh - GST inclusive)

<table>
<thead>
<tr>
<th>Retailer</th>
<th>Local Area Retailers</th>
<th>Victorian Default Offer 2020</th>
<th>Saving per year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jemena</td>
<td>$1,779</td>
<td>$1,496</td>
<td>$283</td>
</tr>
<tr>
<td>United Energy</td>
<td>$1,687</td>
<td>$1,508</td>
<td>$179</td>
</tr>
<tr>
<td>Powercor</td>
<td>$1,890</td>
<td>$1,517</td>
<td>$373</td>
</tr>
<tr>
<td>Citipower</td>
<td>$1,658</td>
<td>$1,420</td>
<td>$238</td>
</tr>
<tr>
<td>Ausnet</td>
<td>$2,007</td>
<td>$1,646</td>
<td>$361</td>
</tr>
</tbody>
</table>
What could this mean for small business customers?

**Indicative Annual Bill (Small Business)**
Comparison between local area retailers standing offer tariffs (27 May 2019) and the Victorian Default Offer 2020 (based on annual consumption of 20,000 kWh - GST inclusive)

<table>
<thead>
<tr>
<th>Retailer</th>
<th>Local Area Tariff</th>
<th>Victorian Default Offer</th>
<th>Saving per Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jemena</td>
<td>$7,619</td>
<td>$9,205</td>
<td>Saving $1379</td>
</tr>
<tr>
<td>United Energy</td>
<td>$8,243</td>
<td>$10,227</td>
<td>Saving $1875</td>
</tr>
<tr>
<td>Powercor</td>
<td>$7,952</td>
<td>$9,650</td>
<td>Saving $2206</td>
</tr>
<tr>
<td>Citipower</td>
<td>$6,722</td>
<td>$8,025</td>
<td>Saving $900</td>
</tr>
<tr>
<td>Ausnet</td>
<td>$6,368</td>
<td>$7,450</td>
<td>Saving $1356</td>
</tr>
</tbody>
</table>
Application to categories of exempt sellers

• Under the General Exemption Order there are different categories of exempt sellers.

• We have considered the characteristics of each category including whether:
  – the underlying costs are different
  – comparable customers in the competitive market would have access, and
  – ability to exit an embedded network.

• Our draft decision applies the Victorian Default Offer to residential and small commercial customers that use up to 40 megawatt hours per year – covering all residential and most business customers.
Tariffs

Tariffs for both residential and small business customers are calculated for each of Victoria's five distribution zones.
# Tariff types covered by our maximum prices

<table>
<thead>
<tr>
<th>Tariff type</th>
<th>Explanation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Flat tariff</td>
<td>This includes:</td>
</tr>
<tr>
<td>(‘single’ rate or ‘peak only’ tariffs)</td>
<td>• a daily supply charge</td>
</tr>
<tr>
<td></td>
<td>• a flat anytime usage charge calculated on a per kilowatt hour basis.</td>
</tr>
<tr>
<td>Flat tariff with a controlled load</td>
<td>This includes:</td>
</tr>
<tr>
<td></td>
<td>• a daily supply charge</td>
</tr>
<tr>
<td></td>
<td>• a flat anytime usage charge</td>
</tr>
<tr>
<td></td>
<td>• a separately metered controlled load charge (i.e. electric hot water system)</td>
</tr>
<tr>
<td>Compliant maximum annual bill</td>
<td>This is a cap on the amount a retailer can charge a customer for a specified level of usage.</td>
</tr>
<tr>
<td></td>
<td>This tariff type applies when a customer is on a non-flat tariff e.g. a flexible, time-of-use or demand tariff.</td>
</tr>
</tbody>
</table>
Compliant maximum annual bill

• Some exempt sellers charge tariffs that are not flat – such as time of use or flexible tariffs.

• Our draft decision provides for these tariffs via the compliant maximum annual bill, based on:
  – the flat-rate Victorian Default Offer, and
  – a customer’s electricity use.

• Our draft decision specifies this as an annual bill amount – sellers must not breach the maximum annual bill.
Q and A

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• You can use the chat function (below) to type a question and we will respond during the Q and A session.

• You can also raise your hand during the Q and A – we will respond.

• We’re committed to responding to your questions; however we may not have time to answer them all today – we will publish our slides, including answers to questions we’re unable to respond to.
Next steps

Responding to our draft decision:

• We encourage you to make a submission or general comment on our draft decision via Engage Victoria – www.engage.vic.gov.au.

• You can also contact us by e-mail at retailenergyreview@esc.vic.gov.au.

Key dates:

• Consultation on our draft decision closes 5:00pm Monday 15 June 2020.

• Final decision released July 2020.

• Maximum prices implemented 1 September 2020.