

17 October 2019

Ms K Symons
Essential Service Commission
Level 37, 2 Lonsdale Street
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Retailerenergyreview@esc.com.au

Dear Ms Symons

Submission in response to the VDO draft decision

Thank you for the opportunity to provide this submission on the VDO draft decision to apply from 1 January 2020 (Draft Decision).

Elysian Energy is supportive of the objectives of the VDO to provide a simple, trusted and reasonably priced electricity option that safeguards consumer unable or unwilling to engage in the electricity market. Further the objective is consistent with Elysian Energy's approach of giving customers a "fair go" providing great value simple energy plans that ensure that all our customers are on our best rate.

However, we are concerned the incorrect application of the VDO could have unintended impacts for the Victorian electricity market and customers' ability to engage with the market. The main drivers of retail price increases are **network costs** and **wholesale electricity costs**, neither of which are under the control of electricity retailers. If the Commission attempts to cap VDO increases the current rate of inflation, rather than the underlying network and wholesale cost it risks setting default prices below the cost to serve, which will have the impact of decreasing competition as retailers exit the Victorian market.

Network costs

The network price changes included in the draft decision are considerably lower than draft network tariffs that have been submitted for Australian Energy Regulator ("AER") approval. Elysian Energy acknowledges that the principles of the Draft Decision outline that the Commission will use the updated network tariffs and that the full impact of this change will drive up the VDO significantly above the rate of inflation however we are concerned that the Commission may seek to mitigate these price increases by imposing artificial adjustments to other parts of the VDO cost stack to maintain increases at the current rate of inflation.

Wholesale electricity costs

The wholesale electricity market is changing rapidly due to several drivers including the increase in renewable energy and the shortage of dispatchable power. These forces are driving up volatility in the energy markets which in turn has an impact on the risk to retailers and the costs to mitigate these risks. Elysian Energy is concerned that the approach by Frontier Economics in forecasting wholesale electricity prices is backward looking and ignores current trends in the market. In the initial VDO, two years of data was used in Frontier Economics modelling, but for the current VDO three years historical data is used as more data was available. We argue that recent data is more meaningful than old data and we are concerned that the data has not been properly adjusted for the impact of the strong upward trend that is currently being experienced in the market.

Elysian Energy strongly encourages the Commission not to ignore current trends in the wholesale electricity market and use up to date information to forecast wholesale electricity costs. 2016/17 data should be removed from the modelling of 2020 whole electricity costs as it is no longer reflective of the market.

Maximum annual bill

Finally, Elysian Energy is concerned about the Commission's approach to setting the maximum annual bill. We commend the inclusion by the Commission of representative customer usage profiles for selected non-flat tariffs as this provides certainty in the process. However, the proposal that for non-flat tariff not covered by the Commission profiles that each retailer submits separate profiles to the commission as an estimate of usage profile, is unworkable.

Given the number of tariffs and number of retailers, the Commissions approach would result in hundreds of potential outcomes, increasing the cost of compliance and reducing the certainty of the approach for customers and retailers. Furthermore, many small or new retailers such as Elysian Energy, do not have sufficient data to estimate the profiles required by the Commissions approach.

The Commission should provide benchmarks for all tariffs or delay the transition to the VDO of the more complex tariffs to a later period, when the Commission is able to provide such benchmarks.

If you have any queries in relation to this submission, please contact me directly on 03 9988 8541.

Yours sincerely



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