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3 February 2022

Ms Kate Symons
Chairperson
Essential Services Commission
Level 8, 570 Bourke Street
Melbourne VIC 3000

Submitted electronically: VDO@esc.vic.gov.au

Dear Ms Symons,

Re: Victorian Default Offer for 2022/23

Red Energy and Lumo Energy (Red and Lumo) welcome the opportunity to provide comments to the Essential Services Commission on matters it should consider for the Victorian Default Offer (VDO) to apply from 1 July 2022.

The Commission's final determination for the current VDO explained that it continued to use its well established and consistent methodology for calculating the various components of the retail cost stack. We support this approach for the next VDO and agree that a consistent and predictable method is best able to achieve the Commission's objectives for the VDO over time. Price regulation incentivises retailers to adapt their hedging and pricing strategies in line with the Commission's established approach; changes would cause significant disruption and force retailers to reassess their approach to managing their costs.

We recommend that the Commission continue to draw on market data and objective information, and on well established and understood benchmarks that are supported by retailers' responses to the Commission's data requests. Departures from this approach should only occur when there is clear and quantifiable evidence of broad changes in cost items across the entire retail sector. An example is the establishment of the Consumer Data Right. This also means the approach should avoid significant changes to specific cost items that only reflect the experience of a small number of retailers but are not representative of the entire sector (those that are ASX listed, for example) or on the basis of unsupported assertions about retailers' operations and their ability to manage specific risks.

The Commission has demonstrated a willingness to account for additional costs where there is clear evidence. One example is the incremental contribution to bad and doubtful debt, which reflected the pandemic and the Victorian Government's response, which limited retailers' ability to manage their exposure. We encourage the Commission to continue to work with retailers to understand the ongoing challenges of the pandemic, given the uncertainty about how it may develop across 2022.

We recommend the Commission retain the benchmarking approach for the calculation of retail operating costs. However, the Commission should note that retailers have commenced the implementation of the Consumer Data Right, following the finalisation of rules for the energy sector in late 2021 and the ongoing development of technical standards for the exchange of data. This is a considerable cost and retailers will be able to provide more rigorous estimates in the coming months.

We also note that it remains too early to make substantial adjustments to acquisition and retention costs following the commencement of the Victorian Government's Energy Fairness Plan. This policy prohibits some unsolicited sales and retention activities and some stakeholders have suggested this will reduce retailers' costs. This remains to be seen as the market response is difficult to predict. It may be that some costs increase if retailers shift to less targeted (and potentially less successful and hence more costly) strategies to win and retain customers.

Moreover, the Energy Fairness Plan is likely to change retailers' processes and add to compliance costs (in line with the substantial changes to penalty provisions, for example) given the uncertainty about how the Commission will administer its new powers. As with all other cost items, the Commission must base its determination on objective and quantifiable evidence, rather than assertions about the Plan's likely impact.

As a final point, we recognise that the Commission's determination dates are prescribed (that it must make its final determination by 24 May, for example) but we would welcome an early determination if possible, depending on when final network tariffs become available. This would allow sufficient time for retailers to develop pricing strategies and complete all the necessary operational changes that a price change entails; this includes the associated customer communications. This will become a particular challenge now that the timing of each VDO will coincide with price changes in other jurisdictions across the NEM from 1 July 2022 onwards.

About Red and Lumo

We are 100% Australian owned subsidiaries of Snowy Hydro Limited. Collectively, we retail gas and electricity in Victoria, New South Wales, Queensland, South Australia and in the ACT to over 1.1 million customers.

We would appreciate the opportunity to meet with the Commission's Pricing team as it develops its approach to setting the next VDO. Please contact Geoff Hargreaves, Regulatory Manager on 0438 671 750 if you have any further queries or want to discuss this submission in more detail

Yours sincerely

A handwritten signature in blue ink, appearing to read "Stefanie Monaco".

Stefanie Monaco
Manager Regulatory Affairs
Red Energy Pty Ltd
Lumo Energy (Australia) Pty Ltd