

21 July 2020

Essential Services Commission
 Level 37, 2 Lonsdale Street
 Melbourne VIC 3000

Via engage.vic.gov.au

Re: Victorian Default Offer to apply from 1 January 2021 – consultation paper

Simply Energy welcomes the opportunity to provide feedback on the consultation paper for the Victorian Default Offer (VDO) to apply from 1 January 2021.

Simply Energy is a leading energy retailer with over 725,000 customer accounts across Victoria, New South Wales, South Australia, Queensland and Western Australia. As a leading retailer focused on continual growth and development, Simply Energy supports the development of effective regulation to facilitate competition and positive consumer outcomes in the market.

While Simply Energy understands the reasons behind the introduction of the VDO, Simply Energy does not support price regulation in competitive markets.

Simply Energy’s submission addresses components that make up the VDO cost stack and provides responses to the questions asked in the consultation paper, using a table format.

Cost stack component comments

Cost stack component	Estimation method proposed	Simply Energy comments
Wholesale electricity costs	<ul style="list-style-type: none"> • AEMO load data for 1/7/2016 to 30/6/2020 • NEM VIC spot price data 1/7/2016 to 30/6/2020 • Median energy purchase cost outcome from a Monte Carlo simulation producing 500 simulated forecasts for 2021 using the data above. • ASX Energy 12-month trade-weighted contract prices for base and peak swaps, and \$300 caps for the 12 months up to TBC October 2020. • Swaps to approximately cover average demand and caps to cover peak demand 	<p>Simply Energy considers that using load data as far back as 2016 is not representative of typical Victorian demand for 2021, as the rooftop solar PV penetration since then has dramatically increased, which has caused changes to the underlying demand profile (lower demand in the middle of the day).</p> <p>Either the load data should be shortened to 1-2 years (which has its own problems, as taking weather from a single year is not ideal), or, a model to incorporate increasing rooftop PV should</p>

Cost stack component	Estimation method proposed	Simply Energy comments
	and incurring a small amount of pool exposure. <ul style="list-style-type: none"> • Volatility allowance 	be used (we would happily share a methodology we have developed).
Network charges	Pass through costs based on the simplest (generally flat) network tariff and controlled load	Method is reasonable given the constraints of the VDO-setting process
LRET	2021 default RPP x LGC futures mkt price	Method is reasonable given the constraints of the VDO-setting process
SRES	Mid-point of 2021 non-binding STP and 2020 binding STP x clearing house price	Method is reasonable given the constraints of the VDO-setting process
VEU	2021 GGRR for electricity x historic 12 month average VEEC price	Method is reasonable given the constraints of the VDO-setting process
FIT	Total renewable exports 2019-20 / average total domestic and SME customers 2019-20 x \$0.025 (social cost of carbon)	Method is reasonable given the constraints of the VDO-setting process
AEMO Mkt Fees	Simple average 2020-21 and 2021-22 estimates from latest AEMO publications	Method is reasonable given the constraints of the VDO-setting process
Ancillary fees	Average of previous 52 weeks (to date TBC in October 2020) service payments, from AEMO data	Method is reasonable given the constraints of the VDO-setting process
RERT	Latest AEMO historic estimates x inflation	RERT charges have varied
ESC licence fees	Average fees paid 2019-20 x inflation	Licence fee cost estimate for 2021 should reflect the licence fees that will be set by the Minister in September 2020, to ensure the latest information is used
Retail operating costs	ICRC benchmark used for ACT retail price regulation in 2017 based on IPART NSW work in 2013. ESCV considers that the retailer data it obtained in 2019 supports use of this benchmark. For 2020 an allowance was included for costs associated with additional regulation (1 July 2019 changes)	This benchmark is now 7 years old and should be updated, using a process that is transparent to stakeholders, to ensure it reflects current costs incurred by retailers in serving Victorian customers
Customer Acquisition and Retention Costs	Benchmark based on ACCC Retail Electricity Pricing Inquiry (REPI) and retailer data	Simply Energy has seen a marked increase in these costs since 1 July 2019 and the CARC provision in the cost stack does not represent the costs retailers face in Victoria. The benchmark should be set using a process that is transparent to stakeholders, to ensure it reflects

Cost stack component	Estimation method proposed	Simply Energy comments
		actual costs incurred by retailers in serving Victorian customers
Retail margin	Benchmark approach based on recent regulatory decisions by Australian regulators. ESCV considers that entry of new retailers since introduction of VDO and increased gap between VDO and median retail offers indicates that the current margin is sufficient for the market to function.	The benchmark should be set using a process that is transparent to stakeholders, to ensure it reflects the actual situation faced by Victorian retailers

Questions asked in the consultation paper

Subject	Consultation paper question	Simply Energy comments
Wholesale electricity costs	Are there any changes in issues we need to consider in relation to the underlying data we use to calculate wholesale electricity costs? In particular, changes to volume or patterns of consumption that might extend into the 2021 calendar year?	See Simply Energy comments to wholesale electricity costs method in the table above
SRES	Should we consider any other approaches to accounting for the difference between the forecast and binding small-scale technology percentage?	The proposed method is reasonable given the constraints of the VDO-setting process
Retail operating costs	What impact has COVID-19 had on retail operating costs and for how long will it affect costs? What approaches if any should we use to quantify the impacts (including any opposing changes)?	Simply Energy has seen net increases in retail operating costs from COVID-19, and is expecting these costs to increase further as the ongoing impacts of COVID-19 on the Australian economy accumulate, and the ability of customers to pay for their past and ongoing energy use. The Commonwealth Government has announced that Jobkeeper payments are being extended to Q1 2021 and the Victorian Government has extended its emergency powers to recognise the expanded COVID-19 outbreak in Victoria. Together these indicate that the impact of COVID-19 is likely to increase and extend into 2021. Simply Energy has data on COVID-19 impacts that it will share with the Commission confidentially on request.
Flat tariffs	Are there other options for setting flat tariffs that would fulfil the objective of the VDO? Are there alternative approaches to allocating per day and per kilowatt hour	The proposed method is reasonable given the constraints of the VDO-setting process

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	<p>charges that would better suit the objective of the VDO? Are there any other matters we should consider when allocating fixed and variable costs?</p>	
Non-flat tariffs	<p>What other options should we consider for regulating non-flat tariffs and why?</p> <p>How many standing offer customers have chosen to take up a non-flat standing offer in the last 12 months?</p> <p>How many standing offer customers were placed on a non-flat standing offer in the last 12 months?</p> <p>Are there any changes we should consider to the way retailers are required to show that their non-flat standing offer tariffs comply with our determination?</p>	<p>While the approach to non-flat tariffs improved from the draft to the final decisions for the 2020 VDO, Simply Energy still considers that the approach used by the Australian Energy Regulator for non-flat Default Market Offer tariffs is superior and should be adopted by the Commission.</p>
Alignment with network tariffs	<p>Should the commission change the length of the regulatory period beginning 1 January 2021 to 6 or 18 months? If so, what are the reasons for why we should make this change?</p>	<p>The costs that are outside the control of retailers, in particular wholesale electricity costs, network charges, and environmental scheme costs, change substantially over short timeframes, putting an 18-month VDO at risk of failing to reflect the efficient costs of serving customers for the entire period. As a result, Simply Energy supports a 6-month VDO from 1 January 2021, followed by a 12-month VDO from 1 July 2021.</p>
Variation mechanism	<p>Would the variation provisions similar to those in our 2020 VDO determination be suitable for dealing with unforeseen changes in costs associated with COVID-19 that take place in 2021?</p> <p>If not, what changes to the variation mechanism should we consider?</p>	<p>As the consultation paper points out, the variation mechanism is cumbersome and time consuming, and is unlikely to be effective in addressing risks faced by retailers from unexpected increases in costs, such as due to COVID-19. Additionally, the test of materiality should relate to whether the impact is material to retail costs and margins that are within the retailer's control, not on the customer's bill, given that the majority of the customer's bill reflects costs passed through from other parts of the supply chain. Unless this is adopted the mechanism will not address risks to retailer sustainability from unexpected cost increases.</p>

Concluding remarks

In closing, Simply Energy looks forward to continuing to work actively with the Commission to ensure the inputs and methodology for setting the 2021 VDO accurately reflect the Victorian electricity retail market.

Simply Energy welcomes further discussion in relation to this submission. To arrange a discussion or if you have any questions please contact Aakash Sembey, Manager, Retail Regulation, at aakash.sembey@simplyenergy.com.au

Yours sincerely

A handwritten signature in black ink that reads "James Barton". The signature is written in a cursive, slightly slanted style.

James Barton
General Manager, Regulation
Simply Energy